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OIG Investigation in Georgia Reveals That Two Suppliers Conspired to Obtain Contracts

The OIG says that it has uncovered “credible and substantial evidence” that two suppliers for programmes supported by Global Fund grants in Georgia worked together to steer contracts to each other, and that they were assisted in this effort by several staff members of the principal recipient (PR).

The allegations concern HIV and TB grants. The PR for all Global Fund grants in Georgia is the Global Project Implementation Center (GPIC). The suppliers in question were Zimmer Ltd. and Siesta Ltd.

The OIG recommended that the Global Fund seek to recover \$859,000 from GPIC in relation to this scheme.

GPIC denied the allegations in the OIG report and said that it is arranging for an “independent” audit.

The OIG said that GPIC had contracted with Zimmer and Siesta to implement a food voucher programme for HIV and TB patients. Under this programme, patients who complied with their drug regimens received vouchers which could be exchanged for food and toiletries at participating stores.

The OIG said that although Zimmer and Siesta submitted separate bids for the contract as two distinct companies, they were “functionally one and the same.” In addition, the OIG said, the two bids bore striking similarities, “sufficient to establish that it is more likely than not that the same person prepared both.”

The OIG said that Zimmer was created by Siesta employees who concurrently worked at both companies even when they were competing against one another for food voucher contracts; that both companies used the same registered address and vehicles; that Zimmer and Siesta were operated by the same staff;

and that Siesta's Manager appeared on Zimmer's payroll.

In addition, the OIG said, Zimmer and Siesta only competed against one another in tenders when a third company participated in a tender. It said that at all other times, one or other of the companies participated, but not both.

The OIG said that GPIC staff had "a less than arms-length purely commercial relationship with the founders of Zimmer and Siesta." It said that GPIC staff routinely prepared business documents related to the food vouchers for the two suppliers.

The OIG said that the tendering process for the food voucher contracts was neither competitive nor transparent. It said that by steering contracts to Zimmer and Siesta, GPIC effectively gave these companies a monopoly on the food voucher contracts.

The amount that the OIG said should be recovered, \$859,000, represents the total amount of service fees "currently identified" as having been paid to Zimmer and Siesta for the food voucher contracts since 2008. The OIG further recommended that in future Zimmer and Siesta and their respective founders not be allowed to receive contracts from Global Fund-financed programmes.

In addition, the OIG recommended that GPIC be replaced as PR.

The OIG said that since 2003, the Global Fund has committed \$84 million to Georgia, of which \$72 million had been disbursed by December 2012. Until 2011, the PR for the grants was the Georgia Health and Social Projects Implementation Center (GHSPIC), part of the Ministry of Health. Within GHSPIC, there was a unit dedicated to managing Global Fund projects. On 1 April 2011, the OIG said, this unit separated from GHSPIC and formed GPIC. GPIC then became the PR for Round 6 malaria and TB grants and a single-stream-of-funding HIV grant. The OIG said that according to GPIC officials, GPIC is a private entity.

Zimmer and Siesta were contracted by both GHSPIC and GPIC.

The OIG said that its investigation was "significantly limited" by the suppliers' unwillingness to cooperate with requests for the production of documents. The OIG said that GPIC did not believe that the suppliers were obligated to comply with the OIG's requests for information, despite the fact that this obligation is spelled out in the Global Fund's Code of Conduct for Suppliers.

The OIG said that Crown Agents, the local fund agent (LFA), failed to fulfil its obligations with respect to these contracts. The OIG said that when a third supplier failed to obtain one of the food voucher contracts, the supplier sent an email to a member of the country team at the Global Fund Secretariat expressing concerns about the tendering process. The OIG said that the email was shared with the LFA but that the LFA did not even review the tender documents. "Had the LFA properly performed its fiduciary function in this case," the OIG said, "it would have been able to identify and notify the Global Fund of the procurement irregularities."

The OIG recommended that the Global Fund Secretariat re-evaluate the ability of the LFA's country team to carry out its responsibilities.

On another matter, the OIG said that GPIC used grant funds to make salary payments to the domestic partner of a GPIC senior manager, and that the OIG could find no evidence that the individual performed any work for GPIC in relation to the payments. The OIG said that the senior manager in question "aided and abetted" the receipt of these funds by his domestic partner by executing an employment contract in her favour and authorising monthly bank wire transfers to her.

The OIG recommended that the Global Fund seek to recover \$24,300 from the GPIC senior manager.

This represents the amount the OIG said was improperly paid to the domestic partner.

Reaction to the OIG's findings

GPIC

GPIC has denied all of the allegations made by the OIG. The report of the investigation contains detailed comments from GPIC. It also contains a letter from a representative of GPIC asking the OIG to review its comments and to consider creating "a special commission which, in contrary to the OIG's investigators, can carry out the comprehensive and objective review and reinstate the impeccable reputation of GPIC and its officers which was fully tainted by false conclusions of the report." (The name of the representative was not included in the version of the report that was made public.)

In the section of the report that contained the comments of GPIC, the OIG responded to each comment. The OIG made a few minor changes to the wording of the report in response to the comments from GPIC, but the OIG said that it stood by all of the findings in the report. (The OIG told GFO that GPIC did not provide any evidence that could refute the findings and conclusions in the OIG's report.)

When asked to comment on a draft of this article, GPIC said that the allegations of misappropriation in the OIG's report concerned GHSPIC, not GPIC. GPIC said that GHSPIC, which was the PR from 2003 until April 2011, was a "legal entity of public law, founded by the State of Georgia." GPIC said that it is not the legal successor of GHSPIC, despite the fact some of the people who worked for GHSPIC are now employed by GPIC, and despite the fact that GPIC assumed responsibility for GHSPIC's contracts with suppliers for the food voucher programme.

GPIC said that it was not clear what the OIG was implying when it said "by steering contracts to Zimmer and Siesta, GPIC effectively gave these companies a monopoly on the food voucher contracts." GPIC said that it was not even theoretically possible for it to have steered contracts because all contracts were awarded through open, competitive bidding.

For these reasons, GPIC said, and because there is no avenue for it to appeal the OIG's findings, "GPIC deems necessary to invite [an] internationally recognized independent audit ... to invalidate wrong statements and allegations. As soon as the report of independent audit become available, it will be shared with Aidspan, the Global Fund and other stakeholders."

LFA

When asked to comment on a draft of this article, the LFA, Crown Agents, said that it does not consider that it failed in its obligations as LFA because, at that time, Crown Agents' contract did not include resources to review procurement. In addition, Crown Agents said, "as the OIG report itself acknowledges, there was no level-of-effort for a procurement member of the local LFA team and no instruction to focus on procurement issues."

(The OIG report said: "Although the level of effort agreed with the LFA at the time did not require the LFA's Country Team to review bid proposals and tender committee minutes, the [third supplier's] complaint should have prompted the LFA's Country Team to conduct a more detailed review of the tender in question.")

Crown Agents told GFO that the implication that Crown Agents failed to review tender documents when matters were brought to its attention “significantly overstates what course of action was open [to it]. The team had neither the resources nor the instruction or mandate to conduct such a review. Such an instruction would have had to come from the Global Fund Secretariat, and it is not within Crown Agents’ understanding of their remit for their team to have decided unilaterally to open an investigation.”

Crown Agents said that, subsequently, the Global Fund requested that Crown Agents add a procurement expert to its LFA country team, and that Crown Agents had done so.

Global Fund Secretariat

In a letter included in the report, Global Fund Executive Director Mark Dybul said that the food voucher scheme was halted in January 2013 and that Zimmer and Siesta were no longer operational. Dr Dybul said that when the Secretariat received a draft of the OIG report on 15 February 2013, it developed an action plan to address the findings. He said that the action plan included putting in place a temporary fiscal agent “to provide oversight and control ... until a new Principal Recipient is put in place.” Crown Agents told GFO that the fiscal agent is now in place.

Dr Dybul said that the Secretariat will also conduct an assessment of the food voucher programme.

The OIG’s report on its investigation in Georgia is available on the Global Fund website [here](#).

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