

**OFFICE OF THE PUBLIC AUDITOR
REPUBLIC OF PALAU**

PERFORMANCE AUDIT REPORT

ON

**JAPAN GRANT FOR NUTRITION IMPROVEMENT
TO
NGAREMLENGUI STATE GOVERNMENT**

REPUBLIC OF PALAU

PERIOD COVERED

MARCH 2005 TO MARCH 2006

Performed by the Office of the Public Auditor

JPNGUI-05-06P-09*opa04



REPUBLIC of PALAU

Office of the Public Auditor

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March 23, 2010
Serial#: opa10-056au

Honorable Wilson Ongos
Governor
Ngaremlengui State Government
Office of the Governor
Ngaremlengui, Republic of Palau

Subject: Final Report on the Audit of Japan's Grant Assistance for Grassroots Human Security Project for Nutrition Improvement.


Dear Governor Ongos:

This report presents the results of our audit of Japan Grant for Nutrition Improvement for Ngaremlengui State Government for the period from March 2005 to March 2006.

The Office of the Public Auditor (OPA) did not receive your response to the Draft Audit Report. Therefore, the report is published without your response.

If you have any questions regarding the report or subject matters discussed therein, the OPA will be available to discuss such matters at your request.

Sincerely,



Satrunino Tewid
Acting Public Auditor
Republic of Palau

**Japan Grant for Nutrition Improvement
Ngaremlengui State Government
Republic of Palau**

March 2005 to March 2006

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March 23, 2010

Honorable Wilson Ongos
Governor, Ngaremlengui State
Republic of Palau

Dear Governor Ongos:

At the request of the Embassy of Japan in the Republic of Palau, the Office of the Public Auditor initiated audits of several of Japan's Grass Assistance for Grassroots Human Security Projects. One of these projects was awarded to Ngaremlengui State in March of 2005 to fund the Nutrition Improvement in Ngaremlengui State. The Embassy of Japan awarded U.S. \$29,470 to Ngaremlengui State as formalized in a Grant Contract entered into between the two parties on March 7, 2005.

The objective of the audit is to determine whether Ngaremlengui State administered the grant funds in compliance with the terms and conditions of the grant contract.

The Office of the Public Auditor reviewed the Project for Nutrition Improvement in Ngaremlengui State and the administration of grant funds therewith and presents its findings to the extent of the State's compliance with the terms and conditions of the grant contract.

Background

On or about August 03, 2004 Ngaremlengui State, through its Governor, John Skebong, applied for Japan's Grass Assistance for Grassroots Human Security Project Grant. The application was approved and to formalize the agreement the Embassy of Japan in the Republic of Palau and Ngaremlengui State Government entered into a Grant Contract for the Project for Nutrition Improvement in Ngaremlengui State. The objective of the Project is to improve health conditions and stabilize the social life in the region through provision of fish products. The project was estimated to cost \$29,470. According to the application, the equipment listed below is required for the project, in U.S. dollars:

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Equipment	Cost
Chopper	\$ 7,140
Grinding Machine	9,520
Fryer	4,000
Packing Machine	1,800
Freezer (Box type)	995
Refrigerator	700
Electric Range	595
Furniture	1,330
Ocean freight, shipping charges, etc.	3,390
Total	\$ 29,470

Grant Contract

In making available funding for the project, the Grant Contract stipulates that the recipient (Ngaremlengui State) complies with the terms and conditions of the grant, some of which are enumerated below:

- A. To provide the donor with an official receipt for the grant received;
- B. To provide the donor with the documents relevant to the project such as procurement contracts for products and or services upon request by the donor;
- C. To use the grant properly and exclusively for the purchase of the products and/or services necessary for the execution of the Project and not to use such products and/or services purchased with the grant for purposes other than the execution of the Project;
- D. To provide the donor with the following reports on the progress of the Project: (1) one (1) interim report to be provided within six months after the contract date and (2) one (1) final report (including and audit report on the grant issued by an independent accountant/accounting body) to be provided upon the completion of the Project.
- E. To complete the Project within one year;
- F. To consult with and receive instructions from the donor in case the recipient wishes:
 - 1) To change how the grant is spent from the original plan in the application
 - 2) To change the contents of the Project
 - 3) To suspend and/or terminate execution of the Project
 - 4) To extend the completion date of the Project
 - 5) To return the grant to the donor

Objective, Scope and Methodology

The objective of the audit is to determine whether Ngaremlengui State administered the grant funds in compliance with the terms and conditions of the grant contract. The scope of the audit will cover the period beginning March 7, 2005 through March 6, 2006 to coincide with the term of the Grant Contract. The audit, however, will cover other periods as necessary if the project and associated funding is not completed and expended respectively

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within that one (1) year period. As this is a performance audit, we did not conduct audit procedures to assess the fairness of the financial statements of the State or any component or accounts within those financial statements and therefore express no opinion on the financial statements.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Public Auditing Act of 1985 empowers the Office of the Public Auditor to specifically act to prevent fraud, waste, and abuse in the collection and expenditures of public funds. The Public Auditor may make recommendations on the prevention and/or detection of fraud, waste, and abuse of public funds.

To accomplish our objective we reviewed project documents maintained at Ngaremlengui State and the Embassy of Japan in the Republic of Palau. We also met and discussed the project with Ngaremlengui State officials and the Coordinator for Government of Japan's Grant Assistance for Grass-roots Human Security Projects (GGP) at the Embassy of Japan. We also conducted on-site visit of the project to inspect operations.

Finding 1: Interim Report and Project Completion

The Grant Contract stipulates under Item D and E that recipient is to provide an Interim Report within six (6) months after the contract date and the project is to be completed within one year after the contract date respectively.

The audit revealed that although the State submitted an Interim Report, the contents of the report contained narratives of activities surrounding the construction of an extension of a structure (kitchen) for fish processing, which was funded by the State, but no description on the use of the grant to fulfill the purpose of the project. In addition, according to the final report, the project was completed on April 21, 2006, which should have been completed on or before March 7, 2006

We were unable to determine why the State did not comply with the terms and conditions of the Grant.

As a result, the State did not comply with the terms and conditions of the Grant Contract with respect to reporting and date of completion requirements.

Recommendation

We recommend the State comply with the reporting requirements of the Grant Contract. At a minimum, the Interim Report should contain descriptions of activities on the use of grant funds to fulfill the purpose of the project. In addition, the State should become more aware of other requirements of the grant (e.g. Project completion date) in order to effectively administer the project and comply with the requirements so as not to jeopardize future grant assistance.

Ngaremlengui State's Response: The OPA did not receive a written response to the Draft Audit Report from Ngaremlengui State.

Finding 2: Project Operations

The project should be put into operation after its completion to fulfill its intended purpose as outlined in the grant application.

The audit revealed that the Project was completed on April 21, 2006 and the following equipment and appliances essential for operation of the project were purchased:

Equipment	Cost
Gas Range	624
Freezer	864
Refrigerator	875
Meat Chopper	7,140
Fryer	4,000
Packing Machine	1,800
Grinding Machine	9,520
Chairs	379
Ocean Freight	3,390
Total	\$ 28,592

However, based on an on-site visit, we observed that the equipment and appliances have yet to be put into operation, after nearly four (4) years after project completion. Please refer to Exhibit I for pictorial illustration of said equipment and appliances.

We were unable to determine why the State has not put the project into full operation, given that a final report has been submitted giving no indication of pending works.

Recommendation

We recommend the State start project operation to fulfill the purpose of the grant or provide an amended report to the donor country explaining pending works that is holding back the start of the project.

Ngaremlengui State’s Response: The OPA did not receive a written response to the Draft Audit Report from Ngaremlengui State.

Finding 3: Grant-Authorized Procurements

The Grant Contract stipulates that in accepting the grant from the donor, the recipient agrees to use the grant for the Project to purchase the equipment and appliances listed below:

Equipment
1 Gas Range
1 Freezer
1 Refrigerator
1 Meat Chopper
1 Fryer
1 Packing Machine
1 Grinding Machine
1 Furniture
Ocean Freight, shipping charges, etc.

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Our audit found that the State also used grant funds to purchase food and refreshment for the Project ribbon-cutting ceremony. Although the ceremony was to commemorate the completion of the project, the State should have used local funding as the grant funds were approved for specific purposes, food and refreshments not being one of them. Shown below are some of the food items purchased with grant funds:

Check Date	Check Number	Check Amount	Vendor
6/2/06	27320	\$ 88.39	Surangel & Sons Company
6/7/06	27422	90.67	Surangel & Sons Company
6/9/06	27425	80.00	Roland Iyechad
6/19/06	27430	140.00	Gabriel Sekool
6/27/06	27431	107.32	Ingrid's Bakeshop
	Total	\$ 506.38	

A detailed review of the above transactions showed purchases of food items and related ingredients.

In addition, our review of equipment purchases from Japan revealed that some ancillary supplies were included in the invoices; however, they were not authorized in the grant contract as follows:

Items	Cost
Bag for Boil	\$ 194.00
Back for Boil	147.00
Sun Box	50.00
Pocket Scale	50.00
White Gown for Men	44.00
White Gown for Women	44.00
Switch Board	250.00
Total	\$ 779.00

We were unable to determine why the State used grant funds for purposes outside the scope of the project without obtaining prior approval from the donor country.

As a result, we believe the State used grant funds for purposes not authorized by the grant contract and failed to consult the donor country pursuant to the terms of the contract.

Recommendation

We recommend the State use grant funds in accordance with the purpose and scope prescribed in the grant contract. Any deviation from those requirements requires consultation and approval from the donor country. We further recommend the State consult with the Embassy of Japan to bring about the resolution of the above matters so as not to

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jeopardize future financial assistance. Moreover, the Governor should seek advice from the donor country on the use of the balance of the grant in amount of \$878.

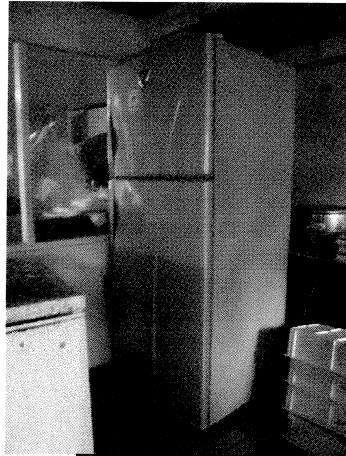
Ngaremlengui State's Response: The OPA did not receive a written response to the Draft Audit Report from Ngaremlengui State.

EXHIBIT I

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Gas Range



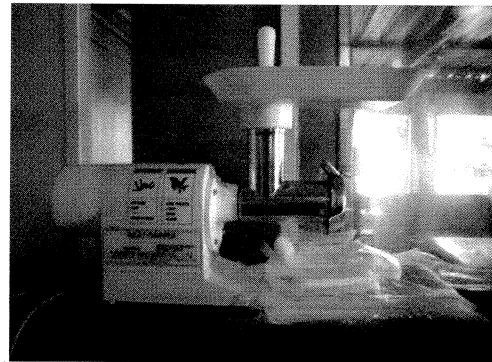
Refrigerator



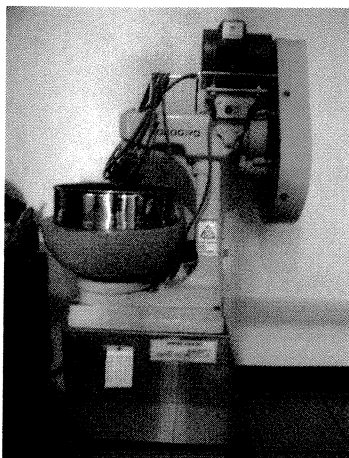
Packing Machine



Freezer



Meat Chopper



Grinding Machine



Fryer