

The New York Times

NEW YORK, SUNDAY, APRIL 22, 2012

Vast Mexico Bribery Case Hushed Up by Wal-Mart After Top-Level Struggle

An Internal Inquiry Was Shut Down, and the Authorities Were Not Notified

By DAVID BARSTOW

MEXICO CITY

IN September 2005, a senior Wal-Mart lawyer received an alarming e-mail from a former executive at the company's largest foreign subsidiary, Wal-Mart de Mexico. In the e-mail and follow-up conversations, the former executive described how Wal-Mart de Mexico had orchestrated a campaign of bribery to win market dominance. In its rush to build stores, he said, the company had paid bribes to obtain permits in virtually every corner of the country.

The former executive gave names, dates and bribe amounts. He knew so much, he explained, because for years he had been the lawyer in charge of obtaining construction permits for Wal-Mart de Mexico.

Wal-Mart dispatched investigators to Mexico City, and within days they unearthed evidence of widespread bribery. They found a paper trail of hundreds of suspect payments totaling more than \$24 million. They also found documents showing that Wal-Mart de Mexico's top executives not only knew about the payments, but had taken steps to conceal them from Wal-Mart's headquarters in Bentonville, Ark. In a confidential report to his superiors, Wal-Mart's lead investigator, a former F.B.I. special agent, summed up their initial findings this way: "There is reasonable suspicion to believe that Mexican and USA laws have been violated."

The lead investigator recommended that Wal-Mart expand the investigation.

Instead, an examination by The New York Times found, Wal-Mart's leaders shut it down.



JOSH HANER/THE NEW YORK TIMES

Shoppers in Mexico City. Expanding rapidly in the mid-2000's, Wal-Mart de Mexico was the company's brightest success story.

Neither American nor Mexican law enforcement officials were notified. None of Wal-Mart de Mexico's leaders were disciplined. Indeed, its chief executive, Eduardo Castro-Wright, identified by the former executive as the driving force behind years of bribery, was promoted to vice chairman of Wal-Mart in 2008. Until this article, the allegations and Wal-Mart's investigation had never been publicly disclosed.

But The Times's examination uncovered a prolonged struggle at the highest levels of Wal-Mart, a struggle that pitted the company's much publicized commitment to the highest moral and ethical standards against its relentless pursuit of growth.

Under fire from labor critics, worried about press leaks and facing a sagging stock price, Wal-Mart's leaders recognized that the allega-

tions could have devastating consequences, documents and interviews show. Wal-Mart de Mexico was the company's brightest success story, pitched to investors as a model for future growth. (Today, one in five Wal-Mart stores is in Mexico.) Confronted with evidence of corruption in Mexico, top Wal-Mart executives focused more on damage control than on rooting out wrongdoing.

In one meeting where the bribery case was discussed, H. Lee Scott Jr., then Wal-Mart's chief executive, rebuked internal investigators for being overly aggressive. Days later, records show, Wal-Mart's top lawyer arranged to ship the internal investigators' files on the case to Mexico City. Primary responsibility for the investigation was then given to the general counsel of Wal-Mart de Mexico — a remarkable choice since the same general counsel was alleged to have authorized bribes.

The general counsel promptly exonerated his fellow Wal-Mart de Mexico executives.

When Wal-Mart's director of corporate investigations — a former top F.B.I. official — read the general counsel's report, his appraisal was scathing. "Truly lacking," he wrote in an e-mail to his boss.

The report was nonetheless accepted by Wal-Mart's leaders as the last word on the matter.

In December, after learning of The Times's reporting in Mexico, Wal-Mart informed the Justice Department that it had begun an internal investigation into possible violations of the Foreign Corrupt Practices Act, a federal law that makes it a crime for American corporations and their subsidiaries to bribe foreign officials. Wal-Mart said the company had learned of possible problems with how it obtained permits, but stressed that the issues were limited to "discrete" cases.

"We do not believe that these matters will have a material adverse effect on our business," the company said in a filing with the Securities and Exchange Commission.

But The Times's examination found credible evidence that bribery played a persistent and significant role in Wal-Mart's rapid growth in Mexico, where Wal-Mart now employs 209,000 people, making it the country's largest private employer.

A Wal-Mart spokesman confirmed that the

company's Mexico operations — and its handling of the 2005 case — were now a major focus of its inquiry.

"If these allegations are true, it is not a reflection of who we are or what we stand for," the spokesman, David W. Tovar, said. "We are deeply concerned by these allegations and are working aggressively to determine what happened."

In the meantime, Mr. Tovar said, Wal-Mart is taking steps in Mexico to strengthen compliance with the Foreign Corrupt Practices Act. "We do not and will not tolerate noncompliance with F.C.P.A. anywhere or at any level of the company," he said.

The Times laid out this article's findings to Wal-Mart weeks ago. The company said it shared the findings with many of the executives named here, including Mr. Scott, now on Wal-Mart's board, and Mr. Castro-Wright, who is retiring in July. Both men declined to comment, Mr. Tovar said.

The Times obtained hundreds of internal company documents tracing the evolution of Wal-Mart's 2005 Mexico investigation. The documents show Wal-Mart's leadership immediately recognized the seriousness of the allegations. Working in secrecy, a small group of executives, including several current members of Wal-Mart's senior management, kept close tabs on the inquiry.

Michael T. Duke, Wal-Mart's current chief executive, was also kept informed. At the time, Mr. Duke had just been put in charge of Wal-Mart International, making him responsible for all foreign subsidiaries. "You'll want to read this," a top Wal-Mart lawyer wrote in an Oct. 15, 2005, e-mail to Mr. Duke that gave a detailed description of the former executive's allegations.

The Times examination included more than 15 hours of interviews with the former executive, Sergio Cicero Zapata, who resigned from Wal-Mart de Mexico in 2004 after nearly a decade in the company's real estate department.

In the interviews, Mr. Cicero recounted how he had helped organize years of payoffs. He described personally dispatching two trusted outside lawyers to deliver envelopes of cash to government officials. They targeted mayors and city council members, obscure urban planners, low-level bureaucrats who issued permits — anyone with the power to thwart Wal-Mart's



JOSH HANER/THE NEW YORK TIMES

A Walmart store in Mexico City. Wal-Mart's goal in Mexico was to build hundreds of stores so fast that rivals could not react, a former executive said.

growth. The bribes, he said, bought zoning approvals, reductions in environmental impact fees and the allegiance of neighborhood leaders.

He called it working "the dark side of the moon."

The Times also reviewed thousands of government documents related to permit requests for stores across Mexico. The examination found many instances where permits were given within weeks or even days of Wal-Mart de Mexico's payments to the two lawyers. Again and again, The Times found, legal and bureaucratic obstacles melted away after payments were made.

The Times conducted extensive interviews with participants in Wal-Mart's investigation. They spoke on the condition that they not be identified discussing matters Wal-Mart has long shielded. These people said the investigation left little doubt Mr. Cicero's allegations were credible. ("Not even a close call," one person said.)

But, they said, the more investigators corroborated his assertions, the more resistance they encountered inside Wal-Mart. Some of it

came from powerful executives implicated in the corruption, records and interviews show. Other top executives voiced concern about the possible legal and reputational harm.

In the end, people involved in the investigation said, Wal-Mart's leaders found a bloodlessly bureaucratic way to bury the matter. But in handing the investigation off to one of its main targets, they disregarded the advice of one of Wal-Mart's top lawyers, the same lawyer first contacted by Mr. Cicero.

"The wisdom of assigning any investigative role to management of the business unit being investigated escapes me," Maritza I. Munich, then general counsel of Wal-Mart International, wrote in an e-mail to top Wal-Mart executives.

The investigation, she urged, should be completed using "professional, independent investigative resources."

The Allegations Emerge

On Sept. 21, 2005, Mr. Cicero sent an e-mail to Ms. Munich telling her he had information

about “irregularities” authorized “by the highest levels” at Wal-Mart de Mexico. “I hope to meet you soon,” he wrote.

Ms. Munich was familiar with the challenges of avoiding corruption in Latin America. Before joining Wal-Mart in 2003, she had spent 12 years in Mexico and elsewhere in Latin America as a lawyer for Procter & Gamble.

At Wal-Mart in 2004, she pushed the board to adopt a strict anticorruption policy that prohibited all employees from “offering anything of value to a government official on behalf of Wal-Mart.” It required every employee to report the first sign of corruption, and it bound Wal-Mart’s agents to the same exacting standards.

Ms. Munich reacted quickly to Mr. Cicero’s e-mail. Within days, she hired Juan Francisco Torres-Landa, a prominent Harvard-trained lawyer in Mexico City, to debrief Mr. Cicero. The two men met three times in October 2005, with Ms. Munich flying in from Bentonville for the third debriefing.

During hours of questioning, Mr. Torres-Landa’s notes show, Mr. Cicero described how Wal-Mart de Mexico had perfected the art of bribery, then hidden it all with fraudulent accounting. Mr. Cicero implicated many of Wal-Mart de Mexico’s leaders, including its board chairman, its general counsel, its chief auditor and its top real estate executive.

But the person most responsible, he told Mr. Torres-Landa, was the company’s ambitious chief executive, Eduardo Castro-Wright, a native of Ecuador who was recruited from Honeywell in 2001 to become Wal-Mart’s chief operating officer in Mexico.

Mr. Cicero said that while bribes were occasionally paid before Mr. Castro-Wright’s arrival, their use soared after Mr. Castro-Wright ascended to the top job in 2002. Mr. Cicero described how Wal-Mart de Mexico’s leaders had set “very aggressive growth goals,” which required opening new stores “in record times.” Wal-Mart de Mexico executives, he said, were under pressure to do “whatever was necessary” to obtain permits.

In an interview with The Times, Mr. Cicero said Mr. Castro-Wright had encouraged the payments for a specific strategic purpose. The idea,

he said, was to build hundreds of new stores so fast that competitors would not have time to react. Bribes, he explained, accelerated growth. They got zoning maps changed. They made environmental objections vanish. Permits that typically took months to process magically materialized in days. “What we were buying was time,” he said.

Wal-Mart de Mexico’s stunning growth made Mr. Castro-Wright a rising star in Bentonville. In early 2005, when he was promoted to a senior position in the United States, Mr. Duke would cite his “outstanding results” in Mexico.

Mr. Cicero’s allegations were all the more startling because he implicated himself. He spent hours explaining to Mr. Torres-Landa the mechanics of how he had helped funnel bribes through trusted fixers, known as “gestores.”

Gestores (pronounced hes-TORE-ehs) are a fixture in Mexico’s byzantine bureaucracies, and some are entirely legitimate. Ordinary citizens routinely pay gestores to stand in line for them at the driver’s license office. Companies hire them as quasi-lobbyists to get things done as painlessly as possible.

But often gestores play starring roles in Mexico’s endless loop of public corruption scandals. They operate in the shadows, dangling payoffs to officials of every rank. It was this type of gestor that Wal-Mart de Mexico deployed, Mr. Cicero said.

Mr. Cicero told Mr. Torres-Landa it was his job to recruit the gestores. He worked closely with them, sharing strategies on whom to bribe. He also approved Wal-Mart de Mexico’s payments to the gestores. Each payment covered the bribe and the gestor’s fee, typically 6 percent of the bribe.

It was all carefully monitored through a system of secret codes known only to a handful of Wal-Mart de Mexico executives.

The gestores submitted invoices with brief, vaguely worded descriptions of their services. But the real story, Mr. Cicero said, was told in codes written on the invoices. The codes identified the specific “irregular act” performed, Mr. Cicero explained to Mr. Torres-Landa. One code, for example, indicated a bribe to speed up

‘The wisdom of assigning any investigative role to management of the business unit being investigated escapes me.’



SUSANA GONZALEZ/BLOOMBERG NEWS

A Sam's Club store in Mexico City. Wal-Mart is Mexico's largest private employer, with 209,000 employees.

a permit. Others described bribes to obtain confidential information or eliminate fines.

Each month, Mr. Castro-Wright and other top Wal-Mart de Mexico executives "received a detailed schedule of all of the payments performed," he said, according to the lawyer's notes. Wal-Mart de Mexico then "purified" the bribes in accounting records as simple legal fees.

They also took care to keep Bentonville in the dark. "Dirty clothes are washed at home," Mr. Cicero said.

Mr. Torres-Landa explored Mr. Cicero's motives for coming forward.

Mr. Cicero said he resigned in September 2004 because he felt underappreciated. He described the "pressure and stress" of participating in years of corruption, of contending with "greedy" officials who jacked up bribe demands.

As he told *The Times*, "I thought I deserved a medal at least."

The breaking point came in early 2004, when he was passed over for the job of general counsel of Wal-Mart de Mexico. This snub, Mr. Torres-Landa wrote, "generated significant an-

ger with respect to the lack of recognition for his work." Mr. Cicero said he began to assemble a record of bribes he had helped orchestrate to "protect him in case of any complaint or investigation," Mr. Torres-Landa wrote.

"We did not detect on his part any express statement about wishing to sell the information," the lawyer added.

According to people involved in Wal-Mart's investigation, Mr. Cicero's account of criminality at the top of Wal-Mart's most important foreign subsidiary was impossible to dismiss. He had clearly been in a position to witness the events he described. Nor was this the first indication of corruption at Wal-Mart de Mexico under Mr. Castro-Wright. A confidential investigation, conducted for Wal-Mart in 2003 by Kroll Inc., a leading investigation firm, discovered that Wal-Mart de Mexico had systematically increased its sales by helping favored high-volume customers evade sales taxes.

A draft of Kroll's report, obtained by *The Times*, concluded that top Wal-Mart de Mexico executives had failed to enforce their own anticorruption policies, ignored internal audits

that raised red flags and even disregarded local press accounts asserting that Wal-Mart de Mexico was “carrying out a tax fraud.” (The company ultimately paid \$34.3 million in back taxes.)

Wal-Mart then asked Kroll to evaluate Wal-Mart de Mexico’s internal audit and antifraud units. Kroll wrote another report that branded the units “ineffective.” Many employees accused of wrongdoing were not even questioned; some “received a promotion shortly after the suspicions of fraudulent activities had surfaced.”

None of these findings, though, had slowed Mr. Castro-Wright’s rise.

Just days before Mr. Cicero’s first debriefing, Mr. Castro-Wright was promoted again. He was put in charge of all Wal-Mart stores in the United States, one of the most prominent jobs in the company. He also joined Wal-Mart’s executive committee, the company’s inner sanctum of leadership.

The Initial Response

Ms. Munich sent detailed memos describing Mr. Cicero’s debriefings to Wal-Mart’s senior management. These executives, records show, included Thomas A. Mars, Wal-Mart’s general counsel and a former director of the Arkansas State Police; Thomas D. Hyde, Wal-Mart’s executive vice president and corporate secretary; Michael Fung, Wal-Mart’s top internal auditor; Craig Herkert, the chief executive for Wal-Mart’s operations in Latin America; and Lee Stucky, a confidant of Lee Scott’s and chief administrative officer of Wal-Mart International.

Wal-Mart typically hired outside law firms to lead internal investigations into allegations of significant wrongdoing. It did so earlier in 2005, for example, when Thomas M. Coughlin, then vice chairman of Wal-Mart, was accused of padding his expense accounts and misappropriating Wal-Mart gift cards.

At first, Wal-Mart took the same approach with Mr. Cicero’s allegations. It turned to Willkie Farr & Gallagher, a law firm with extensive experience in Foreign Corrupt Practices Act cases.

The firm’s “investigation work plan” called for tracing all payments to anyone who had helped Wal-Mart de Mexico obtain permits for the previous five years. The firm said it would

scrutinize “any and all payments” to government officials and interview every person who might know about payoffs, including “implicated members” of Wal-Mart de Mexico’s board.

In short, Willkie Farr recommended the kind of independent, spare-no-expense investigation major corporations routinely undertake when confronted with allegations of serious wrongdoing by top executives.

Wal-Mart’s leaders rejected this approach. Instead, records show, they decided Wal-Mart’s lawyers would supervise a far more limited “preliminary inquiry” by in-house investigators.

The inquiry, a confidential memo explained, would take two weeks, not the four months Willkie Farr proposed. Rather than examining years of permits, the team would look at a few specific stores. Interviews would be done “only when absolutely essential to establishing the bona fides” of Mr. Cicero. However, if the inquiry found a “likelihood” that laws had been violated, the company would then consider conducting a “full investigation.”

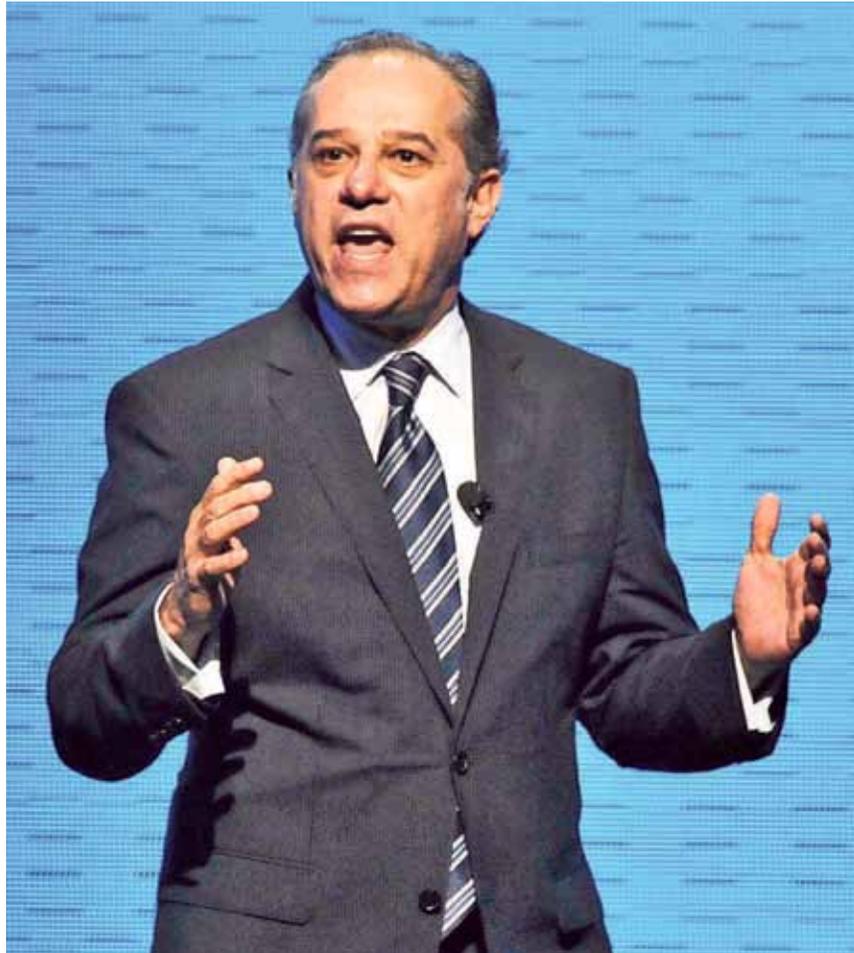
The decision gave Wal-Mart’s senior management direct control over the investigation. It also meant new responsibility for the company’s tiny and troubled Corporate Investigations unit.

The unit was ill-equipped to take on a major corruption investigation, let alone one in Mexico. It had fewer than 70 employees, and most were assigned to chasing shoplifting rings and corrupt vendors. Just four people were specifically dedicated to investigating corporate fraud, a number Joseph R. Lewis, Wal-Mart’s director of corporate investigations, described in a confidential memo as “wholly inadequate for an organization the size of Wal-Mart.”

But Mr. Lewis and his boss, Kenneth H. Senger, vice president for global security, aviation and travel, were working to strengthen the unit. Months before Mr. Cicero surfaced, they won approval to hire four “special investigators” who, according to their job descriptions, would be assigned the “most significant and complex fraud matters.” Mr. Scott, the chief executive, also agreed that Corporate Investigations would handle all allegations of misconduct by senior executives.

And yet in the fall of 2005, as Wal-Mart began to grapple with Mr. Cicero’s allegations, two cases called into question Corporate Investiga-

Turmoil at Wal-Mart: The Players



Eduardo Castro-Wright

APRIL L. BROWN/ASSOCIATED PRESS

The Leadership in Mexico

Sergio Cicero Zapata, a former executive at Wal-Mart de Mexico, told Wal-Mart lawyers that top executives, including Mr. Castro-Wright and Mr. Rodríguezmacedo, supported the use of bribes to secure permits for new stores. The executives, he said, waved off legal and ethical concerns with a simple argument: “The goal justifies the means.”



José Luis Rodríguezmacedo

Directing the Investigation



Thomas A. Mars



Maritza I.
Munich



Michael Fung



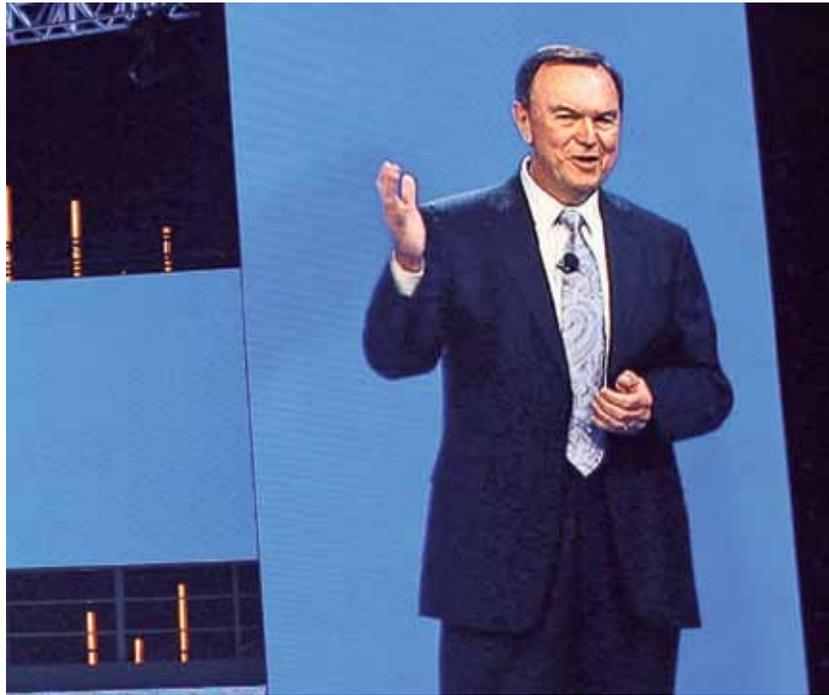
Kenneth H.
Senser



Joseph R. Lewis

This group of senior Wal-Mart lawyers and executives helped direct the company’s initial investigation into Mr. Cicero’s allegations. In November 2005 they dispatched a team of investigators to Mexico City and conferred daily, sometimes even hourly, on what the team was finding. Because of the potentially destructive impact of the allegations, it was considered Wal-Mart’s most sensitive and closely guarded internal inquiry.

The Men at the Top



Michael T. Duke

DANNY JOHNSTON/ASSOCIATED PRESS



H. Lee Scott Jr.

TIM RUE/BLOOMBERG NEWS



John B. Menzer Thomas D. Hyde Lee Stucky Craig Herkert

Mr. Cicero's allegations and Wal-Mart's subsequent investigation set off a prolonged struggle at the highest reaches of the company. Wal-Mart's leaders — including those above — debated how the company should respond. In the end, after a pivotal meeting led by Mr. Scott, control of the investigation was handed to one of its initial targets, Mr. Rodríguez-macedo, who quickly exonerated fellow Wal-Mart de Mexico executives.

tions' independence and role.

In October, Wal-Mart's vice chairman, John B. Menzer, intervened in an internal investigation into a senior vice president who reported to him. According to internal records, Mr. Menzer told Mr. Senser he did not want Corporate Investigations to handle the case "due to concerns about the impact such an investigation would have." One of the senior vice president's subordinates, he said, "would be better suited to conduct this inquiry." Soon after, records show, the subordinate cleared his boss.

The other case involved the president of Wal-Mart Puerto Rico. A whistle-blower had accused the president and other executives of mistreating employees. Although Corporate Investigations was supposed to investigate all allegations against senior executives, the president had instead assigned an underling to look into the complaints — but to steer clear of those against him.

Ms. Munich objected. In an e-mail to Wal-Mart executives, she complained that the investigation was "at the direction of the same company officer who is the target of several of the allegations."

"We are in need of clear guidelines about how to handle these issues going forward," she warned.

The Inquiry Begins

Ronald Halter, one of Wal-Mart's new "special investigators," was assigned to lead the preliminary inquiry into Mr. Cicero's allegations. Mr. Halter had been with Wal-Mart only a few months, but he was a seasoned criminal investigator. He had spent 21 years in the F.B.I., and he spoke Spanish.

He also had help. Bob Ainley, a senior auditor, was sent to Mexico along with several Spanish-speaking auditors.

On Nov. 12, 2005, Mr. Halter's team got to work at Wal-Mart de Mexico's corporate headquarters in Mexico City. The team gained access to a database of Wal-Mart de Mexico payments and began searching the payment description field for the word "gestoria."

By day's end, they had found 441 gestor payments. Each was a potential bribe, and yet

they had searched back only to 2003.

Mr. Cicero had said his main gestores were Pablo Alegria Con Alonso and Jose Manuel Aguirre Juarez, obscure Mexico City lawyers with small practices who were friends of his from law school.

Sure enough, Mr. Halter's team found that nearly half the payments were to Mr. Alegria and Mr. Aguirre. These two lawyers alone, records showed, had received \$8.5 million in payments. Records showed Wal-Mart de Mexico routinely paid its gestores tens of thousands of dollars per permit. (In interviews, both lawyers declined to discuss the corruption allegations, citing confidentiality agreements with Wal-Mart.)

"One very interesting postscript," Mr. Halter wrote in an e-mail to his boss, Mr. Lewis. "All payments to these individuals and all large sums of \$ paid out of this account stopped abruptly in 2005." Mr. Halter said the "only thing we can find" that changed was that Mr. Castro-

Wright left Wal-Mart de Mexico for the United States.

Mr. Halter's team confirmed detail after detail from Mr. Cicero's debriefings. Mr. Cicero had given specifics — names, dates, bribe amounts — for several new stores. In almost every case, investigators found documents confirming major elements of his account. And just as Mr. Cicero had described, investigators found mysterious codes at the bottom of invoices from the gestores.

"The documentation didn't look anything like what you would find in legitimate billing records from a legitimate law firm," a person involved in the investigation said in an interview.

Mr. Lewis sent a terse progress report to his boss, Mr. Senser: "FYI. It is not looking good."

Hours later, Mr. Halter's team found clear confirmation that Mr. Castro-Wright and other top executives at Wal-Mart de Mexico were well aware of the gestor payments.

In March 2004, the team discovered, the executives had been sent an internal Wal-Mart de Mexico audit that raised red flags about the gestor payments. The audit documented how Wal-Mart de Mexico's two primary gestores had been paid millions to make "facilitating pay-

'The documentation didn't look anything like what you would find in legitimate billing records.'

ments” for new store permits all over Mexico.

The audit did not delve into how the money had been used to “facilitate” permits. But it showed the payments rising rapidly, roughly in line with Wal-Mart de Mexico’s accelerating growth. The audit recommended notifying Bentonville of the payments.

The recommendation, records showed, was removed by Wal-Mart de Mexico’s chief auditor, whom Mr. Cicero had identified as one of the executives who knew about the bribes. The author of the gestor audit, meanwhile, “was fired not long after the audit was completed,” Mr. Halter wrote.

Mr. Ainley arranged to meet the fired auditor at his hotel. The auditor described other examples of Wal-Mart de Mexico’s leaders withholding from Bentonville information about suspect payments to government officials.

The auditor singled out José Luis Rodríguezmacedo Rivera, the general counsel of Wal-Mart de Mexico.

Mr. Rodríguezmacedo, he said, took “significant information out” of an audit of Wal-Mart de Mexico’s compliance with the Foreign Corrupt Practices Act. The original audit had described how Wal-Mart de Mexico gave gift cards to government officials in towns where it was building stores. “These were only given out until the construction was complete,” Mr. Ainley wrote. “At which time the payments ceased.”

These details were scrubbed from the final version sent to Bentonville.

Investigators were struck by Mr. Castro-Wright’s response to the gestor audit. It had been shown to him immediately, Wal-Mart de Mexico’s chief auditor had told them. Yet rather than expressing alarm, he had appeared worried about becoming too dependent on too few gestores. In an e-mail, Mr. Rodríguezmacedo told Mr. Cicero to write up a plan to “diversify” the gestores used to “facilitate” permits.

“Eduardo Castro wants us to implement this plan as soon as possible,” he wrote.

Mr. Cicero did as directed. The plan, which authorized paying gestores up to \$280,000 to “facilitate” a single permit, was approved with a minor change. Mr. Rodríguezmacedo did not want the plan to mention “gestores.” He wanted them called “external service providers.”

Mr. Halter’s team made one last discovery — a finding that suggested the corruption might

be far more extensive than even Mr. Cicero had described.

In going through Wal-Mart de Mexico’s database of payments, investigators noticed the company was making hefty “contributions” and “donations” directly to governments all over Mexico — nearly \$16 million in all since 2003.

“Some of the payments descriptions indicate that the donation is being made for the issuance of a license,” Mr. Ainley wrote in one report back to Bentonville.

They also found a document in which a Wal-Mart de Mexico real estate executive had openly acknowledged that “these payments were performed to facilitate obtaining the licenses or permits” for new stores. Sometimes, Mr. Cicero told The Times, donations were used hand-in-hand with gestor payments to get permits.

Deflecting Blame

When Mr. Halter’s team was ready to interview executives at Wal-Mart de Mexico, the first target was Mr. Rodríguezmacedo.

Before joining Wal-Mart de Mexico in January 2004, Mr. Rodríguezmacedo had been a lawyer for Citigroup in Mexico. Urbane and smooth, with impeccable English, he quickly won fans in Bentonville. When Wal-Mart invited executives from its foreign subsidiaries for several days of discussion about the fine points of the Foreign Corrupt Practices Act, Mr. Rodríguezmacedo was asked to lead one of the sessions.

It was called “Overcoming Challenges in Government Dealings.”

Yet Mr. Cicero had identified him as a participant in the bribery scheme. In his debriefings, Mr. Cicero described how Mr. Rodríguezmacedo had passed along specific payoff instructions from Mr. Castro-Wright. In an interview with The Times, Mr. Cicero said he and Mr. Rodríguezmacedo had discussed the use of gestores shortly after Mr. Rodríguezmacedo was hired. “He said, ‘Don’t worry. Keep it on its way.’”

Mr. Rodríguezmacedo declined to comment; on Friday Wal-Mart disclosed that he had been reassigned and is no longer Wal-Mart de Mexico’s general counsel.

Mr. Halter’s team hoped Mr. Rodríguezmacedo would shed light on how two outside lawyers came to be paid \$8.5 million to “facilitate” permits. Mr. Rodríguezmacedo responded with evasive hostility, records and interviews

show. When investigators asked him for the gestores' billing records, he said he did not have time to track them down. They got similar receptions from other executives.

Only after investigators complained to higher authorities were the executives more forthcoming. Led by Mr. Rodríguezmacedo, they responded with an attack on Mr. Cicero's credibility.

The gestor audit, they told investigators, had raised doubts about Mr. Cicero, since he had approved most of the payments. They began to suspect he was somehow benefiting, so they asked Kroll to investigate. It was then, they asserted, that Kroll discovered Mr. Cicero's wife was a law partner of one of the gestores.

Mr. Cicero was fired, they said, because he had failed to disclose that fact. They produced a copy of a "preliminary" report from Kroll and e-mails showing the undisclosed conflict had been reported to Bentonville.

Based on this behavior, Mr. Rodríguezmacedo argued, the gestor payments were in all likelihood a "ruse" by Mr. Cicero to defraud Wal-Mart de Mexico. Mr. Cicero and the gestores, he contended, probably kept every last peso of the "facilitating payments."

Simply put, bribes could not have been paid

if the money was stolen first.

It was an argument that gave Wal-Mart ample justification to end the inquiry. But investigators were skeptical, records and interviews show.

Even if Mr. Rodríguezmacedo's account were true, it did not explain why Wal-Mart de Mexico's executives had authorized gestor payments in the first place, or why they made "donations" to get permits, or why they rewrote audits to keep Bentonville in the dark.

Investigators also wondered why a trained lawyer who had gotten away with stealing a small fortune from Wal-Mart would now deliberately draw the company's full attention by implicating himself in a series of fictional bribes. And if Wal-Mart de Mexico's executives truly believed they had been victimized, why hadn't they taken legal action against Mr. Cicero, much less reported the "theft" to Bentonville?

There was another problem: Documents contradicted most of the executives' assertions about Mr. Cicero.

Records showed Mr. Cicero had not been fired, but had resigned with severance benefits and a \$25,000 bonus. In fact, in a 2004 e-mail to Ms. Munich, Mr. Rodríguezmacedo himself described how he had "negotiated" Mr. Cicero's

**Wal-Mart Mexico
Preliminary Inquiry
Attorney-Client Privilege
Attorney Work Product**

BACKGROUND

From October 7 through November 2, 2005, various e-mail communications were received by Wal-Mart Stores, Inc containing allegations of corruption in Mexico. The source of the allegations is Sergio Cicero, former in house counsel Wal-Mart Mexico. The main assertion is that senior Wal-Mart Mexico managers have made illicit payments to Mexican officials in order to receive favorable treatment in the building of Wal-Mart/Sam's Club facilities.

From: Joe Lewis
Sent: Monday, November 14, 2005 10:38 AM
To: Ken Senser
Cc: Joe Lewis
Subject: FW: DAR-MEXICO-4

Ken,
FYI. It is not looking good.

**An Investigation
Evolves**

OCTOBER 2005 Wal-Mart lawyers meet with a former Wal-Mart de Mexico executive who describes how Wal-Mart's largest foreign subsidiary orchestrated a campaign of bribery. Wal-Mart opens a "preliminary inquiry."

NOVEMBER 2005 Joseph R. Lewis, Wal-Mart's director for corporate investigations, tells his boss that their investigators have begun to find evidence of widespread bribery in Mexico.

**INTERNAL/PUBLIC CORRUPTION-WAL-MART MEXICO
CASE # 2005-918**

There is **reasonable suspicion** to believe that Mexican and USA laws have been violated.

-----Original Message-----

From: Maritza Munich-Legal
Sent: Wed Jan 18 16:04:31 2006

- The wisdom of **assigning any investigative role to management of the business unit being investigated escapes me.** Given the serious nature of the allegations, and the need to preserve the integrity of the investigation, it would seem **more prudent to develop a follow-up plan of action, independent of WAI MFX management participation,** and that includes external legal advise and professional, independent investigative resources.

From: Ken Senser
Sent: Thursday, February 09, 2006 8:02 AM
To: Tom Mars - Legal
Subject: FW: Mexico Project
Importance: High

Tom - I recommend that we send it via FedEx overnight. There is very good control on those shipments, and while governments do compromise them if they are looking for something in particular, there is no reason for them to think that this shipment is out of the ordinary. The key is being careful about how you communicate the details of the shipment to Jose Luis. Mark Porter talked about the ability to send secure (encrypted) email. My suggestion is to **send all of the shipping information to Jose Luis via the secure email.** If you concur, I'll have somebody collect all of the details and get back to you.

-----Original Message-----

From: Tom Mars - Legal
Sent: Wednesday, February 08, 2006 11:22 AM
To: Ken Senser
Subject: FW: Mexico Project

Ken: I need to **deliver the Halter investigation file to Jose Luis.** What do you suggest we do to make sure it's delivered in a secure manner?

**Wal-Mart Mexico
Regulatory Compliance
Report of Investigation
Privileged and Confidential Information**

Report of: Jose Luis Rodriguezmacedo

CONCLUSIONS:

- There is **no evidence or clear indication of bribes** paid to Mexican government authorities with the purpose of wrongfully securing any licenses or permits.

DECEMBER 2005 The leader of Wal-Mart's preliminary inquiry informs Wal-Mart's leaders that there is "reasonable suspicion to believe" that laws have been violated. He urges Wal-Mart to expand the investigation.

JANUARY 2006 Maritza I. Munich, general counsel of Wal-Mart International, warns against allowing executives from Wal-Mart de Mexico to participate in the active investigation.

FEBRUARY 2006 Days after a pivotal meeting with H. Lee Scott Jr., then chief executive of Wal-Mart, the company's general counsel, Thomas A. Mars, arranges to transfer the investigation to José Luis Rodríguezmacedo, general counsel of Wal-Mart de Mexico.

MAY 2006 Mr. Rodríguezmacedo, himself a target of Wal-Mart's investigation, completes the inquiry and finds "no evidence" of bribes. The case is closed.

“departure.” The same e-mail said Mr. Cicero had not even been confronted about the supposed undisclosed conflict involving his wife. (Mr. Cicero flatly denied that his wife had ever worked with either gestor.) The e-mail also assured Ms. Munich there was no hint of financial wrongdoing. “We see it merely as an undisclosed conflict of interest,” Mr. Rodríguezmacedo wrote.

There were other discrepancies.

Mr. Rodríguezmacedo said the company had stopped using gestores after Mr. Cicero’s departure. Yet even as Mr. Cicero was being debriefed in October 2005, Wal-Mart de Mexico real estate executives made a request to pay a gestor \$14,000 to get a construction permit, records showed.

The persistent questions and document requests from Mr. Halter’s team provoked a backlash from Wal-Mart de Mexico’s executives. After a week of work, records and interviews show, Mr. Halter and other members of the team were summoned by Eduardo F. Solórzano Morales, then chief executive of Wal-Mart de Mexico.

Mr. Solórzano angrily chastised the investigators for being too secretive and accusatory. He took offense that his executives were being told at the start of interviews that they had the right not to answer questions — as if they were being read their rights.

“It was like, ‘You shut up. I’m going to talk,’” a person said of Mr. Solórzano. “It was, ‘This is my home, my backyard. You are out of here.’”

Mr. Lewis viewed the complaints as an effort to sidetrack his investigators. “I find this ludicrous and a copout for the larger concerns about what has been going on,” he wrote.

Nevertheless, Mr. Herkert, the chief executive for Latin America, was notified about the complaints. Three days later, he and his boss, Mr. Duke, flew to Mexico City. The trip had been long-planned — Mr. Duke toured several stores — but they also reassured Wal-Mart de Mexico’s unhappy executives.

They arrived just as the investigators wrapped up their work and left.

A Push to Dig Deeper

Wal-Mart’s leaders had agreed to consider a full investigation if the preliminary inquiry found Mr. Cicero’s allegations credible.

Back in Bentonville, Mr. Halter and Mr. Ainley wrote confidential reports to Wal-Mart’s top executives in December 2005 laying out all the evidence that corroborated Mr. Cicero — the hundreds of gestor payments, the mystery codes, the rewritten audits, the evasive responses from Wal-Mart de Mexico executives, the donations for permits, the evidence gestores were still being used.

“There is reasonable suspicion,” Mr. Halter concluded, “to believe that Mexican and USA laws have been violated.” There was simply “no defensible explanation” for the millions of dollars in gestor payments, he wrote.

Mr. Halter submitted an “action plan” for a deeper investigation that would plumb the depths of corruption and culpability at Wal-Mart de Mexico.

Among other things, he urged “that all efforts be concentrated on the reconstruction of Cicero’s computer history.”

Mr. Cicero, meanwhile, was still offering help. In November, when Mr. Halter’s team was in Mexico, Mr. Cicero offered his services as a paid consultant. In December, he wrote to Ms. Munich. He volunteered to share specifics on still more stores, and he promised to show her documents. “I hope you visit again,” he wrote.

Mr. Halter proposed a thorough investigation of the two main gestores. He had not tried to interview them in Mexico for fear of his safety. (“I do not want to expose myself on what I consider to be an unrealistic attempt to get Mexican lawyers to admit to criminal activity,” he had explained to his bosses.) Now Mr. Halter wanted Wal-Mart to hire private investigators to interview and monitor both gestores.

He also envisioned a round of adversarial interviews with Wal-Mart de Mexico’s senior executives. He and his investigators argued that it was time to take the politically sensitive step of questioning Mr. Castro-Wright about his role in the gestor payments.

By January 2006, the case had reached a critical juncture. Wal-Mart’s leaders were again weighing whether to approve a full investigation that would inevitably focus on a star executive already being publicly discussed as a potential successor to Mr. Scott.

Wal-Mart’s ethics policy offered clear direction. “Never cover up or ignore an ethics problem,” the policy states. And some who were

involved in the investigation argued that it was time to take a stand against signs of rising corruption in Wal-Mart's global operations. Each year the company received hundreds of internal reports of bribery and fraud, records showed. In Asia alone, there had been 90 reports of bribery just in the previous 18 months.

The situation was bad enough that Wal-Mart's top procurement executives were summoned to Bentonville that winter for a dressing down. Mr. Menzer, Wal-Mart's vice chairman, warned them that corruption was creating an unacceptable risk, particularly given the government's stepped-up enforcement of the Foreign Corrupt Practices Act. "Times have changed," he said.

As if to underscore the problem, Wal-Mart's leaders were confronted with new corruption allegations at Wal-Mart de Mexico even as they pondered Mr. Halter's action plan. In January, Mr. Scott, Mr. Duke and Wal-Mart's chairman, S. Robson Walton, received an anonymous e-mail saying Wal-Mart de Mexico's top real estate executives were receiving kickbacks from construction companies. "Please you must do something," the e-mail implored.

Yet at the same time, records and interviews show, there were misgivings about the budding reach and power of Corporate Investigations.

In less than a year, Mr. Lewis's beefed-up team had doubled its caseload, to roughly 400 cases a year. Some executives grumbled that Mr. Lewis acted as if he still worked for the F.B.I., where he had once supervised major investigations. They accused him and his investigators of being overbearing, disruptive and naïve about the moral ambiguities of doing business abroad. They argued that Corporate Investigations should focus more on quietly "neutralizing" problems than on turning corrupt employees over to law enforcement.

Wal-Mart's leaders had just witnessed the downside of that approach: in early 2005, the company went to the F.B.I. with evidence that the disgraced former vice chairman, Mr. Coughlin, had embezzled hundreds of thousands of dollars. The decision produced months of embarrassing publicity, especially when Mr. Coughlin claimed he had used the money to pay off union spies for Wal-Mart.

Meanwhile, Wal-Mart de Mexico executives were continuing to complain to Benton-

ville about the investigation. The protests "just never let up," a person involved in the case said.

Another person familiar with the thinking of those overseeing the investigation said Wal-Mart would have reacted "like a chicken on a June bug" had the allegations concerned the United States. But some executives saw Mexico as a country where bribery was embedded in the business culture. It simply did not merit the same response.

"It's a Mexican issue; it's better to let it be a Mexican response," the person said, describing the thinking of Wal-Mart executives.

In the midst of this debate, Ms. Munich submitted her resignation, effective Feb. 1, 2006. In one of her final acts, she drafted a memo that argued for expanding the Mexico investigation and giving equal respect to Mexican and United States laws.

"The bribery of government officials," she noted dryly, "is a criminal offense in Mexico."

She also warned against allowing implicated executives to interfere with the investigation. Wal-Mart de Mexico's executives had already tried to insert themselves in the case. Just before Christmas, records show, Mr. Solórzano, the Wal-Mart de Mexico chief executive, held a video conference with Mr. Mars, Mr. Senser and Mr. Stucky to discuss his team's "hypothesis" that Mr. Cicero had stolen gestor payments.

"Given the serious nature of the allegations, and the need to preserve the integrity of the investigation," Ms. Munich wrote, "it would seem more prudent to develop a follow-up plan of action, independent of Walmex management participation."

The Chief Weighs In

Mr. Scott called a meeting for Feb. 3, 2006, to discuss revamping Wal-Mart's internal investigations and to resolve the question of what to do about Mr. Cicero's allegations.

In the days before the meeting, records show, Mr. Senser ordered his staff to compile data showing the effectiveness of Corporate Investigations. He assembled statistics showing that the unit had referred relatively few cases to law enforcement agencies. He circulated copies of an e-mail in which Mr. Rodríguezmacedo said he had been treated "very respectfully and cordially" by Mr. Senser's investigators.

Along with Mr. Scott, the meeting included

Mr. Hyde, Mr. Mars and Mr. Stucky, records show. The meeting brought the grievances against Corporate Investigations into the open. Mr. Senser described the complaints in Mr. Lewis's performance evaluation, completed shortly after the meeting. Wal-Mart's leaders viewed Mr. Lewis's investigators as "overly aggressive," he wrote. They did not care for Mr. Lewis's "law enforcement approach," and the fact that Mr. Scott convened a meeting to express these concerns only underscored "the importance placed on these topics by senior executives."

By meeting's end, Mr. Senser had been ordered to work with Mr. Mars and others to develop a "modified protocol" for internal investigations.

Mr. Scott said he wanted it done fast, and within 24 hours Mr. Senser produced a new protocol, a highly bureaucratic process that gave senior Wal-Mart executives — including executives at the business units being investigated — more control over internal investigations. The policy included multiple "case reviews." It also required senior executives to conduct a "cost-benefit analysis" before signing off on a full-blown investigation.

Under the new protocol, Mr. Lewis and his team would only investigate "significant" allegations, like those involving potential crimes or top executives. Lesser allegations would be left to the affected business unit to investigate.

"This captures it, I think," Mr. Hyde wrote when Mr. Senser sent him the new protocol.

Four days after Mr. Scott's meeting, with the new protocol drafted, Wal-Mart's leaders began to transfer control of the bribery investigation to one of its earliest targets, Mr. Rodríguezmacedo.

Mr. Mars first sent Mr. Halter's report to Mr. Rodríguezmacedo. Then he arranged to ship Mr. Halter's investigative files to him as well. In an e-mail, he sought Mr. Senser's advice on how to send the files in "a secure manner."

Mr. Senser recommended FedEx. "There is very good control on those shipments, and while governments do compromise them if they are looking for something in particular, there is no reason for them to think that this shipment is out of the ordinary," he wrote.

"The key," he added, "is being careful about how you communicate the details of the ship-

ment to José Luis." He advised Mr. Mars to use encrypted e-mail.

Wal-Mart's spokesman, Mr. Tovar, said the company could not discuss Mr. Scott's meeting or the decision to transfer the case to Mr. Rodríguezmacedo. "At this point," he said, "we don't have a full explanation of what happened. Unfortunately, we realize that until the investigation is concluded, there will be some unanswered questions."

Wal-Mart's leaders, however, had clear guidance about the propriety of letting a target of an investigation run it.

On the same day Mr. Senser was putting the finishing touches on the new investigations protocol, Wal-Mart's ethics office sent him a booklet of "best practices" for internal investigations. It had been put together by lawyers and executives who supervised investigations at Fortune 500 companies.

"Investigations should be conducted by individuals who do not have any vested interest in the potential outcomes of the investigation," it said.

The transfer appeared to violate even the "modified protocol" for investigations. Under the new protocol, Corporate Investigations was still supposed to handle "significant" allegations — including those involving potential crimes and senior executives. When Mr. Senser asked his deputies to list all investigations that met this threshold, they came up with 31 cases.

At the top of the list: Mexico.

After the meeting with Mr. Scott, Mr. Senser had told Mr. Lewis in his performance evaluation that his "highest priority" should be to eliminate "the perceptions that investigators are being too aggressive." He wanted Mr. Lewis to "earn the trust of" his "clients" — Wal-Mart's leaders. He wanted him to head off "adversarial interactions."

Mr. Senser now applied the same advice to himself.

Even as Mr. Halter's files were being shipped to Mr. Rodríguezmacedo, Mr. Stucky made plans to fly to Mexico with other executives involved in the bribery investigation. The trip, he wrote, was "for the purpose of re-establishing activities related to the certain compliance matters we've been discussing." Mr. Stucky invited Mr. Senser along.

"It is better if we do not make this trip to

Mexico City,” Mr. Senser replied. His investigators, he wrote, would simply be “a resource” if needed.

Ten days after Mr. Stucky flew to Mexico, an article about Wal-Mart appeared in The Times. It focused on “the increasingly important role of one man: Eduardo Castro-Wright.” The article said Mr. Castro-Wright was a “popular figure” inside Wal-Mart because he made Wal-Mart de Mexico one of the company’s “most profitable units.”

Wall Street analysts, it said, viewed him as a “very strong candidate” to succeed Mr. Scott.

Case Closed

For those who had investigated Mr. Cicero’s allegations, the preliminary inquiry had been just that — preliminary. In memos and meetings, they had argued that their findings clearly justified a full-blown investigation. Mr. Castro-Wright’s precise role had yet to be determined. Mr. Halter had never been permitted to question him, nor had Mr. Castro-Wright’s computer files been examined, records and interviews show.

At the very least, a complete investigation would take months.

Mr. Rodríguezmacedo, the man now in charge, saw it differently. He wrapped up the case in a few weeks, with little additional investigation.

“There is no evidence or clear indication,” his report concluded, “of bribes paid to Mexican government authorities with the purpose of wrongfully securing any licenses or permits.”

That conclusion, his report explained, was largely based on the denials of his fellow executives. Not one “mentioned having ordered or given bribes to government authorities,” he wrote.

His report, six pages long, neglected to note that he had been implicated in the same criminal conduct.

That was not the only omission. While his report conceded that Wal-Mart de Mexico executives had authorized years of payments to gestores, it never explained what these executives expected the gestores to do with the millions of dollars they received to “facilitate” permits.

He was also silent on the evidence that Wal-Mart de Mexico had doled out donations to get permits. Nor did he address evidence that he and other executives had suppressed or rewrit-

ten audits that would have alerted Bentonville to improper payments.

Instead, the bulk of Mr. Rodríguezmacedo’s report attacked the integrity of his accuser.

Mr. Cicero, he wrote, made Wal-Mart de Mexico’s executives think they would “run the risk of having permits denied if the gestores were not used.” But this was merely a ruse: In all likelihood, he argued, Wal-Mart de Mexico paid millions for “services never rendered.” The gestores simply pocketed the money, he suggested, and Mr. Cicero “may have benefited,” too.

But he offered no direct proof. Indeed, as his report made clear, it was less an allegation than a hypothesis built on two highly circumstantial pillars.

First, he said he had consulted with Jesús Zamora-Pierce, a “prestigious independent counsel” who had written books on fraud. Mr. Zamora, he wrote, “feels the conduct displayed by Sergio Cicero is typical of someone engaging in fraud. It is not uncommon in Mexico for lawyers to recommend the use of gestores to facilitate permit obtainment, when in reality it is nothing more than a means of engaging in fraud.”

Second, he said he had done a statistical analysis that found Wal-Mart de Mexico won permits even faster after Mr. Cicero left. The validity of his analysis was impossible to assess; he did not include his statistics in the report.

In building a case against Mr. Cicero, Mr. Rodríguezmacedo’s report included several false statements. He described Mr. Cicero’s “dismissal” when records showed he had resigned. He also wrote that Kroll’s investigation of Mr. Cicero concluded that he “had a considerable increase in his standard of living during the time in which payments were made to the gestores.” Kroll’s report made no such assertion, people involved in the investigation said.

His report promised a series of corrective steps aimed at putting the entire matter to rest. Wal-Mart de Mexico would no longer use gestores. There would be a renewed commitment to Wal-Mart’s anticorruption policy. He did not recommend any disciplinary action against his colleagues.

There was, however, one person he hoped to punish. Wal-Mart de Mexico, he wrote, would scour Mr. Cicero’s records and determine “if any legal action may be taken against him.”

Mr. Rodríguezmacedo submitted a draft of his report to Bentonville. In an e-mail, Mr. Lewis told his superiors that he found the report “lacking.” It was not clear what evidence supported the report’s conclusions, he wrote. “More importantly,” he wrote, “if one agrees that Sergio defrauded the company and I am one of them, the question becomes, how was he able to get away with almost \$10 million and why was nothing done after it was discovered?”

Mr. Rodríguezmacedo responded by adding a paragraph to the end of his report: They had de-

Alejandra Xanic von Bertrab and James C. McKinley Jr. contributed reporting from Mexico City.

cided not to pursue “criminal actions” against Mr. Cicero because “we did not have strong case.”

“At the risk of being cynical,” Mr. Lewis wrote in response, “that report is exactly the same as the previous which I indicated was truly lacking.”

But it was enough for Wal-Mart. Mr. Rodríguezmacedo was told by executives in Bentonville on May 10, 2006, to put his report “into final form, thus concluding this investigation.”

No one told Mr. Cicero. All he knew was that after months of e-mails, phone calls and meetings, Wal-Mart’s interest seemed to suddenly fade. His phone calls and e-mails went unanswered.

“I thought nobody cares about this,” he said. “So I left it behind.” ■

The New York Times

NEW YORK, TUESDAY, DECEMBER 18, 2012

The Bribery Aisle

How Wal-Mart Used Payoffs To Get Its Way in Mexico

By **DAVID BARSTOW** and **ALEJANDRA XANIC** von **BERTRAB**

WAL-MART longed to build in Elda Pineda's alfalfa field. It was an ideal location, just off this town's bustling main entrance and barely a mile from its ancient pyramids, which draw tourists from around the world. With its usual precision, Wal-Mart calculated it would attract 250 customers an hour if only it could put a store in Mrs. Pineda's field.

One major obstacle stood in Wal-Mart's way.

After years of study, the town's elected leaders had just approved a new zoning map. The leaders wanted to limit growth near the pyramids, and they considered the town's main entrance too congested already. As a result, the 2003 zoning map prohibited commercial development on Mrs. Pineda's field, seemingly dooming Wal-Mart's hopes.

But 30 miles away in Mexico City, at the headquarters of Wal-Mart de Mexico, executives were not about to be thwarted by an unfavorable zoning decision. Instead, records and interviews show, they decided to undo the damage with one well-placed \$52,000 bribe.

The plan was simple. The zoning map would not become law until it was published in a government newspaper. So Wal-Mart de Mexico arranged to bribe an official to change the map before it was sent to the newspaper, records and interviews show. Sure enough, when the map was published, the zoning for Mrs. Pine-

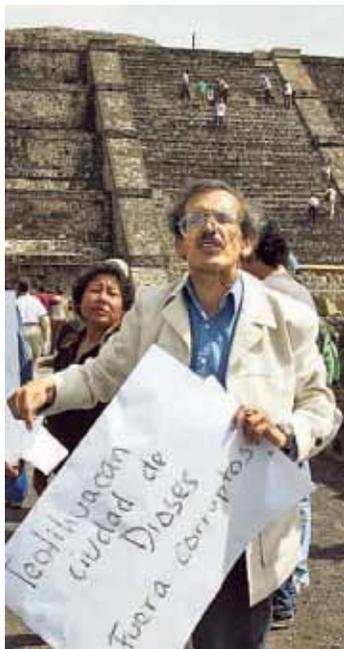
da's field was redrawn to allow Wal-Mart's store.

Problem solved.

Wal-Mart de Mexico broke ground months later, provoking fierce opposition. Protesters decried the very idea of a Wal-Mart so close to a cultural treasure. They contended the town's traditional public markets would be decimated, its traffic mess made worse. Months of hunger strikes and sit-ins consumed Mexico's news media. Yet for all the scrutiny, the story of the altered map remained a secret. The store opened for Christmas 2004, affirming Wal-Mart's emerging dominance in Mexico.

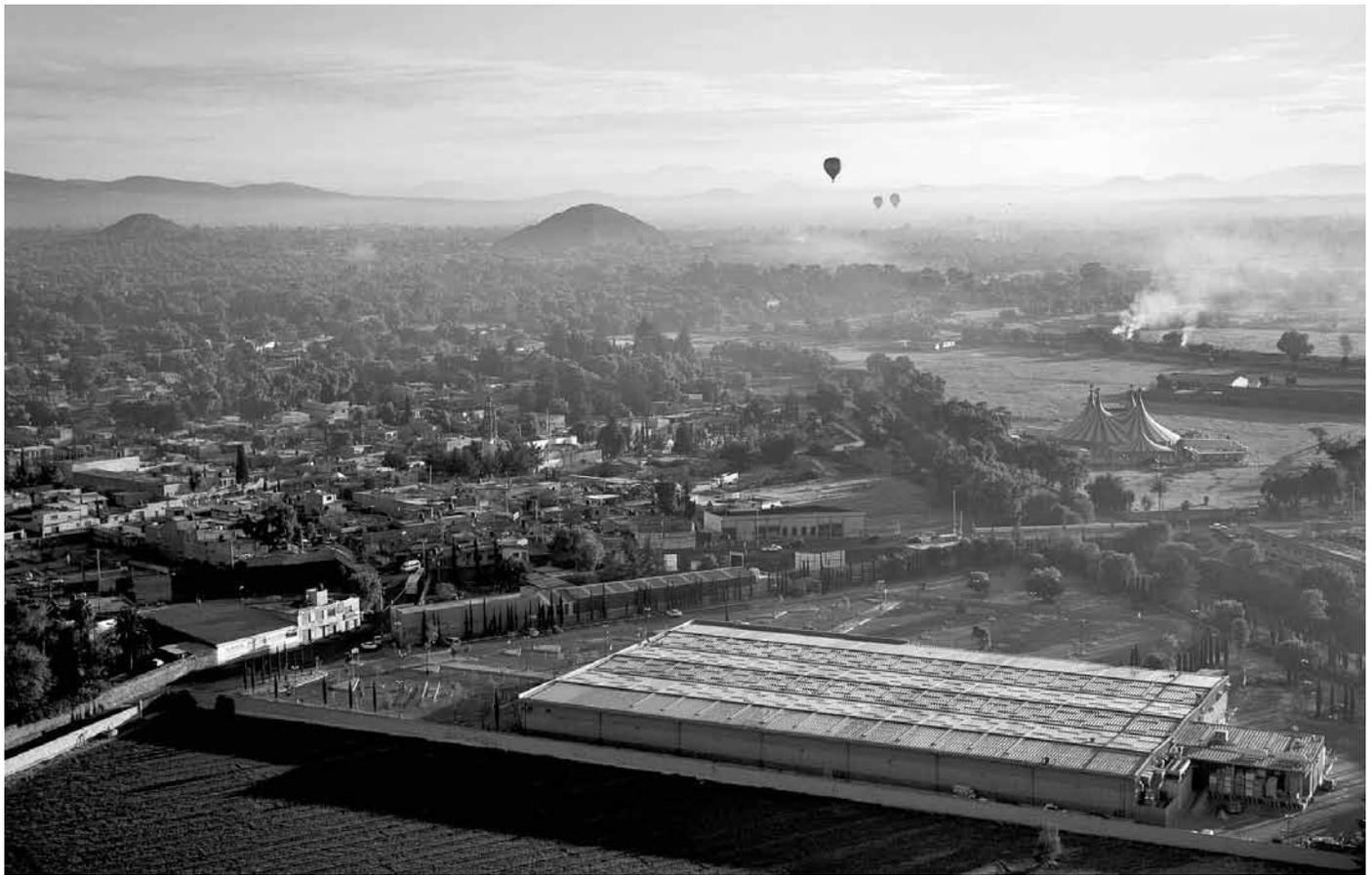
The secret held even after a former Wal-Mart de Mexico lawyer contacted Wal-Mart executives in Bentonville, Ark., and told them how Wal-Mart de Mexico routinely resorted to bribery, citing the altered map as but one example. His detailed account — he had been in charge of getting building permits throughout Mexico — raised alarms at the highest levels of Wal-Mart and prompted an internal investigation.

But as The New York Times revealed in April, Wal-Mart's leaders shut down the investigation in 2006. They did so even though their investigators had found a wealth of evidence supporting the lawyer's allegations. The decision meant authorities were not notified. It also meant basic questions about the nature, extent and impact of Wal-Mart de Mexico's conduct were never asked, much less



DANIEL AGUILAR/REUTERS

In Teotihuacán, Emmanuel D'Herrera helped lead protests against Wal-Mart.



PHOTOGRAPHS BY JOSH HANER/THE NEW YORK TIMES

A STORE BUILT ON BRIBES

Without paying more than \$200,000 in bribes, Wal-Mart almost certainly would not have been able to build its Bodega Aurrera supermarket in Teotihuacán.

answered.

The Times has now picked up where Wal-Mart's internal investigation was cut off, traveling to dozens of towns and cities in Mexico, gathering tens of thousands of documents related to Wal-Mart de Mexico permits, and interviewing scores of government officials and Wal-Mart employees, including 15 hours of interviews with the former lawyer, Sergio Cicero Zapata.

The Times's examination reveals that Wal-Mart de Mexico was not the reluctant victim of a corrupt culture that insisted on bribes as the cost of doing business. Nor did it pay bribes merely to speed up routine approvals. Rather, Wal-Mart de Mexico was an aggressive and creative corrupter, offering large payoffs to get what the law otherwise prohibited. It used bribes to subvert democratic governance — public votes, open debates, transparent procedures. It used bribes to circumvent regulatory safeguards that protect Mexican citizens from

unsafe construction. It used bribes to outflank rivals.

Through confidential Wal-Mart documents, The Times identified 19 store sites across Mexico that were the target of Wal-Mart de Mexico's bribes. The Times then matched information about specific bribes against permit records for each site. Clear patterns emerged. Over and over, for example, the dates of bribe payments coincided with dates when critical permits were issued. Again and again, the strictly forbidden became miraculously attainable.

Thanks to eight bribe payments totaling \$341,000, for example, Wal-Mart built a Sam's Club in one of Mexico City's most densely populated neighborhoods, near the Basílica de Guadalupe, without a construction license, or an environmental permit, or an urban impact assessment, or even a traffic permit. Thanks to nine bribe payments totaling \$765,000, Wal-Mart built a vast refrigerated distribution center in an environmentally fragile flood basin

north of Mexico City, in an area where electricity was so scarce that many smaller developers were turned away.

But there is no better example of Wal-Mart de Mexico's methods than its conquest of Mrs. Pineda's alfalfa field. In Teotihuacán, The Times found that Wal-Mart de Mexico executives approved at least four different bribe payments — more than \$200,000 in all — to build just a medium-size supermarket. Without those payoffs, records and interviews show, Wal-Mart almost surely would not have been allowed to build in Mrs. Pineda's field.

The Teotihuacán case also raises new questions about the way Wal-Mart's leaders in the United States responded to evidence of widespread corruption in their largest foreign subsidiary.

Wal-Mart's leadership was well aware of the protests here in 2004. (The controversy was covered by several news outlets in the United States, including The Times.) From the start, protest leaders insisted that corruption surely played a role in the store's permits. Although woefully short on specifics, their complaints prompted multiple investigations by Mexican authorities. One of those investigations was still under way when Wal-Mart's top executives first learned of Mr. Cicero's account of bribes in Teotihuacán (pronounced Tay-o-tea-wah-KHAN).

But Wal-Mart's leaders did not tell Mexican authorities about his allegations, not even after their own investigators concluded there was "reasonable suspicion" to believe laws had been violated, records and interviews show. Unaware of this new evidence, Mexican investigators said they could find no wrongdoing in Teotihuacán.

Wal-Mart has been under growing scrutiny since The Times disclosed its corruption problems in Mexico, where it is the largest private employer, with 221,000 people working in 2,275 stores, supermarkets and restaurants.

In the United States, the Justice Department and the Securities and Exchange Commission are investigating possible violations of the Foreign Corrupt Practices Act, the federal law that makes it a crime for American corporations or their subsidiaries to bribe foreign officials. Mexican authorities and Congressional Democrats have also begun investigations, and Wal-Mart has been hit by shareholder lawsuits

from several major pension funds.

Wal-Mart declined to discuss its conduct in Teotihuacán while it is continuing its own investigation. The company has hired hundreds of lawyers, investigators and forensic accountants who are examining all 27 of its foreign markets. It has already found potentially serious wrongdoing, including indications of bribery in China, Brazil and India. Several top executives in Mexico and India have been suspended or forced to resign in recent months.

Wal-Mart has also tightened oversight of its internal investigations. It has created high-level positions to help root out corruption. It is spending millions on anticorruption training and background checks of the lawyers and lobbyists who represent Wal-Mart before foreign governments. The company has spent more than \$100 million on investigative costs this year.

"We are committed to having a strong and effective global anticorruption program everywhere we operate and taking appropriate action for any instance of noncompliance," said David W. Tovar, a Wal-Mart spokesman.

In Mexico, a major focus of Wal-Mart's investigation is none other than the boxy, brown supermarket in Mrs. Pineda's alfalfa field.

Eight years later, it remains the most controversial Wal-Mart in Mexico, a powerful symbol of globalism's impact on Mexican culture and commerce.

As it turns out, the store also took on symbolic importance within Wal-Mart de Mexico, Mr. Cicero said in an interview. Executives, he said, came to believe that by outmuscling protesters and building in the shadow of a revered national treasure, they would send a message to the entire country: If we can build here, we can build anywhere.

City of the Gods

In ancient times, Teotihuacán was a sprawling metropolis of perhaps 150,000 people. The "city of the gods," as the Aztecs called it, rose up around a vast temple complex and two great pyramids, the Sun and the Moon. The ancient city is long gone, buried under farm fields, small pueblos and the detritus of bygone civilizations. But the temple complex and pyramids remain, which is why Teotihuacán is so central to Mexico's cultural patrimony.

Teotihuacán's leaders naturally wanted to



THE COMPETITION MOVES IN

Inside the Bodega Aurrera in Teotihuacán, top, shoppers can buy everything from tortillas to tires. Market vendors, above, were among those most concerned about Wal-Mart's plans to enter Teotihuacán.

protect this legacy as they began work on a new zoning plan in 2001. To keep the town attractive as a tourist destination, they decided to limit development in the “archaeological zone,” a buffer of protected land that encircles the pyramids. At the same time, they wanted a plan that would lure more tourists into the town’s central square.

“People complained tourists didn’t go into town,” said Víctor Ortiz, a partner in the consulting firm the town hired to draw up its new zoning plan.

By early 2003, just as Mr. Ortiz’s firm was finishing its work, Wal-Mart de Mexico had settled on Teotihuacán as a ripe target for expansion. Its population, nearly 50,000, was growing fast, and its commerce was dominated by small neighborhood shops and a traditional public market in the central square — exactly the type of competition Wal-Mart de Mexico had vanquished in town after town.

Mr. Cicero, a trim, sharp-featured man, recalled how Mrs. Pineda’s alfalfa field jumped out as Wal-Mart’s real estate executives scoured aerial photographs of Teotihuacán. By putting one of Wal-Mart’s Bodega Aurrera supermarkets at the town’s main entrance, they could create a choke point that would effectively place the town off limits to competitors. There was also space to add other types of Wal-Mart stores — restaurants or department stores — down the road. “We would be slamming the gate on the whole town,” he said.

But Wal-Mart officials got a cold reception when they began to inquire about permits at Teotihuacán’s municipal offices. Saúl Martínez, an employee in the urban development office, recalled telling Wal-Mart’s representatives that a supermarket could not be built in Mrs. Pineda’s field, because the field was zoned for housing. Wal-Mart would need a zoning change. But a supermarket, he told them, was sure to generate strong opposition because of the traffic chaos it would create.

“Go look for something else,” he recalled telling Wal-Mart.

At first, Mr. Cicero’s team thought it had found a perfectly legal solution to the zoning problem. Only a narrow strip of land separated Mrs. Pineda’s field from Hidalgo Avenue, the main road into town. If Wal-Mart could build an entrance across that strip, zoning rules would

let it rely on Hidalgo Avenue’s zoning, which allowed commercial development. But Wal-Mart could not get a right of way, despite months of trying.

By then, the municipality was rushing to complete its new zoning plan. Officials were already holding public meetings to present the plan and solicit feedback. A final vote was scheduled for Aug. 6, 2003.

The Times obtained four different copies of the new zoning map as it existed on the eve of the vote. All four, including two found in the town’s urban development office, confirm that housing was the only kind of development allowed on Mrs. Pineda’s field. There is no record of Wal-Mart seeking a last-minute change, and nine officials closely involved in drafting the plan all said in separate interviews that they were certain Wal-Mart made no such request.

“I would remember,” said Humberto Peña, then the mayor of Teotihuacán. “And if they would have asked that, my answer would have been no.”

After two years of painstaking work, Mr. Peña and the municipal council unanimously approved Teotihuacán’s new zoning plan on Aug. 6

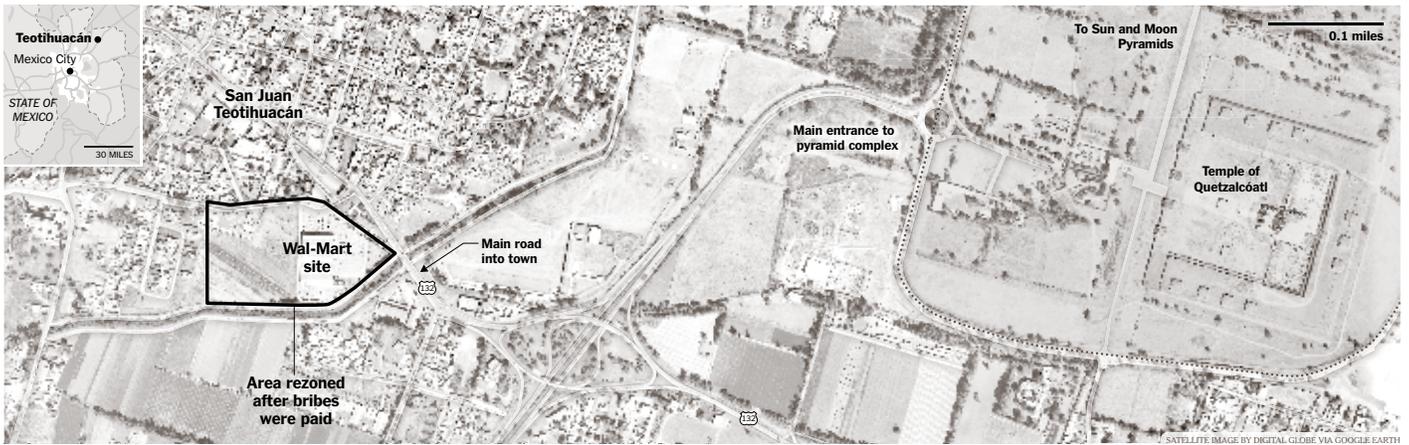
The next day Mr. Peña sent the new map to the state’s Office of Urban and Regional Planning, a bureaucratic outpost of roughly a dozen employees in Toluca, the State of Mexico’s capital. The office’s main job was to verify that local zoning plans fit the state’s development goals. It also handled the critical final step — arranging publication of completed plans in the state’s official newspaper, the Government’s Gazette.

An Altered Map

If the council’s vote seemingly dashed Wal-Mart’s hopes for Teotihuacán, Wal-Mart de Mexico’s executives certainly acted as if they knew something the rest of the world did not.

On Aug. 12, records show, they asked Wal-Mart’s leadership in the United States to approve their plan to spend about \$8 million on a Bodega Aurrera in Mrs. Pineda’s field. The request was approved by Wal-Mart’s international real estate committee, made up of 20 or so top executives, including S. Robson Walton, the company’s chairman.

The committee’s approval, records show, was contingent on obtaining “zoning for com-



FOUR BRIBES, ONE WAL-MART

Wal-Mart de Mexico faced a series of legal obstacles in its quest to build a supermarket in the protected archaeological zone around the pyramid complex in Teotihuacán. It overcame those obstacles by authorizing bribes, records and interviews show.

\$52,000

The biggest hurdle was Teotihuacán's zoning map. It clearly prohibited commercial development where Wal-Mart wanted to build. Wal-Mart de Mexico authorized a \$52,000 bribe payment to have the map altered, records and interviews show.

\$25,900

Wal-Mart wanted to build by the main entrance into Teotihuacán, in a spot already choked with traffic. Wal-Mart de Mexico authorized a \$25,900 bribe payment to gain the approval of local traffic authorities, records and interviews show.

\$114,000

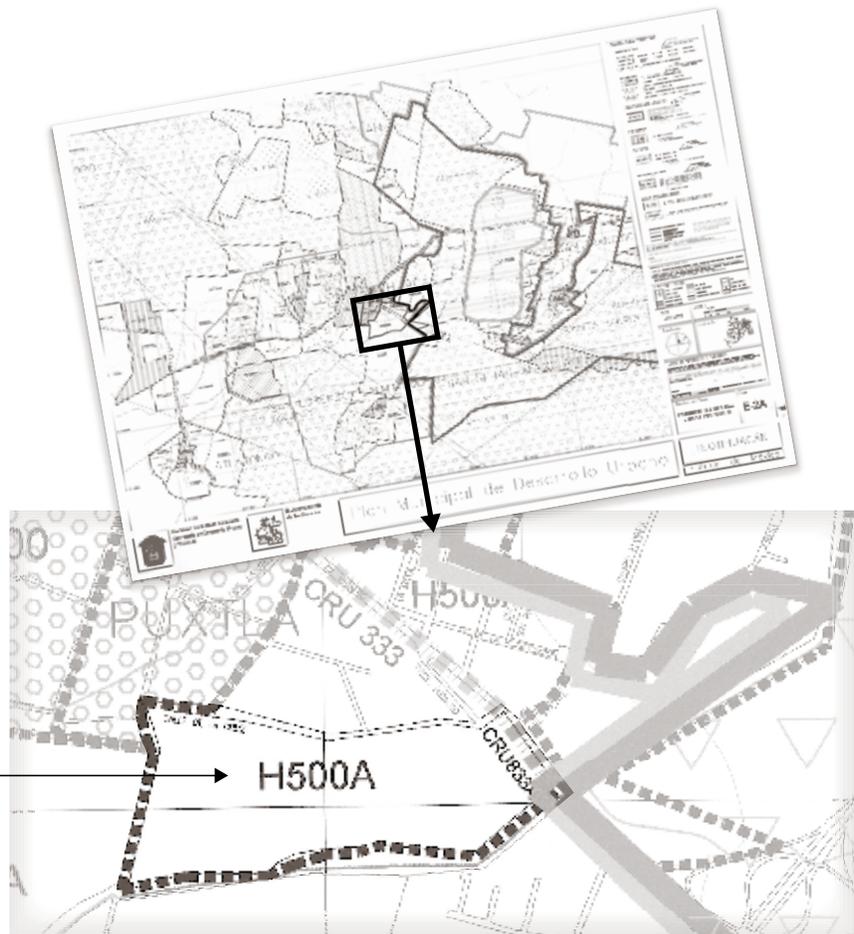
Facing certain opposition from local merchants and residents, Wal-Mart de Mexico executives agreed to pay \$114,000 in bribes to guarantee the support of Teotihuacán's mayor and his allies on the municipal council, records and interviews show.

Up to \$81,000

Wal-Mart could not build by the pyramids without a permit from the agency that protects Mexico's cultural landmarks. Wal-Mart de Mexico offered a "donation" of up to \$45,000 and a "personal gift" of up to \$36,000 in exchange for the permit, records and interviews show.

THE ORIGINAL MAP

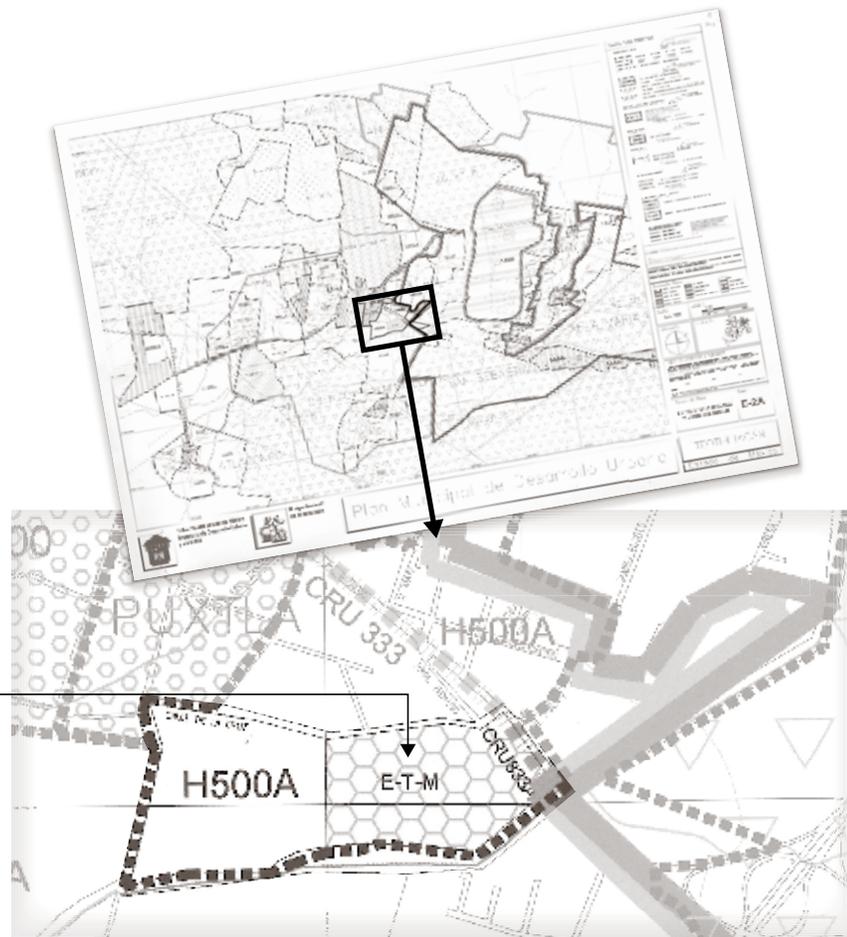
Teotihuacán's leaders approved a new zoning map on Aug. 6, 2003. That map prohibited any commercial development on the plot where Wal-Mart wanted to build its supermarket.



The plot's zoning designation, H500A, allowed only houses to be built there.

THE ALTERED MAP

The new map would not become law until it was published in a government newspaper. Wal-Mart de Mexico bribed an official to alter the map before it was sent off for publication.



In the altered map, the land where Wal-Mart wanted to build had its zoning changed to E-T-M, a category that permitted a supermarket.

THE NEW YORK TIMES

mercial use.”

By law, the state Office of Urban and Regional Planning could not make zoning changes on maps it reviewed. If there were problems, it was supposed to send the map back to the town for revisions. Teotihuacán’s plan, however, was quickly approved and then sent to the Government’s Gazette on Aug. 20.

It typically took the Gazette a few weeks to publish a new zoning plan. Only then did it become law. But even before Teotihuacán’s map was published, Wal-Mart de Mexico did two very curious things: First, it began an expensive soil mechanics study of Mrs. Pineda’s field, which it would later lease. Second, it submitted an application to the Business Attention Commission, a state agency that helps developers get permits.

The application and the soil study would have been a foolish waste of time and money, assuming the soon-to-be-published map matched what the Teotihuacán council approved on Aug.

6. It made perfect sense, though, for a company that had reason to believe the map would be published with a single strategically situated change.

The Times found evidence of that change on a computer disc stored in a shoe box inside the Office of Urban and Regional Planning. The disc, created by a senior official in the office, held a copy of Teotihuacán’s zoning map as it existed on Aug. 20, the day it was sent to the Government’s Gazette.

On the map, the zoning on Mrs. Pineda’s field had been changed to allow a commercial center.

“One thing I am sure of — this was altered,” Alejandro Heredia, a partner in the consulting firm that created Teotihuacán’s zoning map, said when he was shown that Aug. 20 map.

“It was surgical work,” he said, adding, “It would be quite a gift to someone who wanted to do something here.”

It was a safe bet that a single small change

would not be noticed by Teotihuacán's municipal council. Because of term limits, the entire council left office after the Aug. 6 vote. A new mayor, Guillermo Rodríguez, was sworn in with a new council on Aug. 17. In interviews, Mr. Rodríguez and members of the new council said they had no idea Wal-Mart had its eye on Mrs. Pineda's field when they took office.

"They must have had to bribe somebody in order to make the illegal legal," Mr. Rodríguez said when he was shown both the Aug. 20 map and the map approved on Aug. 6.

"Whatever happened here must be explained," Jesús Aguiluz, a former high-ranking state official whose domain included the Office of Urban and Regional Planning, said when he was shown both maps. Only one person, he said, could explain what happened — Víctor Manuel Frieventh, then the director of the urban planning office.

"He was in charge totally," Mr. Aguiluz said.

In interviews with *The Times*, people who worked in Mr. Frieventh's office recalled a steady parade of favor-seekers — housing developers, wealthy landowners, politically wired businessmen — all hoping Mr. Frieventh would use his influence to shape zoning plans to favor their interests. Wal-Mart de Mexico, they said, was part of the parade.

During a two-hour interview with *The Times*, Mr. Frieventh jovially described how his predecessors had taken bribes to shift zoning boundaries. But he insisted he never met with anyone from Wal-Mart, and said he had nothing to do with the change to Teotihuacán's map.

"It's very strange," he said, looking intently at the altered map.

The formal order to publish Teotihuacán's new zoning plan was received by the Government's Gazette on Sept. 11, 2003. The next day, internal Wal-Mart de Mexico records show, Mr. Cicero authorized five bribe payments totaling \$221,000. According to the internal records, the bribes were for obtaining zoning changes to build five supermarkets. One of the payments, for \$52,000, was for the Bodega Aurrera in Teotihuacán, Mr. Cicero said in an interview.

Wal-Mart de Mexico officials did not themselves pay bribes. Records and interviews show that payoffs were made by outside lawyers, trusted fixers dispatched by Mr. Cicero to deliver envelopes of cash without leaving any trace

of their existence. Wal-Mart de Mexico's written policies said these fixers could be entrusted with up to \$280,000 to "expedite" a single permit. The bribe payments covered the payoffs themselves, a commission for the fixer and taxes. For some permits, it was left to the fixers to figure out who needed to be bribed. In this case, Mr. Cicero said, Mr. Frieventh was the intended recipient.

Mr. Frieventh, the son of a shoe-store owner, earned a government salary of less than \$30,000 in 2003. However modest his pay, he was in the midst of amassing an impressive real estate portfolio. From 2001 to 2004, property records show, he bought up most of a city block in Toluca. The land costs alone were nearly 65 percent of his government pay during those years.

Asked if he had ever accepted anything of value from a Wal-Mart representative, Mr. Frieventh shook his head, chuckled and extended a hand, palm up. "Bring him to me so he can pay me, no? Have him bring it to me."

Even with the right zoning, Wal-Mart still needed at least a dozen different permits to begin construction. But to apply for them, Mr. Cicero's team first had to get a zoning certificate, which verified that a plot's zoning was consistent with the proposed development.

Zoning certificates did not come from Mr. Frieventh's office. They were issued by the state Office of Urban Operations, and Wal-Mart's request went to Lidia Gómez, a career civil servant known as a stickler for rules. Ms. Gómez rejected Wal-Mart's request. Wal-Mart tried again a few months later, and again Ms. Gómez said no, saying that even with Teotihuacán's new map, a Bodega Aurrera would still run afoul of a rarely enforced federal guideline. Wal-Mart was dead in the water.

With help from Mr. Frieventh, Mr. Cicero's team found a way around Ms. Gómez, and the law. Mr. Frieventh had no legal authority to overrule Ms. Gómez. But at Wal-Mart's request, records show, Mr. Frieventh wrote a letter on government letterhead on March 9, 2004, that directly contradicted Ms. Gómez's rulings. Citing the altered map, he wrote that Wal-Mart's supermarket was indeed compatible with the zoning for Mrs. Pineda's field.

Mr. Frieventh said he did not recall the letter, or why he wrote it. But Wal-Mart de Mexico immediately put the letter to work. It began ap-

plying for other permits, each time submitting the letter as if it were a valid zoning certificate.

One of its first applications was to the state agency that regulates roads.

There were obvious reasons for traffic regulators to balk at Wal-Mart's permit request. Traffic, of course, was one of Teotihuacán's biggest headaches, and a supermarket at the main entrance would only make matters worse. But there was a far bigger complication. The town had recently approved a long-term plan to ease congestion. The plan called for building a bypass road through Mrs. Pineda's alfalfa field.

According to internal Wal-Mart records, Mr. Cicero authorized a \$25,900 bribe for the permit, which was issued in less than two weeks. The paperwork approving it did not even mention the bypass road.

A Helpful Mayor

Teotihuacán's municipal council had just finished its regular meeting on June 11, 2004, when the mayor, Guillermo Rodríguez, made an unusual request. He asked the council members to stick around and meet privately with some people from Wal-Mart. Instructions were given to turn off the video camera used to record public meetings. But the video operator disregarded the instructions, and the camera continued to roll.

"They are going to explain what they want to do here," the mayor told his colleagues.

To build in Mrs. Pineda's field, Wal-Mart now needed a construction license from Teotihuacán. Construction licenses were issued by Hugo Hernández, the town's director of urban development. Yet Mr. Hernández had thus far declined to give Wal-Mart a license because it still lacked several approvals — an environmental permit, for example.

But Wal-Mart de Mexico had found a friend in Mayor Rodríguez, who now, in private, explained to the council why it was essential to act with speed and flexibility to help Wal-Mart build, regardless of the inevitable opposition.

"They say that if we don't solve this quickly, they will leave," he told the council members. Wal-Mart, he revealed, had raised the possibility of a donation. "They asked me, 'What are you going to ask from us?' I said, 'Pay your taxes, reach an agreement, help the community.'"

Then he summoned Wal-Mart's team, led

by Jorge Resendiz, one of Mr. Cicero's deputies.

Mr. Resendiz got to the point. In exchange for bringing jobs and low prices to Teotihuacán, Wal-Mart wanted something extraordinary. It wanted the council members to let Wal-Mart start construction even though it did not have all the required permits. And it wanted them to do it then and there, in private, without public hearings. Wal-Mart was in a rush to open for Christmas shopping. "Time is precious for us," he said. "If we don't start this unit in the coming days, we will have a delay."

Mr. Rodríguez assured Mr. Resendiz that the council would give its approval the next week.

The mayor's aggressive activism was out of character. In interviews, former aides and colleagues described Mr. Rodríguez as "insecure," "easily manipulated" and "passive." He was frequently absent during working hours. "My persistent thought was that I was disappointed by him," said Mr. Peña, the former mayor who had been Mr. Rodríguez's political mentor.

But according to Mr. Cicero, there was nothing accidental about Mr. Rodríguez's enthusiasm. Wal-Mart de Mexico, he said, bribed Mr. Rodríguez to secure his support and that of his allies on the town council. The decision to bribe Mr. Rodríguez, he said, was blessed by Wal-Mart de Mexico's leaders.

"I didn't receive any money from Wal-Mart — no money," Mr. Rodríguez insisted during two lengthy interviews with *The Times*.

But he struggled to explain why he began to spend tens of thousands of dollars in June 2004, the same month he emerged as Wal-Mart's champion.

The spending is described in financial disclosure reports Mr. Rodríguez prepared himself under oath. The reports, obtained by *The Times*, show that he spent \$30,300 to begin building a ranch on a hill overlooking the pyramids. He spent \$1,800 more on a used Dodge pickup. He paid cash in both transactions.

As mayor, Mr. Rodríguez was paid \$47,000 a year. His wife made \$23,000 more working for the municipality. His spending spree in June nearly equaled their entire pay for the first half of 2004.

Even more remarkable was what happened six months later. Mr. Rodríguez swore in his disclosure reports that he had no savings as of Dec.

31, 2004. Yet on Jan. 1, 2005, he and his wife spent \$47,700 in cash on improvements to their ranch, his reports show.

Before becoming mayor, Mr. Rodríguez had been the town comptroller, responsible for making sure municipal officials completed their financial disclosure reports correctly. Yet in the interviews, Mr. Rodríguez claimed over and over that the amounts he reported were “mistakes” or “approximate figures” or “generalized.”

He tried to be precise, he explained. “I now see it wasn’t so.”

But he did not dispute the overall spending pattern. From June 2004 to June 2005, he acknowledged, he spent “approximately” \$114,000 building and furnishing his ranch, all in cash.

Wal-Mart’s investigators would ask Mr. Ciceró how much Wal-Mart de Mexico had paid to bribe the mayor. About \$114,000, he said.

Teotihuacán’s council members met again on June 18, 2004, a week after Mr. Rodríguez first introduced them to Wal-Mart. It was just after 7 a.m. and Mr. Resendiz took a seat up front. Item 7 on the agenda was Wal-Mart.

It was the first and only public airing of Wal-Mart’s plans. The council members spent 15 minutes discussing one of the largest construction projects in the town’s modern history.

Mr. Rodríguez announced they were there to give a “favorable or unfavorable opinion” of Wal-Mart’s supermarket. When a council member pointed out that Wal-Mart had not even submitted a formal written request, the mayor waved away the problem. “That’s a detail we omitted,” he said.

Mr. Hernández, the town’s urban development director, noted that Wal-Mart still did not have several permits it needed before the town could issue a construction license. He urged the council to stick to the rules.

Mr. Resendiz objected, saying Wal-Mart did not have time to spare.



A POPULAR STORE

Wal-Mart’s supermarket is easily the busiest store in town, catering mostly to working-class families.

The mayor pushed for a vote, suggesting that all they were doing was indicating general support while Wal-Mart rounded up its missing permits. He gave no indication that the vote constituted a final approval.

In interviews, council members said they viewed Wal-Mart’s proposal through the prism of lingering resentments toward their public markets. Residents had long complained about vendors inflating prices and rigging scales. They liked the way Wal-Mart challenged the old irritants of the Mexican shopping experience — stores that do not list prices; stores with no parking;

stores with musty display cases.

The vote was unanimous for Wal-Mart. Days later, construction began.

Getting By the Guardians

The appearance of heavy excavation equipment in Mrs. Pineda’s field quickly aroused suspicion around town. The suspicions stemmed from Teotihuacán’s fraught relationship with the National Institute of Anthropology and History, or INAH, the official guardian of Mexico’s cultural treasures.

Because of the pyramids, INAH (pronounced EE-nah) is a major presence in Teotihuacán. Its approval is required to build anything inside the protected archaeological zone. Its officials patrol town looking for signs of illegal construction, and it is not hard to find stories about zealous inspectors stopping a homeowner from extending a kitchen a few feet.

It was also well known that INAH required excavations to be done with picks and shovels to minimize damage if digging uncovered ancient ruins. So the sight of bulldozers and backhoes stood out, especially when a sign went up announcing that a Bodega Aurrera was coming. Why, residents asked, should Wal-Mart get special treatment?

Among those who noticed was Sergio Gómez, an archaeologist and researcher for INAH.



PHOTOGRAPHS BY JOSH HANER/THE NEW YORK TIMES

FOR AND AGAINST

Guillermo Rodríguez, top, outside his ranch, was the mayor of Teotihuacán when Wal-Mart built its supermarket there in 2004. Emma Ortega, above, a spiritual healer who cares for patients across the street from the Pyramid of the Moon, shown in background, viewed Wal-Mart as a threat to Mexico's cultural traditions.

Mr. Gómez knew that before the agency issued a permit, it first had to officially “liberate” the plot by verifying that construction would not destroy valuable archaeological remains. That meant conducting a formal archaeological survey, with grid lines and exploration holes.

For any developer, a survey was risky. If significant remains were discovered, it could kill the project, or at least force lengthy delays. Yet Mr. Gómez had not seen any sign of a survey, an odd thing since a survey like this should have occupied a team of INAH researchers and laborers for a good six months. This, too, was a red flag.

Mr. Gómez was concerned enough to follow trucks from the site one day. When they dumped their loads, he could see fragments of pottery and other evidence of ancient remains. “I didn’t need to scratch the ground to see it,” he said in an interview.

Iván Hernández noticed, too. He was one of five INAH archaeologists who did surveys to liberate land for construction in the protected zone. He knew every major project in town, but nothing of this one.

Residents were also calling INAH to complain. The calls went to Juan Carlos Sabais, the agency’s top lawyer in Teotihuacán. He would have been the one to review the permit paperwork and prepare the official liberation letter for this plot. “We didn’t have a clue,” he recalled. “People were saying this was Wal-Mart, and we didn’t know a thing.”

Mr. Sabais led a party of INAH officials to the site to find out what was going on. They passed through a small crowd of angry residents. It was July 16, and construction was already well under way. There were several large excavations, one as deep as 16 feet, records show. Workers claimed they had an INAH permit, just not on site as the law required. Mr. Sabais ordered them to stop construction. “The crowd started clapping,” he said.

By the time Mr. Sabais returned to his office, senior INAH officials were calling from Mexico City demanding to know why he had halted construction. Only then, he said, did he discover that Wal-Mart had somehow managed to get a permit without a survey, or a liberation letter.

This bureaucratic miracle, Mr. Cicero would explain to Wal-Mart investigators and The

Times, was made possible by another payoff. As Mr. Cicero described it, senior INAH officials had asked for an “official donation” of up to \$45,000 and a “personal gift” of up to \$36,000 in exchange for a permit.

Wal-Mart’s permit was signed by Mirabel Miró, then the agency’s top official in the State of Mexico. According to Ms. Miró, it was Wal-Mart de Mexico that made an improper offer of money. Her chief architect, she said, told her that Wal-Mart had approached him with an offer of a sizable “donation.” He wanted to accept, she said.

“I told him, ‘I don’t want a dime, not as a donation, not as anything, because it may be interpreted as something else,’” she said.

Sergio Raúl Arroyo, the director general of INAH, recalled in an interview that Ms. Miró had told him about Wal-Mart’s offer. He could not recall any other instance of a company offering a donation while it was seeking a permit. “That would have been totally irregular,” he said. “It was obvious we had to be very careful with these people.”

“I told Miró to accept no donations,” he added. “Not even a pair of scissors.”

And yet in June 2004, three weeks after Ms. Miró signed the permit, Mr. Resendiz spoke about a payment to INAH during his private meeting with Teotihuacán’s council. “INAH itself is asking us for a considerable contribution,” Mr. Resendiz said.

“We are going to formalize the contribution next Monday,” he added. “But it is a fact.”

Mr. Resendiz, who has been placed on administrative leave pending Wal-Mart’s investigation, declined to comment. Every INAH official interviewed, including Ms. Miró’s chief architect, Carlos Madrigal, denied accepting money from Wal-Mart.

But Mr. Sabais, the agency’s top lawyer in Teotihuacán, knew nothing about official donations or personal gifts on the day he stopped construction. All he knew was that he was being summoned to INAH’s headquarters in Mexico City. Over several tense meetings, he recalled, his bosses confronted their embarrassing predicament: INAH had halted construction even though Wal-Mart had the required permit. Yet the agency had given Wal-Mart that permit without first conducting a survey and liberating the land.

Fearing a public relations debacle, senior INAH officials concocted a trail of backdated documents to hide its blunders, Mr. Sabais said. He pointed to an INAH report dated April 2, 2004, seven weeks before the agency issued its permit. The report suggested Wal-Mart's plot had been liberated after a 1984 survey. "This document," Mr. Sabais said, "was made later to justify what had not been done."

INAH officials would later tell multiple government inquiries that Wal-Mart's plot had been liberated because of this 1984 survey.

The Times tracked down the 1984 survey. It had nothing to do with the land where Wal-Mart was building. The survey was done on a different plot several hundred yards away. The archaeologists who supervised and evaluated the survey were appalled to learn that it had been used to justify INAH's permit for Wal-Mart. "This is a fraud," Ana María Jarquín, one of the archaeologists, said in an interview.

In interviews last week, top INAH officials acknowledged for the first time that Wal-Mart's plot had neither been surveyed nor liberated, either in 1984 or any other time, before construction began. They also made one other startling admission. The agency has long maintained no ancient remains were destroyed during construction. But Verónica Ortega, INAH's top archaeologist in Teotihuacán, acknowledged it was indeed possible ancient remains were destroyed during the excavation before Mr. Sabais halted construction.

"I am not able to affirm categorically that no soil went out," she said.

The work shutdown ordered by Mr. Sabais did not last long. Four days later, INAH allowed Wal-Mart to resume construction. The agency did take one precaution: it began an extensive survey, digging dozens of exploration wells alongside Wal-Mart's crews.

A Gathering Protest

By now a loose protest movement had begun to form. Its leaders all had deep roots here. Lorenzo Trujillo owned produce stands in the public market. Emmanuel D'Herrera, a teacher and poet, had celebrated his son's birth by tucking the boy's umbilical cord in a crack atop the Moon pyramid. Emma Ortega was a spiritual healer who cared for patients a stone's throw from the pyramid. "You feel that it's part of you,

and you are part of it," she said.

The protesters immediately suspected something "dirty" had taken place, Ms. Ortega recalled. The first clue came on Aug. 1, 2004, when she and other protest leaders met with Mayor Rodríguez. By now the supermarket's walls were being erected. They asked the mayor to show them the construction permit. The mayor, nervous and evasive, admitted Wal-Mart did not actually have one.

"So we were like, 'Why are they there working?'" Ms. Ortega said. They asked the mayor to halt work and hold hearings. The mayor said he would think about it. Two days later, he issued Wal-Mart a construction license.

He signed it himself.

In response, the protesters demanded his resignation and filed the first of several legal challenges. Then they blockaded the construction site.

As word of the blockade spread, bells rang from a chapel in Purificación, the neighborhood where Wal-Mart was building. It was the alarm used to summon neighbors in an emergency. Residents marched toward the blockade.

"We thought they were there to support us," Ms. Ortega recalled. "No. They were there to attack us." The crowd descended on the small band of protesters, pushing and yelling insults until the blockade was broken.

What Ms. Ortega did not know was that Wal-Mart had already bought the support of Purificación's neighborhood leaders. In interviews, several of those leaders recalled being invited to Mr. Rodríguez's office to meet with the company's representatives. The Wal-Mart people, the leaders said, offered money to expand their cemetery, pave a road and build a handball court. They offered paint and computers for Purificación's school. They offered money to build a new office for the neighborhood leaders.

But the money came with strings: if there were any protests, they were expected to be visibly and loudly supportive of Wal-Mart.

Protest leaders began to get anonymous phone calls urging them to back off. In news conferences, the mayor dismissed them as a tiny minority of gadflies and self-interested local merchants. He insisted the town overwhelmingly favored Wal-Mart's arrival, and as proof of his incorruptibility, he boasted of how he had rejected Wal-Mart de Mexico's offer of a \$55,000

donation to the municipal treasury.

But the tide turned as INAH's archaeologists began to find evidence that Wal-Mart was building on ancient ruins after all. They found the remains of a wall dating to approximately 1300 and enough clay pottery to fill several sacks. Then they found an altar, a plaza and nine graves. Once again, construction was temporarily halted so their findings could be cataloged, photographed and analyzed. The discoveries instantly transformed the skirmish over Mrs. Pineda's field into national news.

Student groups, unions and peasant leaders soon joined the protests. Opponents of other Wal-Marts in Mexico offered support. Influential politicians began to express concern. Prominent artists and intellectuals signed an open letter asking Mexico's president to stop the project. Many were cultural traditionalists, united by a fear that Wal-Mart was inexorably drawing Mexico's people away from the intimacy of neighborhood life, toward a bland, impersonal "gringo lifestyle" of frozen pizzas, video games and credit card debt.

The support emboldened the protesters. When the mayor held a news conference, they interrupted and openly accused him of taking bribes. They blockaded INAH's headquarters and marched on Wal-Mart de Mexico's corporate offices in Mexico City. "All we have found are closed doors and an ocean of corruption around the authorizations for this Wal-Mart," Mr. D'Herrera told reporters with typical flourish.

Their allegations of corruption seeped into the news coverage in Mexico and the United States. In September 2004, an article in *The Times* included this passage: "How Wal-Mart got permission to build a superstore on farmland supposedly protected under Mexican law as an archaeological site has vexed the merchants here, who freely accuse the town, the state and the federal Institute of Anthropology and History of corruption."

Open for Business

Back in Bentonville, Wal-Mart's international real estate committee was aware of the growing attention from the news media, former members said in interviews. Some committee members cringed at the ugly optics of Wal-Mart literally bulldozing Mexico's cultural heritage. "I kept waiting for someone to say, 'Let's just

move sites,'" recalled one member, who, like others on the committee, asked not to be identified because of the continuing inquiry.

But top Wal-Mart de Mexico executives assured the committee that the situation was under control. They portrayed the protesters as a fringe group — "like they were from Occupy Wall Street," another person recalled.

Despite multiple news accounts of possible bribes, Wal-Mart's leaders in the United States took no steps to investigate Wal-Mart de Mexico, records and interviews show.

Mr. Tovar, the Wal-Mart spokesman, said that while executives in the United States were aware of the furor in Teotihuacán they did not know about the corruption allegations. "None of the associates we have interviewed, including people responsible for real estate projects in Mexico during this time period, recall any mention of bribery allegations related to this store," he said.

In Mexico, government officials were looking for a way to quell the controversy. Mr. Arroyo, INAH's director general, urged Wal-Mart de Mexico to build elsewhere. The state's urban development ministry quietly searched for alternate sites outside the archaeological zone. Then, on Oct. 2, Mexico's newspapers reported a major announcement: Arturo Montiel, the state's governor, was looking for another site "that is better for all."

With its supermarket more than half built, Wal-Mart de Mexico was not eager to accommodate the governor. The company raced to complete construction and mounted a public relations offensive. Executives argued that Wal-Mart de Mexico had scrupulously fulfilled every legal requirement: the zoning was correct, as confirmed by the map in the Government's Gazette; necessary approvals had been duly obtained from INAH, traffic authorities and other agencies; the mayor himself had signed the construction license.

Not even a week after Mr. Montiel's announcement, his top deputy told reporters there was, alas, no way to stop Wal-Mart. "We would be violating the law since they can tell us they complied with all that is required," he explained.

The supermarket opened on Nov. 4, 2004. A year later, Mr. Cicero met with Wal-Mart's lawyers and told his story for the first time. His allegations were shared with several of the same

executives who were on the international real estate committee, records show. If the protesters' vague allegations of corruption had been easy to dismiss, now they were coming from the person responsible for obtaining Wal-Mart de Mexico's permits in Teotihuacán.

More important, Mr. Cicero's allegations emerged as a comptroller for the State of Mexico was wrapping up a lengthy investigation into whether officials had acted unlawfully in granting permits to Wal-Mart de Mexico.

But Wal-Mart did not share Mr. Cicero's allegations with any authorities in Mexico. "This is one of the areas we are reviewing as part of our ongoing investigation," Mr. Tovar said.

When the comptroller's office subsequently announced it had found no wrongdoing, it chided protesters for failing to present any specific proof.

The comptroller had been the protesters' last hope. Most moved on, resigned to the idea that their struggle had been for nothing. But not Mr. D'Herrera. He continued to visit government archives, seeking access to Wal-Mart's permit records. He kept appealing to public officials for help. "I shall continue my hunger strike until Wal-Mart leaves or until I die," he wrote in a letter to Vicente Fox, Mexico's president at the time.

Despite the passage of time, Mr. D'Herrera never wavered in his conviction that Wal-Mart must have paid bribes. He was appalled by the store's impact on Teotihuacán, and infuriated that so few seemed to care. It did not go unnoticed when protest leaders were spotted shop-

ping contentedly in the Bodega Aurrera, where people can buy everything from tortillas to tires, almost always at a substantial discount from local shops.

Friends and relatives urged Mr. D'Herrera to let it go, but he refused. "He became obsessed," Ms. Ortega said. Mr. D'Herrera finally snapped. On May 16, 2009, he entered the Bodega Aurrera and placed a crude homemade bomb in a shopping cart. According to prosecutors, the bomb consisted of a small juice can containing gunpowder and nails. Mr. D'Herrera pushed the cart into the store's home section, looked around to make sure the aisle was empty, and then lit a fuse poking from the can. His intent, he later wrote, was to kill himself and damage the store to draw public attention back to Wal-Mart. But all the blast did was knock him down and damage \$68 worth of merchandise.

As he awaited trial from a prison cell, he continued his hopeless campaign. He wrote more letters to politicians. He asked his wife to publish his diatribes against Wal-Mart on an obscure poetry blog. Yet he clearly recognized the precariousness of his circumstances. He was thin and severely diabetic. His teeth were falling out. In early 2010, he asked a cellmate to deliver a letter to his wife in case he died in prison. A few months later, he had a brain hemorrhage and slipped into a coma. Death quickly followed. He was 62.

In his final letter to his wife, Mr. D'Herrera tried to explain why he had battled so long at such grievous cost.

"I am not leaving material patrimony for you and our son," he wrote. "I'm leaving you a moral and political legacy, dying as I am for a cause, in defense of the Mexican culture." ■

Josh Haner and James C. McKinley Jr. contributed reporting.

The New York Times

NEW YORK, FRIDAY, NOVEMBER 16, 2012

WAL-MART TAKES A BROADER LOOK AT BRIBERY CASES

INQUIRIES IN 4 NATIONS

The Retailer Discloses
Violations May Go
Beyond Mexico

By **STEPHANIE CLIFFORD** and **DAVID BARSTOW**

WAL-MART on Thursday reported that its investigation into violations of a federal antibribery law had extended beyond Mexico to China, India and Brazil, some of the retailer's most important international markets.

The disclosure, made in a regulatory filing, suggests Wal-Mart has uncovered evidence into potential violations of the Foreign Corrupt Practices Act, as the fallout continues from a bribery scheme involving the opening of stores in Mexico that was the subject of a New York Times investigation in April.

The announcement underscores the degree to which Wal-Mart recognizes that corruption may have infected its international operations, and reflects a growing alarm among the company's internal investigators. People with knowledge of the matter described how a relatively routine compliance audit rapidly transformed into a full-blown investigation late last year — involving hundreds of lawyers and three former federal prosecutors — when the company learned that The Times was examining problems with its operations in Mexico.

A person with direct knowledge of the company's internal investigation cautioned that Thursday's disclosure did not mean Wal-Mart had concluded it had paid bribes in China, India and Brazil. But it did indicate that the company had found enough evidence to justify concern

about its business practices in the three countries — concerns that go beyond initial inquiries and that are serious enough that shareholders needed to be told.

Wal-Mart issued a statement confirming the new disclosures, and said it would be inappropriate to comment further on the new allegations until it had concluded the investigations.

The Justice Department and the Securities and Exchange Commission, with Wal-Mart's cooperation, are also looking into the company's compliance with the antibribery law.

The Times reported in April that seven years ago, Wal-Mart had found credible evidence that its Mexican subsidiary had paid bribes in its effort to build more stores, a violation of the corrupt practices act, and that an internal investigation had been suppressed by executives at the company's Arkansas headquarters.

Wal-Mart has so far spent \$35 million on a compliance program that began in spring 2011, and has more than 300 outside lawyers and accountants working on it, the company said. It has spent \$99 million in nine months on the current investigation.

Consequences of the expanding investigation could include slower expansion overseas and the identification of even more problems. The company said in the filing on Thursday that new inquiries had begun in countries "including but not limited to" China, India and Brazil.



SHI TOU/REUTERS

A Wal-Mart Supercenter in Chongqing, China, above, and a Bharti Wal-Mart wholesale store in Hyderabad, India, right. Wal-Mart is investigating potential bribery in Brazil, India, China and Mexico.



NOAH SEELAM/AGENCE FRANCE-PRESSE — GETTY IMAGES

While the disclosure did not specify the nature of the possible bribery problems in the three countries, it “clearly will cause more scrutiny on every real estate project being considered, and one would think at the minimum it will slow down the process as more controls need to be passed through,” said Colin McGranahan, an analyst with Sanford C. Bernstein.

International growth is critical to Wal-Mart, the world’s largest retailer, and Brazil, India, China and Mexico together make up the largest portion of the company’s foreign locations.

Wal-Mart’s international division had been

on a growth binge, though that has been slowing lately. In third-quarter results reported Thursday, the company said international sales rose 2.4 percent to \$33.2 billion, making up about 29 percent of the company’s overall sales.

More than half of Wal-Mart’s 10,524 stores are international. Mexico has 2,230 stores. Brazil has 534, China, 384.

C. Douglas McMillon, chief executive of Walmart International, said in June that he did not expect the investigation to hinder international growth. “Only time will tell,” he said.

Wal-Mart’s expanding investigation began in spring 2011 as a relatively routine audit of

how well its foreign subsidiaries were complying with its anticorruption policies. It is keeping the Justice Department and the S.E.C. apprised of the investigation.

The review was initiated by Jeffrey J. Gearhart, Wal-Mart's general counsel, who had seen news reports about how Tyson Foods had been charged with relatively minor violations of the Foreign Corrupt Practices Act. He decided it made sense to test Wal-Mart's internal defenses against corruption.

The audit began in Mexico, China and Brazil, the countries Wal-Mart executives considered the most likely source of problems. Wal-Mart hired the accounting firm KPMG and the law firm Greenberg Traurig to conduct the audit. The firms conducted interviews and spot checks of record systems to check whether Wal-Mart's subsidiaries were carrying out required compliance procedures.

For example, Wal-Mart's anticorruption policy requires background checks on all third-party agents — lawyers, lobbyists — who represent the company before government agencies. The firms checked whether background checks were in fact being done. By July 2011, the firms had identified significant weaknesses in all three subsidiaries.

"It was clear they were not executing," a Wal-Mart official with knowledge of the audits said.

The problems were enough to persuade Wal-Mart to expand the audit to all 26 of its foreign subsidiaries. This work began in autumn 2011. The outside firms dispatched "compliance teams" of lawyers and accountants all over the world. The teams attributed many of the problems they identified to a lack of training.

Senior Wal-Mart executives were concerned by the findings, but not overly alarmed. The audit was uncovering the kinds of problems and oversights that plague many global corporations.

But in late 2011, Wal-Mart learned that The Times was examining Wal-Mart's response in 2005 to serious and specific accusations of widespread bribery by Wal-Mart de Mexico, the company's largest foreign subsidiary.

In October 2005, a former lawyer for Wal-Mart de Mexico had spent hours telling com-

pany investigators how Wal-Mart de Mexico's leadership had orchestrated a vast campaign of bribery to accelerate expansion. Hundreds of bribes, he said, were paid to obtain construction permits and other licenses needed to open new stores. The lawyer's accusations were especially powerful because he had been in charge of getting permits for Wal-Mart de Mexico's new stores.

Wal-Mart rapidly escalated its internal investigation. It hired new outside lawyers, this time from the firm Jones Day. They began to investigate whether top executives had quashed the company's investigation into the lawyer's claims. In December 2011, Wal-Mart sent Jones Day lawyers to Mexico to interview the lawyer and other crucial players. The company began to look into other specific accusations of wrongdoing, both in Mexico and its other subsidiaries.

It effectively created two lines of inquiry — the first being the global compliance review begun by Greenberg Traurig and KPMG. The second was the internal inquiry into specific accusations of bribery and corruption.

Some changes at Wal-Mart have already resulted. General counsels for each country used to report in to the chief executives of that country — which could create conflicts of interest if the chief executive was involved in corruption — and now they report to the general counsel of Walmart International. The company recently hired several compliance executives, and a vice president for global investigations who had previously worked at the F.B.I. It has also changed its protocol on investigations, including asking international subsidiaries to alert the global ethics office in Bentonville before any inquiry into wrongdoing begins.

The new disclosure by Wal-Mart on Thursday "does support their effort to be transparent," said Matthew J. Feeley, a lawyer with Buchanan Ingersoll & Rooney who focuses on foreign bribery cases. In cases like these, a company will regularly update the S.E.C. and the Justice Department with "very detailed presentations about the results of the internal investigation" in the hope of receiving lesser punishment from the agencies.

International growth is critical to a giant in retailing.

Though the government issued new compliance guidelines for the law on Wednesday, largely aimed at lawyers handling such cases, the Wal-Mart disclosure was not a result of those new guidelines. It was included in the company's third-quarter earnings announcement.

Charlie Savage, Vikas Bajaj and Andrew Downie contributed reporting.

It was not clear Thursday whether authorities in China, India and Brazil were conducting investigations of their own into Wal-Mart's practices, as the authorities in Mexico have done in response to the bribery accusations in that country.

Last month, Indian regulators started looking into whether Wal-Mart violated an Indian foreign investment rule. ■