# Violations revealed by the State Audit Office in the period of 2013-2015

June 4, 2015

## I. Introduction

This study describes the audit reports, prepared by the State Audit Office in 2013-2015. These reports identified some criminal actions. The State Audit Office provided the reports and its findings to the law enforcement agencies for further action. Our study provides statistical evidence regarding the cases that were so sent to the law enforcement agencies for investigation and the actions  (or non-actions) undertaken by the agencies in response. It also describes some of the interesting cases in more detail.

This report is entirely based on materials provided by the State Audit Office, including in the segment regarding the actions of the Prosecutor's Office. The Prosecutor's Office did not provide us with information on its actions in response to the State Audit Office report, despite requests for information. Their response[1] included only the number of case referrals from the State Audit Office to the Prosecutor's Office.

## II. Main Findings

Among the audit reports that were sent to the law enforcement agencies, there are audit reports regarding dozens of state agencies' activities during covering the 2006-2013 period. These reports reveal serious violations across many agencies. Nevertheless, the Prosecutor's Office has acted very passively in response to this information – **according to the information they provided to us, only one person has been convicted in the two years since these crimes came to light.**

More specifically, the State Audit Office sent 133 audit reports, with elements of crimes, to the law enforcement agencies in 2013, 2014 and by March 10, 2015. Most of these reports (123) were sent to the Prosecutor's Office (the Chief Prosecutor's Office and the Prosecutor's Office of Adjara Autonomous Republic). The remaining ten reports were forwarded to the anti-corruption agency of the Ministry of Internal Affairs of Georgia.

As noted above, the information as to what actions were taken by the law enforcement agencies was made available to us by the State Audit Office. The State Audit Office receives this information from law enforcement agencies annually, at the end of the year. Consequently, we have no data about actions taken during 2015. Our study cites only those actions of the agencies that were undertaken in response to the reports that were sent during 2013-2014.

### 1. Actions of Law Enforcement Agencies

In 2013-2014, the State Audit Office sent in total 90 audit reports containing elements of crime to the law enforcement agencies. **Among the 90 reports, the Prosecutor's Office did not provide information to the State Audit Office on its actions in response of 51**

**reports, despite the fact that the Law on Audit Office directly obligates it to do so.** As regards the information provided, the statistics are as follows:

- Discovery phase in progress – 21 cases
- Investigation in progress – 11 cases
- Investigation launched – 3 cases
- Sent to the Investigative Service of the Ministry of Finance – 1 case
- Conviction – 1 case (principal of Zugdidi No. 1 School)

It seems that **only one person was convicted among 90 cases.** The audit reports contain elements of severe criminal offences, including embezzlement of state property, corrupt transactions, and abuse of office.

## 2. Main Violations Revealed by Audit

The 2013 audit identified **the financial violations** of **194 million GEL** and in 2014 – **210 million GEL**.

### 2.1. Excessive Expenses during Procurements

According to the information of the State Audit Office, state procurement commissions in some cases awarded inadequate points to certain bidders. For example, at **the Police Department of the State Security** (audited period – 2010-2012), there were cases where bidders offering higher prices won tenders.

The audit of **LEPL Revenue Service** found that the procurement documents contained such parameters of procurable goods that were in no way necessary to be specified and instead was modeled for the interests of a specific bidder. For this reason, only one bidder bid and won tenders (presumably, companies determined in advance). As a result, the state budget suffered a loss of more than one million GEL.

One company had already purchased specific goods before it won a tender that were later supplied to the Tbilisi City Hall. This means it had the information on the outcome of the tender in advance. Moreover, the City Hall's procurement practices that related to restoration of greenery and outdoor lighting entailed unjustifiably high expenses causing millions of GEL in loss for the local budget.

### 2.2. Tax Amnesty by Revenue Service

The Tax Code of Georgia provides for a reduction of taxes due if specific conditions exist, however – not a total tax amnesty. During the period covered by this report, the taxes owed were slashed by 99% for various companies resulting in a loss of multiple millions of GEL for the state budget:

- **14 million GEL** of due taxes of Vega LLC was reduced to 150 thousand GEL (98.9% reduction) with a deferred payment for 540 days.
- **11 million GEL** of due taxes of Sami Tuzi – 333 LLC was reduced to 75 thousand GEL (99,3% reduction) with deferred payment for 730 days.
- Both companies are gambling businesses. The same type of process took place in 2012 with regard to certain television broadcasters:
- 13 million GEL of due taxes of Teleimedi was reduced to 300 thousand GEL (97,8% reduction);

- 5 million GEL of due taxes of Rustavi 2 was reduced to 400 thousand GEL (92,2% reduction);
- 1.5 million GEL of due taxes of TV PIK was reduced to 10 thousand GEL (99,3% reduction).

### 2.3. Illegal Disposal of State Resources by State Security Department

- The Department, under the pretence of receiving advertising services, effectively provided sponsorship to Dila, the Gori football club, **transferring** to it in total **6.9 million GEL** in installments over three years;
- The Department, with the same pretence, **transferred 100 thousand GEL and effectively financed the filming of the TV show "Detectives";**
- In violation of the law, the Department entered into an agreement with Liberty Bank whereby it provided services to the bank at a 32% discount, **reducing payable revenues by 2.2 million GEL**.

### 2.4. Unreasonable Expenses for Business Trips and Representation

- According to the report of the State Audit Office, in 2011, high officials of **the State Security Department** traveled abroad to attend football and basketball matches;
- The **President's administration** failed to explain as to what type of service was provided during 2011-2013 for the expenses amounting to 438 thousand GEL. The latter was registered as "other expenses", "additional expenses" or "incidental expenses". In addition, **several million GEL** from the President's Reserve Fund has been spent on gifts, hotel services, mobile television station and other unjustified expenses;
- **The Office of the State Minister for European and Euro-Atlantic Integration** has spent **285 thousand GEL** in an unjustified and unreasonable manner. In particular, the state budget financed the following services: a spa-salon, a visit to an erotic massage shop in Belgium, expenses of visits to Las Vegas strip bar and casino, a visit to a night club in Kiev and purchasing roses.

## III. The Competences of the State Audit Service

The State Audit Service is the highest state agency in the country in the area of financial-economic control. It oversees the use and spending of public resources and other material property contributing to an efficient management of budget resources. The Office is independent in its work and is accountable only before the Georgian Parliament. Both the Constitution and the law safeguard its independence.

The State Audit Office, within competences, may audit legislative, executive and judicial branches of the government, legal entities under the public law, local municipalities, the National Bank of Georgia, companies that the state is a 50 percent or greater shareholder, autonomous republics and/or local municipalities as well as other legal entities, individuals, organizations and institutions.

The audit results are reflected in the audit report which is presented to the subject of the audit and the supervising body of the subject, as necessary. The annual reports of the State Audit

Office are also submitted to the Parliament. The latter controls the public spending precisely through the State Audit Office.

Moreover, in instances when an audit report contains indications of a crime, it is immediately sent to law enforcement agencies (Prosecutor's Office, the Ministry of Internal Affairs). In turn, the law enforcement agencies have the obligation to inform the State Audit Office regarding the actions taken to address the information the Office had presented.

## IV. Overview of Notable Cases

In this part of the report, we describe ten audit reports we selected among the reports sent to the Prosecutor's Office in the period of 2013-2015. The sample was selected selecting based on the following criteria: large sums of budget resources, hierarchy of the public agency and the severity and nature of the offence. The reports are arranged according to the years of the audit.

### 1. Ministry of Education and Science of Georgia

*Audit Year: 2013*
*Audited Period: 2012*

#### 1.2. Problems in asset management

- Assets are not evaluated, reflected on the accounts and registered – **61 thousand sq/m of land** of scientific-research centers of Tbilisi State University and Technical University of Georgia **is not registered**;
- Approximately **63 hectare of land** of scientific-research centers of Tbilisi State University and Technical University of Georgia **is not evaluated** and reflected on the accounts;
- Real estate worth 2.3 million GEL reflected on the accounts of professional educational centers is not in fact in use by colleges;
- Up to 161 thousand sq/m of land and up to 38 sq/m of premises of scientific-research centers of Tbilisi State University and Technical University of Georgia is not in fact used by them.

#### 1.3. Unjustified use of resources due to the problems in the management of the budgetary process

- On 31 December, 2012, 1 million GEL exists as a debit due amount payable by the Fund for Development of Civil Institutionalism. For the latter, the Ministry has issued a grant (for development of civil sector and creation of institutions). However, the agreement between the Ministry and the Fund does not specify exact criteria for financing the said grant projects and monitoring mechanisms. Therefore, **we cannot determine the purpose of the issued grants**.

#### 1.4. Problems in Procurement Management

- Two state procurements were conducted with infractions. In the Ministry, procurement of construction services was conducted on parcels of land which the Ministry was not entitled to use. The said parcels of land belonged to an individual and a private company;
- Studying the procurement of air time in 2012 revealed discrepancies among the contracts, acceptance acts and the paid remuneration.

#### ACTIONS TAKEN BY LAW ENFORCEMENT AGENCIES

The State Audit Office sent the audit materials to the Chief Prosecutor's Office on March 4, 2013. On April 30, 2013, a criminal investigation was launched on alleged facts of the abuse of office by certain officials of the Ministry of Education and Science of Georgia.

## 2. Security Police Department

*Audit Year: 2013*
*Audited Period: 2010-2012*

### 2.1. The resources the budget lost due to the problems in asset management

- In 2010, 2011 and 2012, the Security Police Department provided security services to New Energy LLC whose overall prices were respectively 241.3 thousand, 682.6 thousand and 812.0 thousand GEL. Despite the outstanding indebtedness, the Department continued providing the services to New Energy LLC. Since 2012, New Energy LLC has declared insolvency (bankruptcy) and the prospects of receiving the due payments are practically non-existent. As a consequence, **the damages** to the Department **amounted to 1.7 million GEL**.
- The Department entered into agreements with different terms with certain companies when providing security-accompanying services for oversized and excessive cargo. As a result, in the period of 2010-2012, the Department **lost approximately 2.07 million GEL in revenue**.

### 2.2. Ineffective disposal of budget resources due to the problems in procurement management

- On November 18, 2011, the Department **entered into an advertising agreement, through a simplified procurement procedure, with the T. Burjanadze football club "Goris Dila"** of Gori municipality. On December 20, 2011, the Department and the same football club of Gori entered into a sponsorship agreement. In addition to the abovementioned agreements, the Department and the football club **entered into another three agreements on sponsorship during the year. All the abovementioned agreements were entered in violation of the law (without using the electronic procurement system).** The content, terms and timeframe of the three agreements are identical to the original agreement. Therefore, it is unclear as to what additional services would be provided under the new agreements. In the course of the year, **the Department transferred in total 6.9 million GEL to the account of the football club**. The Department failed to justify such an investment in advertising by demonstrating financial or other benefit. The analysis of the revenues of the Department in the region of Gori (in 2010 – 479.4 thousand GEL, in 2011 – 604.0 thousand GEL, in 2012 – 807.7 thousand GEL) demonstrates that the price paid is not compatible with the real value of the purchased service. Further, no bank guarantees can be found despite the fact they are required by law when making advance payments. The claims arising from the advance transfers were written off by account bills which do not contain evidence as to where, when and what type of advertising services were provided. As a result of the Department's "investment in advertising" which amounted to almost 7 million GEL, its clientele in Gori increased only by 38. In 2012, the revenues received from these new clients reached a mere 69.6 thousand GEL. It is also notable that a legal entity under the public law does not have the powers to make a decision on sponsoring a football club. Subsequently, the Department **illegally spent 6.9 million GEL**.

- On December 21, 2010, the Department and Brandhouse LLC entered into an agreement on **sponsorship of TV show "Detectives"** costing 100 thousand GEL. **The agreement was procured in violation of the procurement regulations without the simplified procurement procedure.** The agreement states that in exchange for the funds, the Department would receive the status of a sponsor. However, it does not specify as to where, how and when the advertising would take place. The day after the execution of the agreement, Brandhouse LLC produced a bill whereby the advertising services were declared as provided. Two days after, the Department paid 100 thousand GEL from its funds. The Department failed to provide evidence regarding the provided service and could not justify such an investment in advertising with a financial benefit. Consequently, **in effect, the Department financed the company instead of procuring advertising services which resulted in an illegal spending of 100 thousand GEL.**

**2.3. Other problems associated with the budget process**

- The Department terminated all the agreements on security services with JSC Liberty Bank and **illegally, with 32% discount, entered into a new service agreement**. As a result, **the receivable revenues declined by 2.2 million GEL**. On the basis of the agreement, the Bank transferred the service fee in the amount of 4.9 million GEL in advance for the services of 5 years. **This agreement by its nature is a long-term loan agreement which was entered in violation of the law**.

**2.4. Excess payments due to problems in procurement management**

- Study of the tenders held by the Department for procuring security-alarm systems and uniforms demonstrated that **the procurement commission awarded inadequate points to bidders**. Also, as a result of illegal modifications of assessment criteria, **bidders offering higher prices were winning the tenders** (mainly Alpa LLC, Neotech LLC, Satakha LLC). For unclear reasons, the Department was procuring cars from a non-importing mediator company entitled Car Rent and Trading Company LLC which was buying cars from the local market's Toyota Center LLC and other companies. It was then selling them with higher prices to the Security Department. As a result of the illegal state procurement, **the damages incurred by the Department amounted to 626 thousand GEL**.

**2.5. Unjustified use of budget resources due to problems in budget process management**

- After studying business trips, a reasonable suspicion exists that high officials of the Department travelled abroad **to attend football and basketball matches**, as well as for other non-business-related purposes. For instance, from 8 to 12 September, 2011, the high officials visited Vilnius where Georgia was playing basketball matches in the European Basketball Championship.

### Actions Taken by Law Enforcement Agencies

At the request of the Prosecutor's Office, the State Audit Office sent the audit materials to the Chief Prosecutor's Office on June 13, 2013. Despite the legal requirement, the Prosecutor's Office has failed to provide any information to the Audit Office regarding its actions on the information provided.

## 3. Tbilisi Mayor's Office – Outdoor Lights Program

*Audit Year: 2013*
*Audited Period: 2006-2010*

### 3.1. Non-economical disposal of budget resources due to problems in procurement management

- The audit found that the Tbilisi Mayor's Office procured lighting systems with excessive prices ranging from 25% to 40%. **The difference of the prices the supplier declared when clearing the lighting systems in customs and the sum the Mayor's Office paid amounted to 2.38 million GEL**.
- The difference between the sum the Mayor's Office paid for lighting of the Tbilisi Television Antenna and the prices of the relevant goods as declared in customs is approximately **2.7 million GEL (the excess is 107%)**.

### 3.2. Problems in procurement management

- In July, 2006, Tbilisi Mayor's Office procured lighting devices worth 376.6 thousand GEL. The audit revealed that before the official announcement of the tender, the supplier had provided the devices to the Mayor's Office in February and June. The Mayor's Office then transferred these devices to various municipalities of Georgia.

### 3.3. Ineffective disposal of budget resources due to problems in procurement management

- In 2009, the Mayor's Office procured low-quality lighting devices, despite the fact that it was aware about the low quality and technical incompatibility of the products.
- The agreement on purchasing the electricity the Mayor's Office had entered did not specify the quality of the electricity. Consequently, in 2006-2010, light bulbs of the value of approximately **1.2 million GEL burnt out causing damages of the same value to the state**.

### Actions Taken by Law Enforcement Agencies

The State Audit Office sent the audit materials to the Anti-corruption Agency of the Ministry of Internal Affairs of Georgia on December 13, 2013, where the investigation is underway.

### 4. Tbilisi Mayor's Office – Measures to Develop Urban Greenery

*Audit Year: 2013*
*Audited Period: 2009-2011*

### 4.1. Ineffective Disposal of Budget Resources due to Problems in Procurement Management

- The Mayor's Office failed to purposefully use the assets which it procured by the resources of the state budget: in 2008, **it spent 3.2 million GEL** for arranging watering system on the median strip on George Bush street in front of Tbilisi International Airport. **However, the water system was not functional on the side strips during the audit period**.
- Works worth 458.1 thousand GEL were envisaged to arrange watering systems in Digomi Forest-Park and Texel Square. Only part of the works were performed and remunerated. Due to the non-completion, the system has not started functioning yet.

### 4.2. Ineffective use of assets

- The procurer did not put the procured expensive goods to regular use: in 2009, the Tbilisi Mayor's Office procured flower bowls and New Year's decorations which were worth 285 thousand GEL. Despite the fact that the flower bowls could have been used multiple times, it was used only once in 2009.

### Actions Taken by Law Enforcement Agencies

The State Audit Office sent the audit report together with the audit materials on the outdoor lights program to the Anti-corruption Agency of the Ministry of Internal Affairs of Georgia on December 13, 2013, where discovery is underway.

## 5. LEPL Revenue Service of the Ministry of Finance of Georgia

*Audit Year: 2014*
*Audited Period: 2012-2013*

### 5.1. Excessive payments in procurements and unreasonable tender requirements

- During 2012, the Revenue Service incorrectly determined (at significantly inflated amounts) the expected costs for state tenders. Also, in tender documentation, the procurable goods included such parameters which were in no way necessary and instead were modeled for the interests of a specific bidder. As a result, only one bidder bid to and won these tenders (presumably, companies determined in advance). They were neither manufacturers nor importers of the supplied goods. The incorrectly calculated expected costs of the procurement permitted these companies to artificially increase the market prices by means of unnecessary intermediary services on the local market. Certain importing companies were also able to unreasonably increase the prices at which they provided goods to the Revenue Service;
- In electronic tenders that procured construction services, the incorrect (excessive pricing) calculations of the expected costs allowed the companies to present higher than market prices in acceptance acts (direct costs, such as costs of materials, labor and devices). Further, in some cases, charges (overhead expenses, planned profit) were presented in violation of the law as they were determined on the basis of increased rates. More specifically, the Revenue Service and JSC Monolithmsheni entered into an agreement, dated June 1, 2012, on procuring construction services in Ninotsminda, with the value of 9.8 million GEL. In comparison with the real market prices, **the value of the works was increased by 1.59 million GEL** in the acceptance acts.
- In the electronic tender announced by the Revenue Service on August 7, 2012, which procured construction services for the customs point at Lagodekhi, Aliansi LLC was declared the winner. On September 13, 2012, an agreement was entered with the latter whose value amounted to 6.3 million GEL. Due to an absolutely unnecessary requirements in the tender documentation, one company was disqualified which had submit a bid with a substantially lower price. As a consequence (as well as due to an incorrect calculation of the expected costs), **475 thousand GEL was spent in a non-economical manner. Moreover, Aliansi LLC increased the value of the works by 736 thousand GEL in the presented acceptance acts**.
- On April 19, 2012, the Revenue Service and Peri LLC entered into an agreement on procuring reconstruction works of Kazbegi customs point, with an overall value of 9.9 million GEL. **The prices of the works increased** in the acceptance acts **by 531.5 thousand GEL**.
- Under the Ordinance of the Government of Georgia dated March 15, 2012, two agreements were entered with NUCTECH Company Limited for procuring X-ray scanners, using the the simplified procurement process. The agreements specified that X-ray inspection systems were to be provided to the Kazbegi customs point (contract value of 4.1 million GEL) and to the Red Bridge (Tsiteli Khidi) customs point (contract value of 3.3 million GEL). The two stationary X-ray scanners were identical. **It was found that, considering all the associated costs, 342.3 thousand GEL was paid**

**in excess for the Kazbegi customs point as compared with the Red Bridge customs point**.

## 5.2. Unjustified Tax Amnesty

- Tax amnesty agreements provided for in the Tax Code of Georgia were entered without any justification and with such organizations whose businesses do not belong to strategically important areas of the economy. The motive is unclear as to why their financial obligations towards the state budget were reduced. Notably, **the Tax Code provides for a reduction of due taxes for a tax payer, but there are no provisions for a total tax amnesty**. **Slashing due taxes by 99%** is in effect a tax amnesty, not a reduction. For example:

o After the Revenue Service, through the Ministry of Finance, petitioned to the Prime Minister, the latter issued an Order, dated April 12, 2012. Under this Order, a tax agreement was entered with Vega LLC **whose due taxes had amounted to 14 million GEL. This sum was reduced to 150 thousand GEL (98.9% reduction) also deferring it for 540 days**;

o Under the Order of the Prime Minister, dated June 14, 2012, a tax agreement was entered with Sami Tuzi-333 LLC **whose due payable taxes had amounted to 11 million GEL. This sum was reduced to 75 thousand GEL (99.3% reduction) deferring it for 730 days**;

o "Reductions" were made for certain television broadcasters which in reality were total tax amnesties. In particular, under the Order of the Prime Minister dated August 20, 2012 and another Order of the Prime Minister, dated October 12, 2012, a tax agreement was entered with Teleimedi LLC whose due taxes amounted to 13 million GEL. The broadcaster's due taxes were reduced to 300 thousand GEL (97.8% reduction). Under the Order of the Prime Minister dated August 20, 2012 and another Order of the Prime Minister, dated October 12, 2012, a tax agreement was entered with the Broadcasting Company Rustavi 2 LLC whose due taxes were 5 million GEL. The latter sum was reduced to 400 thousand GEL (92.4% reduction). Furthermore, under the Order, dated October 16, 2012, a tax agreement was entered with Television Company PIK LLC whose due taxes amounted to 1,5 million GEL. The bill was reduced to 10 thousand GEL (99.3% reduction).

### Actions Taken by Law Enforcement Agencies

The State Audit Office sent the audit materials to the Chief Prosecutor's Office on February 12, 2014. Despite the legal requirement, the Prosecutor's Office has failed to provide any information to the Audit Office regarding its actions on the provided information.

## 6. The President of Georgia Administration

*Audit Year: 2014*

*Audited Period: 2011-2013*

- Documents relating the expenses during business trips demonstrate that often "other expenses", "additional expenses" and "incidental expenses" are declared as factual expenses which **in total amounted to 438.7 thousand GEL**. The administration failed to explain as to what type of services were included in the abovementioned unintelligible categories of expenses;
- From January 1, 2012 to October 1, 2012, **111.1 thousand GEL** was paid for hotels for the Georgian President in Radisson Batumi and Sheraton Batumi during visits of foreign guests in Georgia. The payment was made without any further breakdown of expenses and descriptions. Moreover, the documents do not specify the visits and meetings for which the expenses were made for the President's stay in the hotels;

- Under ordinances of the President of Georgia, **2 million GEL** was allocated from the President's Reserve Fund to purchase a mobile television station and 4 monitors in order to broadcast the events of state importance. The subject of the audit failed to provide data regarding the use of the mobile television station and monitors in 2011-2013 as well as relevant prices of the services;
- Various types of gifts worth 3.8 million GEL were procured and given away in the period of 2011-2013. They were financed by the President' Reserve Fund and allocated funds for the administration under the article on the representation expenses. In particular, during this period, the following items were procured: alcoholic beverages worth in total 930.3 thousand GEL for internal use and as gifts, computer technology worth 2.1 million GEL, telephones worth 205.5 thousand GEL, gold accessories worth 196.5 thousand GEL, clocks/watches worth 121.1 thousand GEL and various souvenirs worth 176.3 thousand GEL. In 2011-2013, out of the alcoholic beverages that cost 930.3 thousand GEL, drinks worth 266.7 thousand GEL were issued from the storage to so-called "special storeroom" under the name of the chairperson of the President's secretariat. The presented documentation does not include information of the purpose and events the alcoholic beverages were procured for. The administration did not charge and transfer the income tax on the gifts, worth 1.4 million GEL, provided to individuals, pursuant to Article 154(m) of the Tax Code of Georgia. Taking into account the incomes received, 342.6 thousand GEL is supposed to be charged as income tax in favor of the budget;
- In 2012-2013, 1.2 million GEL was spent for consultancy services in international relations, public opinion surveys and drafting the corresponding proposals. The original documents attesting the fulfillment of the contractual obligations and the final reports were not presented in relation to the contracts entered with one Georgian and three foreign companies.

### Actions Taken by Law Enforcement Agencies

The State Audit Office sent the audit materials to the Chief Prosecutor's Office on September 19, 2014. Despite the legal requirement, the Prosecutor's Office has failed to provide any information to the Audit Office regarding its actions on the provided information.

## 6. The Office of the State Minister for European and Euro-Atlantic Integration

*Audit Year: 2014*
*Audited Period: 2011-2012*

### 6.1. Unjustified, unreasonable and non-economical use of budget resources during business trips

- The Office financed used budget appropriated or assigned for"business trips" and "representation expenses" for purposes that are incompatible with these budget categories and the role of state institutions.. **In total, 285.7 thousand GEL was spent in an unjustified manner**. Namely:
- In some cases, higher reimbursements were made compared to the documents attesting the expenses. In total, the unjustified expenses amounted to 25 thousand GEL;
- During a business trip of the State Minister, the Office reimbursed expenses including for massage, spa-salon, fitness center and other costs which are not subject to the state's budgetary financing;

- On November 25, 2011 and May 10, 2012, the expenses of the business trip of the State Minister to Brussels, Belgium include expenses incurred at **an erotic massage shop INTERDIT** (address: Blankestraat No. 14) where 2.9 thousand GEL was spent;
- The State Minister spent and the Office reimbursed 1.5 thousand GEL (874 USD) for a visit to **a strip bar Leg Foot** in Las Vegas (U.S) as representation expense. The basis for the reimbursement is mere payment confirmation check. No detailed check is provided which would show the specific services provided by the bar;
- The analysis of the representation expenses demonstrates that **the purpose and justification are not proven for 120.5 thousand GEL** that was spent from the budget as no list of meetings and invited guests during business trips is provided. For example:
- On January 4, 2012, 1.8 thousand GEL was spent as representation expenses of the business trip in the **casino MGM GRAND in Las Vegas**, U.S.
- During the State Minister's visit to the Ukrainian capital Kiev, on February 4, 2012, 1.9 thousand GEL was spent in **the night club Just Café**. Among others, **the fee for an escort of four girls** cost 100 GEL and 100 GEL for **purchasing 9 red roses (at 4.30 a.m.)**.
- The Office spent 137.8 thousand GEL for security measures of the State Minister during its business trips abroad. However, it failed to present the legal basis for undertaking these security measures.

**6.2. Illegal bonuses issued for officials**

- From the financial allocations for the Office, the State Ministers (Giorgi Baramidze and later Tornike Gordadze), under their own orders, issued **115.3 thousand GEL** as bonuses for themselves. According to the Georgian legislation, the Prime Minister has the powers to issue a bonus among other measures of encouragement to members of the Georgian Government. Therefore, **issuance of the bonuses by the State Ministers under their own orders violated the Georgian legislation**.

**Actions Taken by Law Enforcement Agencies**

The State Audit Office sent the audit materials to the Chief Prosecutor's Office on April 6, 2014. According to the Prosecutor's Office, the investigation on these materials is underway.

**7. Ivane Javakhishvili Tbilisi State University**

*Audit Year: 2015*
*Audited Period: 2012-2013*

**7.1. Problems in assets management**

- A part of the real estate from the accounts of the university is registered under specific legal rights (ownership and lease). Another part with the accounts value of 10 million GEL is "pinned" without any legal basis.

**7.2. Resources not directed to state budget due to problems in asset management**

- The Lessees used to pay rent in violation of the terms provided in the agreement. Despite, the university did not charged the late payment interest for the overdue days.

**7.3. Problems in organizational and personnel management**

- The audit group could not obtain material evidence regarding issuance of extra salaries (986.3 thousand GEL) and bonuses (325.9 thousand GEL) to administrative and service personnel for overtime and especially important tasks. As a result, the justifications for the extra payments are not proven and it is impossible to determine as to how reasonably the extra salaries and bonuses were issued to the administrative and service staff. According to the academic staff, the extra payments were made without legal basis. Furthermore, during the audited period, the bonuses to the academic staff were issued in an inconsistent manner;

- The educational institution does not conduct labor market research and the analysis of employment of its alumni. This should be the basis for determining which faculties are of priority and the number of students that need to be admitted to a faculty;
- A selective assessment of study programs' curricula and syllabi revealed the following: often, the presented manuals are outdated, and the manual's author and the lecturer of the course is often the same person. The university has not conducted a comparative study vis-à-vis the competing universities, including the analysis of the offered educational programs, teaching methods and the adequacy of study materials, strengths and weakness as compared with competitors, market share based on the admitted students etc.

**8. The Central Staff of the Ministry of Finance**

*Audit Year: 2015*
*Audited Period: 2012-2013*

- During 2012, **due to artificial increase of the value of the construction works** for the construction of customs points at three border crossings - Kazbegi, Ninotsminda located at Chikovani No. 2 and Sarpi, **2.3 million GEL was paid in excess**.

**9. The Administration of Governor of the Samegrelo Region**

*Audit Year: 2015*
*Audited Period: 2011-2013*

- Under the Ordinance of the President of Georgia, dated July 27, 2012, 600 thousand GEL was allocated from the President's Reserve Fund for the Governor's administration to finance an event in Lazika on 19 September. On 18 September, 10 agreements were entered into for transportation of 43,618 passengers to Lazika, for the event. The value of the 10 agreements amounted to 294.8 thousand GEL. Also, 229.2 thousand GEL was transferred to Art Batumi LLC for organization of the celebratory events. **Although the event was canceled the same day that the contracts were entered into (18 September), 207.9 thousand GEL was paid to providers of the preparatory works**;
- On June 15, 2012, the Service Agency of the Ministry of Finance transferred to the Governor's administration, free of charge and for social purposes, 131 types of property that had been transferred to the state. Its value amounted to 296.7 thousand GEL. For already two years and six months, the abovementioned property is kept on the leased premises of JSC Tsekavshiri Zugdidi Sasursato Combinati.

---

[1] The response of the Prosecutor's Office to the request of public information dated May 2, 2015, available at: https://goo.gl/1AUcQI (in Georgian).