



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

PERFORMANCE AUDIT REPORT



ON

**JAPAN'S GRANT ASSISTANCE FOR GRASS-ROOTS
HUMAN SECURITY PROJECT**

FOR

**"THE PROJECT FOR FACILITATING WATER CATCHMENT
SYSTEM TO SCHOOLS IN PALAU"**



**MINISTRY OF EDUCATION
REPUBLIC OF PALAU**

Period from October 30, 2014 thru October 29, 2015

Performed by the Office of the Public Auditor

JPMOE-15/16-02P*opa00



REPUBLIC OF PALAU

Office of the Public Auditor

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April 05, 2016
Serial#: opa16-089au

Honorable Sinton Soalablai
Minister
Ministry of Education
Koror, Republic of Palau

Subject: Final Report on the Audit of Japan's Grant Assistance for Grassroots Human Security Projects for the Project for Facilitating Water Catchment System to Schools in Palau.

Dear Minister Soalablai:

This report presents the result of our audit on Japan's Grant Assistance to the Ministry of Education for the Project for Facilitating Water Catchment System to Schools in Palau.

The Office of the Public Auditor (OPA) received your response to the Draft Audit Report. The response is published in verbatim in the final report.

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,



Satrupino Tewid
Public Auditor, ROP

**Japan's Grant Assistance for Grass-Roots Human
Security Project
for
"The Project for Facilitating Water Catchment System to
Schools in Palau"**

**Ministry of Education
Republic of Palau**

For the Period October 30, 2014 to October 29, 2015

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EXECUTIVE SUMMARY

April 05, 2016

Honorable Sinton Soalablai
Minister
Ministry of Education
Koror, Republic of Palau

SUBJECT: Final Audit Report on Japan's Grant Assistance for Grass-Roots Human Security Projects (GGP) for "The Project for Facilitating Water Catchment System to Schools in Palau" for the Period October 30, 2014 to October 29, 2015

Dear Minister Soalablai:

This report presents the result of our audit on the Japan's Grant Assistance for Grass-Roots Human Security Projects (GGP) for "The Project for Facilitating Water Catchment System to Schools in Palau" for the Ministry of Education (MOE). The audit covered the Grant Contract period from October 30, 2014 through October 29, 2015.

The objective of the audit was to determine whether the Ministry of Education (MOE) administered the grant funds in compliance with (1) the terms and conditions of the Grant Contract, (2) the GGP procurement guidelines, and (3) whether the project's fixed assets were properly recorded into the Republic of Palau's (ROP) accounting records and identified (tagged) as ROP property.

WHY OPA CONDUCTED THE AUDIT

Upon request of the MOE, the Office of the Public Auditor initiated the audit of the Project for Facilitating Water Catchment System to Schools in Palau. The audit was requested to comply with the terms and conditions of the Grant Contract and to avoid potential problems in future requests for GGP financial assistance.

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Shown below is the GGP grant the Embassy of Japan awarded to the Ministry of Education:

Project Name	Project Amount	Project Time Period
The Project for Facilitating Water Catchment Systems for Schools in Palau	\$134,265.00	October 30, 2014 thru October 29, 2015

The Office of the Public Auditor reviewed the administration of the grant funds in respect to the procurement procedures, receipt and disbursement of funds, reporting mechanism, and other related requirements pursuant to the Grant Contract and GGP procurement guidelines. In addition, we reviewed the ROP requirements pertaining to fixed asset acquisitions. The MOE complied to the most part with the terms and conditions of the Grant Contract and GGP procurement guidelines; however, we found certain weaknesses/deficiencies that could be improved to further strengthen the MOE's administration of GGP grants. In this regard, we believe these weaknesses/deficiencies should be brought to the attention of management for appropriate corrective action. We also propose recommendations which, if implemented, we believe, will correct these weaknesses/deficiencies.

WHAT OPA FOUND

- The MOE's "Request for Payment" to the Embassy of Japan was executed prior to the signing of the Procurement Contract with the contractor contrary to the GGP's Procurement Guidelines,
- The final payment to the Contractor for services rendered was paid prior to the completion of all works contrary to the terms of payment stipulated in the Procurement (construction) Contract,
- Project's equipment, materials and related accessories were not properly inspected and verified and receiving reports were not documented to acknowledge the receipt of goods,
- The MOE did not consult and receive instructions from the Donor to change the contents of the project or change how the grant is spent from the original plan in the application as required by the Grant Contract; approval from the Embassy of Japan was obtained after the fact,
- The MOE did not adhere to the Procurement Contract and management was not kept informed of and did not approve the changes to the Procurement Contract,

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- The MOE in partnership with the Embassy of Japan in the Republic of Palau through the Japan's Grant Assistance for Grass-Roots Human Security Project procured, constructed, and installed Water Catchment Systems to Schools in Palau,
- Project's equipment was not properly identified (tagged) as ROP property and records were not transmitted to the Bureau of National Treasury for recording into the ROP's accounting records to recognize the value of the donation.

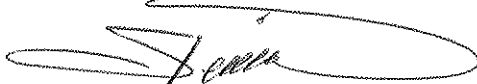
WHAT OPA RECOMMENDS

- We recommend that in future Japan GGP-funded projects, the Minister of Education direct the grant administrator (s) to become familiar with the grant requirements and related guidelines to support compliance with the same,
- We recommend that in future Japan GGP-funded projects, the Minister of Education direct the project administrators to become familiar with the terms and conditions of the procurement (construction) contracts to ensure that projects are administered in accordance with the terms and conditions of the contracts, i.e. progress payment is in accordance with the percentage of completion of works,
- We recommend that in future Japan GGP-funded projects the Minister of Education direct the project administrators to inspect and verify the delivery of goods and that receiving reports are prepared and signed to acknowledge the receipt of goods,
- We recommend that in future Japan GGP-funded projects the Ministry of Education consult with and obtain instructions from the Embassy of Japan prior to changing the contents of the project or change how the grant is spent from the original plan in the application,
- We recommend that the MOE adhere to the Procurement Contract and management should be informed of and approve any changes to the Procurement Contract,
- We commend the MOE and the Embassy of Japan in the Republic of Palau for the partnership through the Japan's Grant Assistance for Grass-Roots human Security Project to procure, construct, and install Water Catchment Systems to Schools in Palau,
- We recommend that the MOE transmit records of transactions for the Project to the Bureau of National Treasury for proper recording into the ROP's accounting records and consult with the Division of Property and Supply with respect to tagging of the Project's fixed assets.

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Finally, the Office of the Public Auditor would like to extend our appreciation to the management and staff of the Ministry of Education for their cooperation and professional courtesy extended to us during the audit.

Sincerely,

A handwritten signature in black ink, appearing to read 'Satrunjino Tewid', is written over a large, horizontal, oval-shaped scribble or stamp.

Satrunjino Tewid
Public Auditor, ROP

BACKGROUND

To alleviate the many challenges facing developing countries, including poverty, starvation, infectious diseases, climate change and environmental issues, the Government of Japan established a grant assistance entitled “The Grant Assistance for Grass-Roots Human Security Projects (GGP).” The purpose of the projects is to assist non-government organizations and local public authorities in responding to various developments needs in a prompt and complete manner.

In response to the Republic of Palau President’s directive on June 13, 2014 to activate the National Emergency Committee and in line with the efforts of the national government to minimize major disruptions to school year 2014-2015, the Ministry of Education (MOE) developed its El Nino Disaster Management Plan to guide preparations for addressing the impacts of projected extreme weather conditions resulting from the El Nino phenomenon. According to latest weather forecasts, Palau will begin experiencing the early stages of a drought season in July 2014. The intensity of the drought will likely increases toward the end of 2014 and would potentially continue into the first six months of 2015.

To prepare for the imminent disaster, the Ministry of Education formulated a disaster management plan from June 2014 to June 2015 and to implement the plan in partnership with the national government, local leadership, donor agencies, and development partners to ensure that schools in Palau will continue to operate normally. The four major goals of the El Nino Disaster Management Plan are as follows:

- Goal 1: Review and update school emergency management action plans
- Goal 2: Conduct awareness campaign of water conservation practices among students, MOE personnel, parents and the general public.
- Goal 3: Increase water catchment capacity in schools.
- Goal 4: Monitor and maintain acceptable health and sanitation standards in schools.

To implement Goal 3, the MOE conducted an assessment on water catchment systems on schools in Palau, both public and private, including Head Start centers, to determine their capacities and increase capacities where needed. To fund Goal 3, the MOE applied for and was approved for financial assistance by the Embassy of Japan in the Republic of Palau via the Japan’s Grant Assistance for Grass-Roots Human Security Project (GGP). To memorialize the financial assistance, on 30th October 2014, the Ministry of Education, through its Director of Bureau of Education and Administration, Mr. Andrew Tabelaual, and the Japan Ambassador to the Republic of Palau, the Honorable Kazuhiro Tajiri, signed a grant contract (pictured below)



Signing of the Project's Grant Contract



Group Photo after Signing of the Grant Contract

for the “The Project for Facilitating Water Catchment Systems to Schools in Palau” valued at \$134,265. The funds were to be used to procure, construct and install water catchment tanks, electric water pumps and associated electrical and plumbing works and plastic water containers.

The grant was deposited into a bank account separate from and independent of National Treasury and was administered and controlled by the Embassy of Japan in the Republic of Palau.

The \$134,265 grant was used to procure and install items shown below:

Item	Quantity
Stainless Steel Water Tank	48
Concrete Base	48
Electric Water Pump	59
Plastic Water Containers	189
Plumbing and Electrical Works	36

The Grant Contract states, among other requirements, that the recipient agrees to do the following:

- A. Provide the official receipt of the grant received to the Donor.
- B. Provide a procurement contract for product or services upon request by the Donor.
- C. To use the grant properly and exclusively for the purchase of the product and services necessary for the execution of the project.
- D. To provide the Donor with the following reports:
 - Project completion report (including an audit report on the grant...)
 - Any other reports on the Project to be provided upon request of the Donor...
- E. To complete the project within one year after the contract date;
- F. To consult with and receive instructions from the donor in case the recipient wishes:
 - To change how the grant is spent from the original plan in the application

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- To change the contents of the Project
 - To suspend and/or terminate execution of the Project
 - To extend the completion date of the Project;
- G. To keep accounting documents that verify how the grant was spent for at least five (5) years after the completion of the Project;
- H. To bear all responsibilities for deaths, injuries, diseases, and any other damages to the members of the recipient in the course of the execution of the project and that donor will not be responsible for anything that happens during the execution of the Project;
- I. To consult with donor promptly on all matters that may have influences on the execution of the project.
- J. To recognize that the donor reserves the right to claim a refund of a portion or the whole of the grant if: (1) a part or whole of the grant remains unused when the execution of the project is suspended or terminated, (2) The Recipient breaches the contract;
- K. Contract shall be governed by and construed and interpreted in accordance with the laws agreed to by the Donor and the Recipient.

On March 11, 2015, during a handover ceremony, the Ambassador of Japan in the Republic of Palau formally handed over the water catchment systems to thirty-seven (37) educational institutions in Palau. The handover ceremony (pictured below) was held at the Ministry of Education's administrative facility.



Group Photo: Handover Ceremony for the Project for Facilitating Water Catchment Systems to Schools in Palau

OBJECTIVE, SCOPE and METHODOLOGY

The objective of the audit was to determine whether the Ministry of Education (MOE) administered the grant funds in compliance with (1) the terms and conditions of the Grant Contract, (2) the GGP procurement guidelines, and (3) whether the project's fixed assets were properly recorded into the Republic of Palau's (ROP) accounting records and identified (tagged) as ROP property.

The scope of the audit covered the Grant Contract period from October 30, 2014 to October 29, 2015, the period stipulated in the Grant Contract as being the agreed-to time period for the execution and completion of the project. 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.

The audit did not cover the application of national treasury laws of the Republic of Palau as the grant funds were deposited into a bank account separate from and independent of National Treasury, and which funds were administered and controlled by the Donor. Similarly, the audit did not cover the application of the Republic of Palau Procurement Law and Regulations as the donor imposed the use of the GGP procurement guidelines.

As this is a performance audit, we did not conduct audit procedures to assess the fairness of the financial statements of the grant, the MOE, or any component or accounts within those financial statements and therefore express no opinion on the financial statements.

The OPA conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards* issued by the Comptroller General of the United States. 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.

To accomplish the audit objectives, the OPA reviewed the project's accounting records and documents maintained by the Ministry of Education. The OPA also met and discussed the project with the MOE's grant administrators and the Grants Coordinator for the Government of Japan's Grant Assistance for Grass-Roots Human Security Projects (GGP) at the Embassy of Japan in Palau. The OPA also conducted on-site visits to schools to inspect the water catchment systems and accessories.

The OPA also conducted expenditures testing of the client's records and accounting system and procedures to assess the adequacy of the client's system of internal controls and compliance with the grant contract and GGP procurement guidelines.

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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.

PRIOR AUDIT COVERAGE

The Ministry of Education's financial operations are subject to the annual Single Audit of the Republic of Palau National Government. The most recent audit of the National Government was completed for fiscal year 2014 by Deloitte Touché. However, as funding for this project were not deposited into the national treasury of the Republic of Palau, the financial activities surrounding the project will not be subject to or covered by the Single Audit of the Republic of Palau for Fiscal Year 2015.

The Office of the Public Auditor had conducted an audit of the Ministry of Education's previous GGP-funded projects; in particular, the projects for the procurement of Meyuns Elementary School Fence and Koror Elementary School's Multi-Purpose Outdoor Gymnasium. The audit reports for these projects were issued in March 2010.

FINDINGS AND RECOMMENDATIONS

Finding No. 1 ~ Request for Payment

The GGP Procurement Guidelines state that the Recipient (MOE) shall submit a “Request for Payment” to the Embassy promptly after the signing of the Procurement Contract.

The audit revealed that the MOE submitted a Request for Payment to the Embassy on October 30, 2014 and the Procurement Contract was signed on November 28, 2014, meaning the Request for Payment was executed prior to the signing of the Procurement Contract contrary to the GGP procurement Guidelines.

It appears that the grant administrator was not familiar with the GGP Procurement Guidelines with respect to the requirements for submitting a Request for Payment.

As a result, the Ministry of Education did not comply with the GGP Procurement Guidelines to the extent of submitting a Request for Payment.

Recommendation

The OPA recommends that in future GGP-funded projects the grant administrator (s) becomes familiar with the terms and conditions of the Grant Contract and the GGP procurement Guidelines to support and sustain a more effective administration of GGP Grants. In addition, Recipient’s compliance with the requirements of GGP Grants fosters a good and trusting reputation with the Donor, providing opportunities for future projects.

MOE’s Response ~ MOE concurs with this finding. MOE will work closely with donor agency to ensure that grant administrators are familiar with grant requirements in future GGP funded projects.

Finding No. 2 ~ Contract Terms of Payment

The Procurement Contract (construction contract) signed between the Ministry of Education and the Contractor for the Project for Facilitating Water Catchment Systems to Schools in Palau stipulates the Term of Payment as follow:

- | | |
|-------------------|---|
| 1. First payment | 40% (\$53,706) upon signing the Contract |
| 2. Second Payment | 30% (\$40,279.50) after completion of concrete base and upon arrival of water tanks, plastic containers, and electric pumps |
| 3. Third payment | 20% (\$26,853) after installation of water tanks, water pumps and supply of plastic water containers |
| 4. Final Payment | 10% (\$13,426.50) after completion of all the works |

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The audit revealed that the MOE did not have a system in place to inspect, verify and certify progress reports submitted by the Contractor to the MOE together with request for payment for the second, third and final payment. The inspection, verification and certification process is critical to ensure that payments are made in accordance with the terms of payment/progress of work stipulated in the construction contract. For example, the Second Payment (30% or \$40,279.50) required the completion of concrete base (for water tanks) and arrival of water tanks and plastic containers. The Contractor's progress report, upon which the second payment was disbursed, showed (pictures) the unloading of water tanks and electric water pumps at the commercial port and selected school sites_ no evidence of completion of concrete bases or the quantities of water tanks and plastic containers arriving or delivered. The same conditions existed for the Third and Final payments_ no inspection, verification and certifications by the MOE before payments were tendered. In addition, due to lack of inspection, verification and certification, we found that not all works were completed before the final payment was made on April 27, 2015. For example, concrete base, connections of water tanks and water pump were still incomplete for PCAA Day Care Center as of September 15, 2015, as was for Emmaus High School and Melekeok Elementary School, as shown below:



On-site Inspection: pictures taken on September 15, 2015: The water catchment items were delivered to PCAA on March 10, 2015.



9/28/15: FR Construction Co. employee working on concrete base for the water tanks.



10/19/15: Installed PCAA Water Catchment System, no electrical switch panel; therefore, system is still incomplete.



Completion of all works on Water Catchment System for PCAA Head Start Center on 10/29/15.



11/2/15: On-Site Visit: Emmaus High School, 2 of 2 Electrical Water Pumps, installed after September 15, 2015.



09/15/15: Melekeok Elementary School, 1 of 2 Electrical Water Pump, the second pump will be installed later, according to a MOE staff.

The cause of the above condition appears to be that the MOE did not put in place a system to ensure that proper inspection, verification and certification are performed to ensure that payments to the contractor are in accordance with the terms of payment/progress of work as set forth in the construction contract. Alternatively, the MOE could have requested the assistance from the Bureau of Public Works to carry out the inspections, verification and certification, processes that the Bureau has expertise in performing.

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As a result, the MOE lacks documentary evidence to substantiate that payments to the contractor were made in accordance with the terms of payment/progress of work set forth in the construction contract.

Recommendation

We recommend that in future GGP-funded projects the MOE establish a process to inspect, verify and certify progress of work before making payments to the contractor. The inspection, verification and certification are critical to ensure that payments are tendered in accordance with the progress of work to protect the interest of the MOE and the Donor. In addition, in future construction projects, we recommend the MOE seek assistance from the Bureau of Public Works in conducting inspections, verification and certification of its construction projects with respect to progress of work and payments therewith.

MOE's Response ~ MOE concurs with this finding. MOE finance unit will be tasked to work closely with project administrators to verify that contract terms are met prior to making request for payment including any related actions in future GGP funded projects.

Finding No. 3 ~ Inspection, Verification and Receiving Report

Project equipment, materials and accessories should be inspected and verified and receiving reports (or equivalent) signed acknowledging the receipt of goods and the process should be properly documented.

In reviewing the purchases, we noted that the water tanks, plastic containers, water pumps and accessories were delivered by the Contractor but the MOE lacked documentation to show that the goods were inspected, verified, and receiving reports signed acknowledging the receipt of goods. This process is especially critical considering that project progress payment is based in part on receiving the goods. Without the inspection, verification and receiving reports, it is difficult for management to justify the progress payments, much less substantiate the quantity and quality of goods received. And because numerous changes were made on the Project during construction from the initial plans, i.e., exchanging water tanks, concrete bases, water containers and water pumps between schools, inspection and verification becomes even more critical to ensure that that all the goods are accounted for and meet the required specifications.

It appears the cause of the above condition is that the MOE did not establish a process for ensuring that goods delivered are properly inspected, verified and receiving reports signed to acknowledge the receipt of goods. This was confirmed during the audit when an MOE staff told the auditor that there were no inspection records available for review.

As a result, the MOE lacks documentation to demonstrate that the equipment, materials and accessories for the Project were properly inspected and verified and that receiving reports were signed to acknowledge the receipt of goods, i.e. quantities of water tanks, water containers, water pumps for each school, etc., and to justify progress payments.

Recommendation

We recommend that in future construction projects the MOE establish a process for inspecting and verifying the delivery of goods and that receiving reports are signed to acknowledge the receipt of goods. This aspect of the project is critical especially when the construction agreement requires delivery of certain goods as basis for progress payment and ensures that all the items are accounted for.

MOE's Response ~ MOE concurs with this finding. MOE finance unit in close collaboration with the facilities unit and project administrator will be responsible to establish and implement procedures for inspecting and verifying delivery of goods in future GGP-funded construction projects.

Finding No. 4 ~ Lack of Consultation and Instructions for Changes to Project

Under the terms and conditions of the Grant Contract, Section F states: 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 and (2) to change the contents of the Project.

During physical inventory, the Office of Public Auditor (OPA) observed changes to the project content from the original plan as submitted in the MOE's application and approved by the Donor. For example, according to the Original Plan, the Contractor's Proposal and the Procurement Contract, Ngardmau Elementary School was listed to receive two (2) 800 gal. stainless steel water tanks; actual number received was only 1. Please refer to Appendix I for more details of the changes. Upon inquiry of the MOE, the OPA was told that the MOE did not consult and receive instructions from the Donor (Japan Embassy) to change the contents of the project. In addition, in a telephone conversation with the Japan Embassy's Grants Coordinator it was confirmed that the MOE did not consult and receive instructions from the Donor regarding the change in the scope of work. Moreover, as of February 18, 2016, we observed that the MOE had four (4) 800 gal. stainless steel water tanks and two (2) 33 gal. plastic containers leftover from the project.

We were unable to determine the reason why the MOE did not consult and receive instructions from the Donor to the change the scope of work on the project.

As a result, the MOE did not comply with the terms and conditions of the Grant Contract by not consulting and receiving instructions from the Donor to change the scope of work on the project. In addition, the lack of consultation means that the Donor was unaware of the changes.

Recommendation

The OPA recommends that in future GGP-funded projects the grant administrators become familiar with the terms and conditions of the grant to facilitate a more effective execution and administration of projects. In the meantime, the MOE management should consult with the

Office of the Public Auditor

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 opportunities for financial assistance.

MOE's Response ~ MOE concurs with this finding. MOE will work closely with donor agency in future GGP-funded projects to ensure that requirements for change orders are adhered to.

Finding No. 5 ~ Management Awareness and Approval of Changes to Procurement Contract

The MOE should adhere to the Procurement Contract (Construction Contract) in the Project for Facilitating Water Catchment System to Schools in Palau and any changes should be effected in an amendment to the contract approved by the MOE management and the contractor. In addition, the MOE's management should be informed of any changes to the Project during construction.

The MOE developed the El Nino Disaster Management Plan to mitigate the effects of the El Nino weather phenomenon on school operations. The Plan sets four major goals, Goal 3 of which states: Increase water catchment capacity in schools. To implement Goal 3, the MOE conducted an assessment of schools in Palau, both public and private, to determine their needs and capacity. An assessment report was prepared, which provided the basic specifications for issuing a Request for Proposal (RFP) for the procurement, construction and installation of water catchment tanks and related accessories in schools in Palau. Contractors followed the specifications in the RFP to prepare bids for the Project. Following the receipt of three (3) bids for the Project, the Embassy of Japan, based on the lowest bid, approved and awarded a grant to the MOE for the Project for Facilitating Water Catchment System to Schools in Palau.

The audit revealed that a number of changes were made to the project that deviated from the specifications contained in the Construction Contract (please refer to Appendix 1 for details of the changes). In addition, there was no documentation to show that the changes were effected in an amendment to the contract approved by the MOE and the contractor. Moreover, there was no documentation on file to demonstrate that management was aware of and approved of the changes.

As a result, the construction of the water catchment tanks and accessories did not adhere to the specifications contained in the Construction Contract. In addition, as the project specifications in the construction contract mirrored those identified in the assessment report, the changes to the project may not have reflected the needs and capacities of the affected schools.

Recommendation

We recommend that in future GGP-funded projects the MOE adhere to the project specifications stipulated in the construction contract. In addition, any changes should be effected through an amendment to the contract approved by the MOE and the contractor. Moreover, the Project manager should keep the MOE management informed of any changes to the project during construction and that such changes are properly approved by management.

MOE's Response ~ MOE concurs with this finding. MOE will work to strengthen its internal procedures to ensure that any changes of work scope in future GGP-funded projects are approved by management before such request is made to the donor agency.

Finding No. 6 ~ Water Catchment System in Schools

The MOE developed the El Nino Disaster Management Plan to mitigate the effects of the El Nino weather phenomenon on school operations. The Plan sets four (4) major goals, Goal 3 of which states: Increase water catchment capacity in schools in Palau.

We found that the MOE applied for and received a grant from the Embassy of Japan in the Republic of Palau through the Government of Japan's Grant Assistance for Grass-Roots Human Security Projects. The grant for \$134,265 was used to procure, construct and install water tanks, electric water pumps and associated electrical and plumbing works and plastic water containers to 37 schools in Palau. Of the 37 schools, 15 are public schools, 9 are private, 11 are Head Start Centers, and 2 are Day Care Centers. The distribution of the water catchment systems to these schools is listed in Appendix I. In all, the water catchment systems serve approximately 4,500 students, teachers, and school staff in Palau.

The success of the Project for Facilitating Water Catchment Systems to Schools in Palau came about as a result of the partnership between the Embassy of Japan in the Republic of Palau and the Ministry of Education.

As a result, the MOE is better equipped to confront and mitigate the effects of the El Nino weather phenomenon and other natural disasters to prevent disruption of school operations.

Recommendation

We commend the MOE and the Embassy of Japan in the Republic of Palau for the partnership to facilitate water catchment systems to schools in Palau. The project will provide clean water to the schools and prevent disruption of school activities today and the years to come.

MOE's Response ~ MOE concurs with this finding. MOE will continue to work closely with donor agency to ensure that intended outputs and outcomes to future GGP-funded projects are met.

Finding No. 7 ~ Recording and Tagging of Equipment

Sound internal controls dictate that all capital assets of the Republic of Palau (ROP) be recorded in accounting records to ensure the accuracy of financial statements. In addition, properties should be identified or tagged to reflect ownership of the assets. This applies whether the assets are purchased through local funds, grants, or otherwise.

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We found that the MOE did not coordinate the procurement of water tanks and related equipment with the Bureau of National Treasury to ensure that the equipment are properly recorded and identified (tagged) as Republic of Palau (ROP) property.

The cause of the above condition appears to be that the project grant was administered outside of the Republic of Palau National Treasury and therefore removed from the normal controls of recording transactions and tagging related equipment.

As a result, the Project transactions and related equipment are not recorded into the ROP's accounting records and the equipment is not identified as ROP property.

Recommendation

The OPA recommends that the MOE transmit records of transactions for the procurement of water catchment tanks and equipment to the Bureau of National Treasury for proper recording and tagging.

MOE's Response ~ MOE concurs with this finding. MOE finance and administrative units will work with the National Treasury and the Division of Property and Supply to transmit records of transactions and transfer for fixed assets procured through this project to the ROP.

CONCLUSION

The Japan Embassy in the Republic of Palau through the Grant Assistance for Grass-Roots Human Security Projects (GGP) awarded a grant to the Ministry of Education (MOE) for a Project for Facilitating Water Catchment System to schools in Palau. The Japan Embassy and the MOE entered into a Grant Contract for the execution of the project.

The audit revealed several weaknesses/deficiencies in the execution and administration of the Grant/Project including the following:

- MOE's request for payment to the grantor was not in conformity with GGP's requirement,
- MOE's progress payments on the Project were made contrary to the requirements stipulated in the Procurement Contract (construction contract),
- MOE did not perform inspections, verifications on goods delivered and document (receiving reports) the receipt of the goods,
- MOE did not consult and receive instructions from the donor to change the contents of the project,
- MOE did not adhere to the Procurement Contract and management was not kept informed of and did not approve the changes to the construction contract,
- MOE did not coordinate the Project activities with the Bureau of National Treasury to ensure that transactions are properly recorded into the ROP's accounting records and that equipment are properly identified as ROP property.

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As important as this project was (increase water capacity for schools in Palau) to the MOE and the schools in Palau, the MOE's management did not devote more time and attention towards monitoring, inspection and certification of the progress of work to ensure adherence to the construction contract. Instead, the Project coordinator was left to make decisions and changes to the Project without managements' awareness and approval. These changes could have altered the capacities and needs of the affected schools, which the MOE had earlier assessed and prepared an assessment report that served as basis for the project.

The MOE management needs to discuss the issues raised in this report with the Donor and to establish a more effective and efficient process for administering and executing GGP grants to be better prepared for future GGP-funded projects.

As of April 27, 2015, the full amount of the Grant, \$134,265, has been expended by the MOE to purchase, construct, and install water catchment tanks and related accessories to schools in Palau. In addition, as of February 18, 2016, we observed that the MOE had four (4) 800 gal. stainless steel water tanks and two (2) 33 gal. plastic containers leftover from the project.

In conclusion, the partnership between the Ministry of Education and the Embassy of Japan in the Republic of Palau through Japan's Grant Assistance for Grass-Roots Human Security Projects in the Project to purchase, construct and install water catchment systems for schools in Palau will go a long way to provide clean water to schools and students today and the years ahead. The facilities will also equip the schools with the capacity to confront and endure water shortages in times of El Nino weather conditions, preventing disruption of school operations, which was the goal of the project and in line with the purpose of the GGP to assist non-government organizations and local public authorities in responding to various development needs in a prompt and complete manner.

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School	MOE Assessment		Contractor Proposal	Procurement Contract	Actual
	Quantity	Description			
Aimeliik Elementary School	1	electrical water pump	1	1	1
	1 ~ Lot	electrical and plumbing work	1	1	1
	6	33 gals. plastic containers for toilets	6	6	6
Airai Elementary School	3	800 gals. stainless steel tank	3	3	3
		Concrete Base	3	3	3
	1	electrical water pump	1	1	2
	1 ~ Lot	electrical and plumbing work	1	1	2
	6	33 gals. plastic containers for toilets	6	6	6
Angaur Elementary School	1	electrical water pump	1	1	1
	1 ~ Lot	electrical and plumbing work	1	1	1
		33 Gal. Plastic Container			1
George B. Harris Elementary School	3	800 gals. stainless steel tank	3	3	3
		Concrete Base	3	3	3
	3	electrical water pumps	3	3	4
	1 ~ Lot	electrical and plumbing work	1	1	2
	18	33 gals. plastic containers for toilets	18	18	18
Ibobang Elementary School	3	800 gals. stainless steel tank	3	3	1
	3	Concrete Base	3	3	1
	1	electrical water pump	1	1	1
	1 ~ Lot	electrical and plumbing work	1	1	1
	2	33 gals. plastic containers for toilets	2	2	2
JFK Elementary School	1	electrical water pump	1	1	1
		33 Gal Plastic Container w/ Cover			1
Koror Elementary School	3	800 gals. stainless steel tank	3	3	3
		Concrete Base	3	3	3
	3	electrical water pumps	3	3	5
	1 ~ Lot	electrical and plumbing work	1	1	5
	18	33 gals. plastic containers for toilets	18	18	13
Melekeok Elementary School	1	800 gals. stainless steel tank	1	1	1
		Concrete Base	1	1	1
	2	electrical water pumps	2	2	2
	1 ~ Lot	electrical and plumbing work	1	1	2
		33 gals. Plastic Containers w/ Covers			2
Meyuns Elementary School	2	800 gals. stainless steel tank	2	2	2
		Concrete Base	2	2	2
	2	electrical water pumps	2	2	2
	1 ~ Lot	electrical and plumbing work	1	1	1
	6	33 gals. plastic containers for toilets	6	6	6

Highlighted Schools: Schools in which actual delivery of water system deviated from the specifications contained in the Assessment Report, Contractor's Proposal, and Procurement Contract.

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School	MOE Assessment		Contractor Proposal	Procurement Contract	Actual
	Quantity	Description			
Ngaraard Elementary School	2	electrical water pumps	2	2	2
	1 ~ Lot	electrical and plumbing work	1	1	2
	2	33 gals. plastic containers for toilets	2	2	2
Ngarchelong Elementary School	2	800 gals. stainless steel tank	2	2	2
		Concrete Base	2	2	2
	1	electrical water pump	1	1	2
	1 ~ Lot	electrical and plumbing work	1	1	2
	6	33 gals. plastic containers for toilets	6	6	6
Ngardmau Elementary School	2	800 gals. stainless steel tank	2	2	1
		Concrete Base	2	2	1
	1	electrical water pump	1	1	1
	1 ~ Lot	electrical and plumbing work	1	1	1
	2	33 gals. plastic containers for toilets	2	2	2
Ngeremlengui Elementary School	1	electrical water pump	1	1	1
	1 ~ Lot	electrical and plumbing work	1	1	1
	2	33 gals. plastic containers for toilets	2	2	2
Palau High School	6	800 gals. stainless steel tank	6	6	5
		Concrete Base	6	6	5
	6	electrical water pumps	6	6	6
	1 ~ Lot	electrical and plumbing work	1	1	1
	33	33 gals. plastic containers for toilets	3	3	3
Peleliu Elementary School	1	electrical water pump	6	6	1
	1 ~ Lot	electrical and plumbing work	1	1	1
		33 Gal. plastic containers for toilets			1
Emmaus High School	2	electrical water pump	2	2	2
	1 ~ Lot	electrical and plumbing work	1	1	1
	9	33 gals. plastic container	3	3	3
Emmaus Kindergarten	2	800 gals. stainless steel tank	2	2	2
		Concrete Base	2	2	2
	1	electrical water pump	2	2	2
	1 ~ Lot	electrical and plumbing work	1	1	2
	5	33 gals. plastic container	3	3	3
Mindzenty High School	4	800 gal . stainless steel tank	4	4	4
		Concrete Base	4	4	4
	1 ~ Lot	electrical and plumbing work	1	1	1
	10	33 gals. plastic container			3
	10	33 gals. plastic container			3

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School	MOE Assessment		Contractor Proposal	Procurement Contract	Actual
	Quantity	Description			
Maris Stella Elementary School	2	800 gals. stainless steel tank	2	2	2
		Concrete Base	2	2	2
	2	electrical water pump	2	2	2
	1 ~ lot	electrical and plumbing work	1	1	1
	10	33 gals. plastic container	10	10	10
Maris Stella Kindergarden	1	800 gals. stainless steel tank	1	1	1
		Concrete Base	1	1	1
	1	electrical water pump	1	1	1
	1 ~ Lot	electrical and plumbing work	1	1	1
	5	33 gals. plastic container	5	5	5
Bethania High School	2	800 gals. stainless steel tank	2	2	2
		Concrete Base	2	2	2
	2	electrical water pump	2	2	2
	1 ~ Lot	electrical and plumbing work	1	1	1
	9	33 gals. plastic container	9	9	9
BMS	1	800 gals. stainless steel tank	1	1	2
		Concrete Base	1	1	2
	1	electrical water pump	1	1	1
	1 ~ Lot	electrical and plumbing work	1	1	1
	9	33 gals. plastic container	9	9	9
Palau Mission Academy	1	electrical water pump	1	1	1
	Lot	electrical and plumbing work	1	1	1
	9	33 gals. plastic container	9	9	9
SDA Elementary School	2	800 gals. stainless steel tank	2	2	2
		Concrete Base	2	2	2
	1	electrical water pump	1	1	1
	Lot	electrical and plumbing work	1	1	1
	10	33 gals. plastic container	10	10	10
Meyuns I Head Start Center	1	500 gals. Stainless water tank	1	1	1
		Concrete Base	1	1	1
	1	electrical water pumps	1	1	1
	1 Lot	electrical and plumbing work	1	1	1
	5	33 gals. plastic containers for toilets/kitchen	5	5	5
Meyuns II Head Start Center	1	500 gals. stainless steel tank	1	1	1
		Concrete Base	1	1	1
	1	electrical water pumps	1	1	1
	1 Lot	electrical and plumbing work	1	1	1
	4	33 gals. plastic containers for toilets	4	4	4

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	Quantity	Description			
Madalaih Head Start Center	2	500 gals. stainless steel tank	2	2	0
		Concrete Base	2	2	0
	1	electrical water pumps	1	1	1
	1 Lot	electrical and plumbing work	1	1	1
	8	33 gals. plastic containers for toilets	8	8	8
Ngerbeched Head Start Center		500 Gals. Stainless Water Tank			2
		Concrete Base (8 blocks)			2
	1	Electrical water pump	1	1	1
	1 Lot	electrical and plumbing work	1	1	1
	6	33 gals. plastic containers for toilets	6	6	6
Ngermid Head Start Center	1	electrical water pump	1	1	1
	1 Lot	electrical and plumbing work	1	1	1
	4	33 gals. plastic containers for toilets	4	4	4
Airai Head Start Center	1	500 gals. Stainless tank	1	1	1
		Concrete Base	1	1	1
	1	Electrical water pump	1	1	1
	1 Lot	electrical and plumbing work	1	1	1
	6	33 gals. plastic containers for toilets	6	6	6
Melekeok Head Start Center	1	electrical water pump	1	1	1
	1 Lot	electrical and plumbing work	1	1	1
	4	33 gals. plastic containers for toilets	4	4	4
Nøaraard Head Start Center	1	electrical water pump	1	1	1
	1 Lot	electrical and plumbing work	1	1	1
	4	33 gals. plastic containers for toilets	4	4	4
Ngeremlengui Head Start Center	1	Electrical water pump	1	1	1
	1 Lot	electrical and plumbing work	1	1	1
	4	33 gals. plastic containers for toilets	4	4	4
Ngarchelong Head Start Center	1	Electrical water pump	1	1	1
	1 Lot	electrical and plumbing work	1	1	1
	4	33 gals. plastic containers for toilets	4	4	4
Peleliu Head Start Center	1	electrical water pump	1	1	1
	1 Lot	electrical and plumbing work	1	1	1
	4	33 gals. plastic containers for toilets	4	4	1
PCC Day Care Center	1	500 gals. Stainless water tank	1	1	1
		Concrete Base	1	1	1
	1	Electrical Water Pumps	1	1	1
	1	1 Lot Electrical and plumbing work	1	1	1
	4	33 gals. Plastic containers (toilet/kitchen)	4	4	4
PCAA Day Care Center	3	500 gals. Stainless Steel Tank	3	3	3
		Concrete Base	3	3	3
	1	Electrical Water Pump	1	1	1
	1	1 Lot Electrical and plumbing work	1	1	1
	3	33 gals. Plastic Containers (toilet/kitchen)	3	3	2

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**ILLEGAL OR WASTEFUL ACTIVITIES
SHOULD BE REPORTED TO:**

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**MONDAY THRU FRIDAY
7:30 a.m. - 4:30 p.m.**

(Closed on Legal Holidays)