

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

PERFORMANCE AUDIT REPORT

ON

**JAPAN GRANT FOR EMERGENCY BOAT
EQUIPMENT SUPPLY**

**PELELIU STATE GOVERNMENT
REPUBLIC OF PALAU**

PERIOD COVERED

FEBRUARY 2005 TO FEBRUARY 2006

Performed by the Office of the Public Auditor

JPPEL-05-06P-10*opa04



REPUBLIC of PALAU

Office of the Public Auditor

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March 23, 2010
Serial#: opa10-057au

Honorable Kangichi Uchau
Governor
Peleliu State Government
Office of the Governor
Koror, Republic of Palau

Subject: Final Report on the Audit of Japan's Grant Assistance for Grassroots Human Security Project for Emergency Boat Equipment Supply.


Dear Governor Uchau:

This report presents the results of our audit of Japan Grant for Emergency Boat Equipment Supply to Peleliu State Government for the period February 2005 to February 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 Emergency Boat Equipment Supply
Peleliu State Government
Republic of Palau**

February 2005 to February 2006

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March 23, 2010

Kangichi Uchau
Governor, Peleliu State Government
Republic of Palau

Dear Governor Uchau:

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 Peleliu State for the Peleliu State Emergency Boat Equipment Supply. The Embassy of Japan awarded U.S. \$30,730 to Peleliu State Government as formalized in a Grant Contract entered into between the two parties on February 17, 2005.

The objective of the audit is to determine whether Peleliu State Government 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 Peleliu State Emergency Boat Equipment Supply 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 February 17, 2005 Peleliu State, through its Governor, Jackson Ngiraingas, formalized the agreement and entered into a grant contract with the Embassy of Japan in the Republic of Palau for the Project for the Peleliu State Emergency Boat Equipment Supply. The objective of the project is to acquire and furnish the State Emergency Boat with necessary equipment and accessories which will assist the people of Peleliu State during medical emergency operations. The project was estimated to cost \$30,730. According to the grant contract, the equipment and accessories required for the project are itemized below:

Item	Quantity
Double Outboard Engine	1
Hydraulic Steering	1
Steering Wheel	1
Life Jackets	10
Search Light	1
Geographical Positioning System	1
Batteries	2
Compass	1
Installation and Painting	

Grant Contract

In making available funding for the project, the Grant Contract stipulates that the recipient (Peleliu State Government) complies with the terms and conditions of the grant, some of which are set forth 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
- G. To keep accounting documents that verify how the grant was spent for at least one year after the completion of the project.

Objective, Scope and Methodology

The objective of the audit is to determine whether Peleliu 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 February 17, 2005 through February 16, 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 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 Peleliu State and the Embassy of Japan in the Republic of Palau. We also met and discussed the project with Peleliu 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 the equipment and accessories for the emergency boat operations.

Finding No. 1: Project Completion

The grant contract was entered into between Peleliu State Government and the Embassy of Japan in the Republic of Palau on February 17, 2005 and should be completed within one year. In addition, in order to extend the completion date of the project, Peleliu State Government should consult with and receive approval from the donor country.

During the audit we found that the project was not completed as of November 16, 2009, which appeared to have been extended, although we were not provided documentation to evidence consultation and approval of the extension by donor-country (Japan).

The Governor failed to comply with the terms and conditions of the grant contract by not completing the project within the required timeframe and by not consulting and receiving approval from the donor regarding the extension of project completion date.

As a result, the State failed to complete the project within the timeframe required by the terms of the grant contract, and further, failed to consult and receive approval for extension of the project.

Recommendation

We recommend that in future donor-funded projects the Governor become familiar with the terms and conditions of the grant in order to be more effective in the execution and administration of projects and related funding requirements. In the meantime, the Governor should consult with the Embassy of Japan to discuss the status of the project and actions required to rectify the issues of non-compliance in order not to jeopardize future potential financial assistance.

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

Finding No. 2: Accounting Records

The Grant Contract between Peleliu State Government and the Embassy of Japan in the Republic of Palau stipulates under item G as follows: in accepting the grant from the Government of Japan, the recipient agrees to keep accounting documents that verify how the grant was spent for at least one year after the completion of the Project.

The financial assistance was granted to the State to fund a project entitled "Peleliu State Emergency Boat Equipment Supply." Specifically, the grant for \$30,730 was provided for the purpose of equipping and supplying the State boat to handle medical emergencies with the purchase of the following equipment, materials and supplies:

Item	Quantity
Double Outboard Engine	1
Hydraulic Steering	1
Steering Wheel	1
Life Jackets	10
Search Light	1
Geographical Positioning System	1
Batteries	2
Compass	1
Installation and Painting	

The audit revealed that the State did not maintain and retain invoices and other supporting documents to substantiate the purchase of the above-mentioned equipment, supplies and materials, as required under the terms of the grant contract

We were unable to determine why the State failed to maintain supporting documents to substantiate the purchases of equipment, supplies and materials for the project.

As a result, we were unable to verify the cost of the above-mentioned equipment, supplies and materials. In addition, the State did not comply with the terms and conditions of the grant contract.

Recommendation

We recommend that in future donor-funded projects the Governor become familiar with the terms and conditions of the grant in order to be more effective in the execution and administration of projects and related funding requirements. In the meantime, the Governor should consult with the Embassy of Japan to discuss the recordkeeping requirements to determine what further course of action is needed to rectify the issues of non-compliance.

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

Finding No. 3: Procurement of Equipment via Intermediary

Procurements should be negotiated directly with the supplier of equipment to facilitate one-on-one communication, availability of desired equipment and materials, reliability and credibility of procurement documentation, and avoid misunderstanding and confusion.

The audit revealed that the State hired a contractor who operated more as an intermediary for the purchase of equipment, supplies and materials rather than the supplier. The State

hired a contractor who was in the business of boat repair, not supplier of boat engines, life jackets, and other marine-related devices listed under Finding #2. Hence, although the contractor did repair work on the State boat, he had to purchase the boat engines, life jackets, and other marine-related materials and devices from a different business establishment. Thus, the State paid the contractor \$29,000 and the contractor in turn purchased the boat engines and accessories from a dealer. In addition, the State had to pay the dealer installation fees for the mounting of the boat engines and related works. Moreover, because the contractor's business was in boat repair, he was unable to supply a Geographical Positioning System (GPS) to the State as called for in the procurement contract between the State and the contractor. Finally, because of the use of a middleman, there were no invoices or other supporting documents to substantiate the costs of equipment, materials, and other marine-related devices for the project.

We were unable to determine why the State used a middleman to purchase boat engines, life jackets and other marine-related supplies and devices rather than purchasing the items directly from a supplier.

As a result, the State may have incurred additional costs by using an intermediary rather than negotiating directly with the supplier. In addition, the contractor failed to supply a Geographical Positioning System as called for in the procurement contract. Moreover, by using a middleman, the State failed to obtain invoices and other supporting documents to substantiate the costs of boat engines, life jackets, and other marine-related supplies and devices listed under Finding #2.

Recommendation

We recommend that in the administration of State procurements the State negotiate directly with the supplier (vendor) of desired equipment, supplies and materials. In addition, the State should follow up with the contractor regarding the provision of Geographical Positioning System (GPS) as stipulated in the procurement contract between the State and the contractor. Finally, the State should conduct an inventory of all the equipment and marine-related supplies and devices to determine if all the required items have been supplied by the contractor pursuant to the procurement contract between the State and the contractor.

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

EXHIBIT I

Office of the Public Auditor



Emergency Boat



Emergency Boat



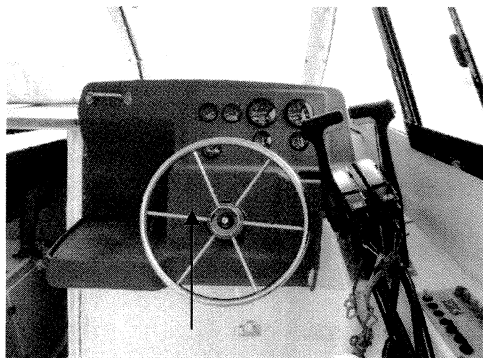
Emergency Boat



Double Outboard Engine



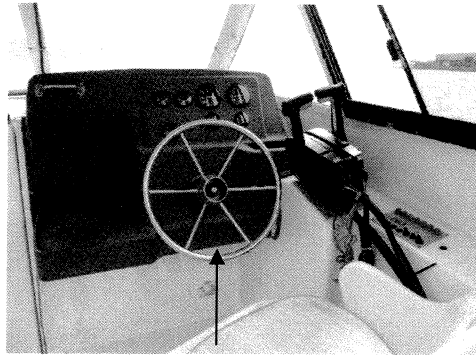
Double Outboard Engine



Hydraulic Steering

EXHIBIT I

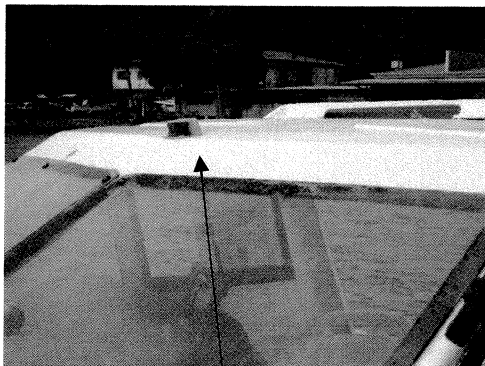
Office of the Public Auditor



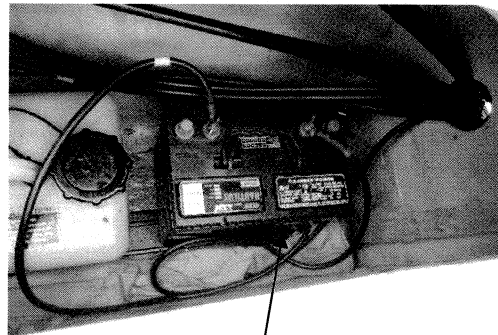
Steering Wheel



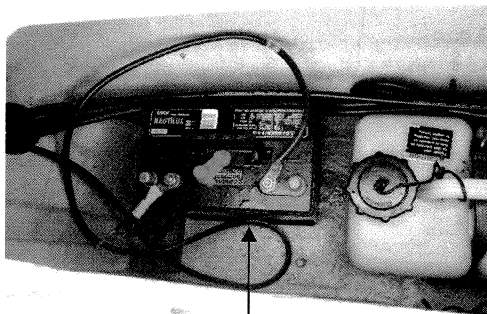
Life Jackets



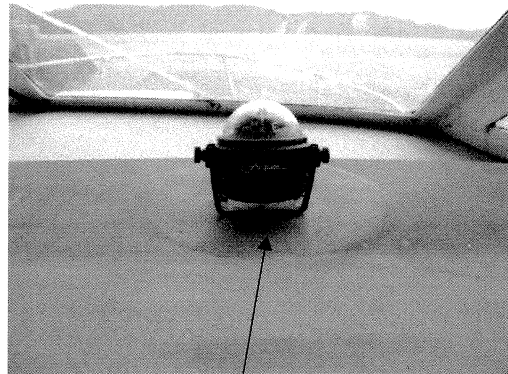
Search Light



Batteries (left engine)



Batteries (right engine)



Compass