



Independent observer
of the Global Fund

The principal recipient (PR) for a Round 8 malaria grant to Papua New Guinea (PNG) paid a supplier excessive overhead fees as part of a contract that was improperly awarded.

This was one of the main findings of an investigation undertaken by the Global Fund's Office of the Inspector General (OIG). A [report](#) of the investigation was recently posted on the OIG pages of the Global Fund website.

The contract was for the provision of human resource (HR) services to the PR. The company that provided the HR services is not named in the report. The OIG said that the contract was awarded to a company which had ties to the family of one of the PR's senior executives.

The PR is Rotarians Against Malaria (RAM), a project associated with the Rotary Club of Port Moresby. The main activities of the Round 8 grant are to procure and distribute long-lasting insecticide-treated bed nets (LLINs) to every household in PNG and to train health staff in new diagnostic and treatment protocols.

The OIG had conducted an audit of Global Fund grants to PNG in 2011 (see [GFO article](#)). The audit findings led to a decision to investigate certain aspects of the grant managed by RAM.

The OIG concluded that RAM's appointment of a company to provide HR services was not done in a competitive and transparent manner, and did not provide a reasonable price for some of the services provided.

According to the OIG, the contract with the HR service provider was for \$1,227,046, of which \$760,935 was for salaries and \$473,684 was for overhead. The overhead charges constituted 62.3% of the salary cost. In comparison, the OIG said, another company had submitted a bid of \$771,890, of which \$671,209 was for salaries and \$100,681 was for overhead (15% of the salary cost).

In the opinion of the OIG, RAM's decision to appoint the first company resulted in additional costs of

\$359,543 to the grant. In a letter attached to the OIG's report, Global Fund Executive Director Mark Dybul said that the Fund was initiating efforts to recover these funds.

In addition, the OIG said, because the family of the chairman of the RAM selection committee for the contract had ties to the company that won the contract, the chairman was in a conflict of interest situation which was not adequately managed.

The OIG also investigated RAM's procurement of LLINs, but found that the procurement complied with all of the requirements of the grant agreement. The OIG said that RAM obtained a very competitive price from the successful bidder for the LLIN tender.

In his letter, Dr Dybul said that in April 2012, the Secretariat told RAM that it would have to re-tender the HR services contract for Phase 2 of the grant. The contract was duly re-tendered. The original contractor was not barred from re-applying and, in fact, won the new tender. Dr Dybul said that after extensive communication with the PR, the local fund agent (LFA) and the country coordinating mechanism, the Secretariat was satisfied that the re-tender had been conducted properly.

Dr Dybul added, "The local fund agent was requested by the Secretariat to provide their opinion on the human resources service fees charged by the original winning bidder for the retendered, new contract, and confirmed that the fees were reasonable for Papua New Guinea."

Reaction from RAM

RAM disagreed with the OIG that the original contract had been improperly awarded. RAM's detailed comments were contained in an annex to the OIG report.

RAM said that the OIG audit review team did not carry out an in-country survey in order to determine the reasonableness of the overhead charges in the original contract. The OIG responded as follows: "The OIG has made a comparison between two bids that met with RAM's expression of interest. One of the bids was unfairly excluded and the winning bid was more expensive."

When asked to comment on a draft of this article, Ron Sheddon, from the Rotary Club of Port Moresby, said "I do not know what we have to do to convince the investigator for the OIG that he is completely wrong in everything that he says." Mr Sheddon went on to say that RAM will be consulting its lawyers concerning the OIG's report "as despite RAM saving the Global Fund millions of dollars on our programme they are not prepared to have a one-on-one to show them that RAM and its principals have not done anything wrong."

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