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OIG investigation in Haiti uncovers collusion and fraud in warehouse contracting

In an investigation of Global Fund grants to Haiti, the Office of the Inspector General (OIG) has found evidence of collusion on the part of the supply chain manager of the Global Fund's lead implementer in Haiti, with a third-party supplier, to obtain a contract for the provision of a warehouse that did not, in the end, conform to the requirements in the request for proposal nor the supplier's promised facilities.

The OIG's investigation report was made public on 3 June 2019.

JIT Logistics and Transport Company, the supplier, fraudulently misled the Principal Recipient (PR), Population Services International (PSI), that implements the grants through its local affiliate, the Organisation Haitienne de Marketing Social pour la santé (OHMaSS), by overstating the size of the proposed warehouse. This meant that OHMaSS incurred higher-than-market costs per square meter for the warehouse, in addition to needing to rent additional space at further cost.

Concretely this meant \$216,870 in non-compliant expenditures, the OIG said, based on the amount of Global Fund monies paid by the PR to JIT Logistics in connection with warehouse services between January and October 2017. The OIG has proposed that \$109,368 be recovered from the PR. The wrongdoing affected expenditure in a previous malaria grant implemented by the same PR as the current PR for the two grants across the three diseases.

During the investigation, the OIG received additional information suggesting a risk of collusion or overpricing relating to four other OHMaSS procurements, with a combined value of \$1.4 million. Further review of these procurements did not bring to light any further instances of misappropriation, misuse or

non-compliance.

In addition, the OIG performed ‘preliminary evaluations’ of a sample of a further 52 OHMaSS procurements from 33 external suppliers between January 2016 and September 2018, as a risk mitigation measure; this sample represented 34% of all procurements directly undertaken by OHMaSS. These findings also did not warrant further investigation, the OIG said.

However, the investigation exposed weaknesses in the PR’s procurement capacity, evidenced by, among other findings, the fact that neither of two visits to the facility led by the Senior Supply Chain Manager pointed out the discrepancy between the 2000 square meters (specified in the Request for Proposals) and the actual 900 square meters provided. These ineffective checks and controls during the bid evaluation processes, along with other identified weaknesses, will be addressed through the Agreed Management Actions associated with this investigation.

Table 1: Haiti’s active Global Fund grants

Principal Recipient	Grant	Grant components	Signed amount (US\$)
Population Services International	HTI-C-PSI	HIV/AIDS	66,216,854
		Tuberculosis	17,896,075
Population Services International	HTI-M-PSI	Malaria	21,600,000
Total			105,712,929

Source: Office of the Inspector General

Origins of the OIG investigation

The OIG was alerted to the alleged wrongdoing in August 2017, by the Local Fund Agent via the Secretariat. The OIG opened its investigation in October 2017.

Findings and Agreed Management Actions

1. A senior OHMaSS employee colluded with a third-party supplier in a public procurement process. Though the Senior Supply Manager and the Director of JIT Logistics denied knowing or communicating with each other before the 22 December 2016 deadline for the public Request for Proposal (RFP), both claiming to have met only on 17 January 2017 during the warehouse inspection as part of the bid evaluation process, evidence found by the OIG proved that they had communicated about the RFP between 26 November and 21 December 2016. In addition, the Senior Supply Chain Manager’s inspection report of the warehouse facility concluded that it met the requirements set out in the RFP. Further, only one supplier responded to the RFP; OHMaSS’s procurement manual does not offer guidance on how to proceed in such a case (eg. to relaunch the RFP process, or proactively find other suppliers).

AMA 1: The Principal Recipient takes appropriate action towards the parties responsible for the prohibited practices the OIG’s report describes.

AMA2: The Principal Recipient introduces processes or procedures to be followed in cases where only one proposal is received in response to a public RFP.

Both AMAs 1 and 2 are due by 30 June 2019, and are owned by the Head of Grant Management.

2. JIT Logistics overstated the size of the warehouse, resulting in OHMaSS making rental payments significantly above market rates. The actual surface area of the warehouse was 900 square meters, verified by the Local Fund Agent's own measurements as well as those of an independent engineering firm (before the OIG investigation took place). This represents only 45% of the 2000 square meters that JIT Logistics proposed, in line with the requirements stipulated in the RFP. This meant that the rental paid for the inside area of the warehouse (\$19,300 per month) was significantly above market rates.
3. Inadequate proposal evaluation and contract negotiation processes resulted in the award of the contract to JIT Logistics. As a result, the OIG said, OHMaSS missed two opportunities to identify and address the shortfall in the space provided, agreeing to incur yet further costs, to rent a second warehousing room for health-care commodities. Poor communications and responsiveness led to OHMaSS not achieving value for money, the OIG said, in the course of renting additional outside storage space, which in the end was not required. The OIG included the \$33,869 cost of the outside space as part of the 'non-compliant expenditures' assessed.

AMA 3: The Secretariat will finalize and pursue an appropriate recoverable amount (due 31 December 2019, owned by the Chair of the Recoveries Committee).

(See the full table of AMAs on page 10 of [the OIG report](#).)

Haiti context

Since 2003, the Global Fund has invested more than \$400 million, across 11 grants, in Haiti, and currently has two active Global Fund grants in the country (the same grants were active during the OIG investigation). Haiti is the poorest country in the Western hemisphere, with a per capita GDP of \$766, gaps in services at all levels of the health-care system, and a chronic shortage of health-care professionals. The 2010 earthquake aggravated these problems, as untold numbers of health-care workers and students died in the event, and Haiti experienced a cholera epidemic after the earthquake.

Despite recurrent natural disasters, political instability and economic hardship, Haiti has made important gains in its fight against the three diseases, notably a reduction in new HIV infections of 94% between 2000 and 2015, and a 74% decline in malaria deaths in children under 5.

Actions already taken

To begin to address the issues identified in the OIG investigation, OHMaSS has already taken a number of actions in mitigation, it has informed the Global Fund. These are:

- Terminated the Senior Supply Chain Manager's contract in November 2018;
- Developed a 'market assessment tool' for contracting warehousing services, and has adopted its use as standard practice;
- Begun to strengthen all core functions including procurement, by retaining an independent consulting firm to review all OHMaSS's policy and procedure manuals;
- Taken JIT Logistics off the list of potential suppliers of OHMaSS.

In addition, in April 2018, OHMaSS recruited two new managers (as part of a broader organizational restructuring effort) to lead the Finance and Compliance, and Supply Chain Management teams.

The [full report of the OIG investigation](#) in Haiti is accessible on the Global Fund website.

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