



**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 PROCUREMENT OF EQUIPMENT
FOR IMPROVING RAINWATER DRAINAGE SYSTEM
IN NGCHESAR STATE"**



**NGCHESAR STATE GOVERNMENT
REPUBLIC OF PALAU**

Period from December 6, 2018 thru June 19, 2019

Performed by the Office of the Public Auditor

JPNGSAR-19- P03*opa00

REPUBLIC OF PALAU



Office of the Public Auditor

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August 10, 2020
Serial#: opa20-090au

Honorable Florencio Adelbai
Governor
Ngchesar 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 "The Project for the Procurement of Equipment for Improving Rainwater Drainage System in Ngchesar State"

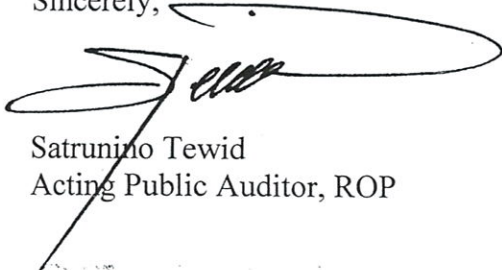
Dear Governor Adelbai:

This report presents the result of our audit of Japan's Grant Assistance for "The Project for the Procurement of Equipment for Improving Rainwater Drainage System in Ngchesar State".

The Office of the Public Auditor (OPA) received your response to the Draft Audit Report. The response is published 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,



Satrunino Tewid
Acting Public Auditor, ROP

**Japan’s Grant Assistance for Grass-Roots
Human Security Project for
“The Project for Procurement of Equipment for
Improving Rainwater Drainage System
in Ngchesar State”**

**Ngchesar State Government
Republic of Palau**

For the Period December 6, 2018 thru June 19, 2019

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August 10, 2020

Honorable Florencio Adelbai
Governor
Ngchesar State Government
Republic of Palau

Dear Governor Adelbai:

The Office of the Public Auditor at your request initiated the audit of the Japan's Grant Assistance for Grassroots Human Security Project, namely, "The Project for Procurement of Equipment for Improving Rainwater Drainage System in Ngchesar State.

The Embassy of Japan in the Republic of Palau awarded the sum of \$88,950 for the procurement of a Dump Truck and a Motor Grader pursuant to a Grant Contract executed between the Embassy of Japan and Ngchesar State Government on December 6, 2018, as shown below in a signing ceremony:



Photos from the Embassy of Japan's web-site
Signing of the grant contract on December 6, 2018

The Objective of the audit is to determine whether Ngchesar State Government: (1) administered the grant in compliance with the terms and conditions of the Grant Contract; (2) complied with the grant's GGP procurement guidelines; and (3) fixed assets were properly tagged and recorded, as appropriate, into the State's accounting records.

The Office of the Public Auditor audited the administration of the grant funds pertaining to the procurement procedures, receipt and disbursement of funds, reporting mechanisms, and other related requirements pursuant to the Grant Contract and GGP procurement guidelines.

Background

Ngchesar State Government entered into a grant contract with the Embassy of Japan in the Republic of Palau for the Project for Procurement of Equipment for Improving Rainwater Drainage System in Ngchesar State. The aim of the project is to maintain the intra-state roads to make them safe for public transport, provide for better rainwater drainage systems, and control erosion/sediments from polluting the shorelines.

The purpose of the grant was to procure the following equipment:

Item	Quantity
Dump Truck	1
Motor Grader	1

Based on the grant procurement guidelines, the grant recipient is required to obtain and submit three price quotations and procurement of the equipment shall be selected from these three quotations.

Objective, Scope, and Methodology

The objective of the audit is to determine whether Ngchesar State Government (1) administered the grant in compliance with the terms and conditions of the Grant Contract, (2) complied with the grant's GGP procurement guidelines, and (3) fixed assets were properly tagged and recorded, as appropriate, into the State's accounting records.

The scope of the audit covered the period from December 6, 2018 through June 19, 2019.

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

In line with Japan's Grant Assistance for Grassroots Human Security Project (GGP), the Government of Japan imposes and requires recipient to follow GGP procurement policies and therefore we did not assess compliance with the Republic of Palau Procurement Law and Regulations.

Further, as additional grant conditions, the grant funds are required to be deposited, and were deposited, and administered outside of and separate from national treasury under the control of the Grantor. Hence, we did not assess compliance with the national treasury laws of the ROP.

We 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.

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 relevant project documents maintained at Ngchesar State Government and the Japan Embassy in the Republic of Palau. We also reviewed the applicable GGP procurement policies and procedures. In addition, we discussed the project with the State Accountant and conducted on-site visit of the project to inspect the dump truck and motor grader.

Grant Contract

In accepting the grant from the Embassy of Japan, Ngchesar State Government agreed to the following terms and conditions of the Grant Contract:

- A. To provide the Donor with an official receipt for the grant received;
- B. To provide the Donor with 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 such products and/or services necessary for the execution of the Project as enumerated in the Annex to the contract and not to use those products and/or services purchased with grant for purposes other than the execution of the Project, without acquiring any prior written approval from the Donor;
- D. To provide the Donor with the following reports on the progress of the Project:
 1. One (1) project completion report to be provided upon the completion of the Project (the report should outline achieved results in the light of the original goals and objectives as stated in the application proposal for the Project. The report should include a clear accounting report of the allocation and disbursement of the grant.)
 2. Any other reports on the Project to be provided upon request of the Donor, in accordance with the Donor's instructions;

Office of the Public Auditor

- 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
 - 1. To change how the grant is spend 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
- G. To keep accounting documents that verify how the grant was spend for at least five 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 the donor will not be responsible for anything that happens during the execution of the Project;
- I. To consult with donor promptly on all matters which may have influence 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 the whole of the grant remains unused when the execution of the Project is suspended or terminated;
 - 2. The Recipient breaches the contract; and
- K. The contact shall be governed by and construed and interpreted in accordance with the laws agreed to by the Donor and the Recipient.

Side Letter

In addition to the Grant Contract, Ngchesar State Government also agreed to additional terms in a “Side Letter” of Commitment with the Embassy of Japan stipulating the following:

- 1. Ngchesar State Government will open an account with Bank of Hawaii exclusively for the purpose of the aforementioned project.
- 2. Ngchesar State Government will not withdraw any amount from the said account without prior written consent from the Embassy of Japan.
- 3. Ngchesar State Government will shoulder any excess amount necessary to complete the project, if the cost of the project exceeds the Government of Japan’s grant.
- 4. Ngchesar State Government will be responsible for the fuel expenses, daily inspection and the fees for any maintenance of the items granted.
- 5. Ngchesar State Government will submit an audit report on the Government of Japan’s grant issued by the Office of the Public Auditor upon completion of the project.

Project Expenditures

Ngchesar State Government purchased the following equipment shown in Table 1 below:

Table 1: Cost of Dump Truck and Motor Grader

Item/Quantity	Price (SUS)	Description
Total Japan Grass-roots Grant	\$ 88,950	The fund was deposited into BOH C/A No. 0032-492843 on December 14, 2018
1	35,000	Dump Truck Hyundai HD 120 5 T (YR: 2015)
1	50, 000	Motor Grader, Kimatsu GD405A 2.4M Blade
Total Expenditures	<u>\$ 85,000</u>	
Balance	\$ 3,950	

The equipment were delivered to Ngchesar State on April 24, 2019 and on May 14, 2019, the equipment were turned over to Ngchesar State Government in a formal Handover Ceremony shown below:



Photo was contributed by Ngchesar State Government



Photo was taken from the Embassy of Japan's web-site

Handover ceremony on May 14, 2019

We found that Ngchesar State, for the most part, complied with the terms and conditions of the Grant Contract. However, we found a reportable condition relating to unspent funds, which is further discussed below.

FINDING AND RECOMMENDATION

Finding No. 1 –Unexpended Funds (Grant)

Donor reserves the right to claim a refund of a portion or the whole of the grant if:

1. A part or the whole of the grant remains unused when the execution of the Project is suspended or terminated.
2. The Recipient breaches the contract.

We found that the recipient (Ngchesar State Government) received a grant in the amount of \$88,950 and only expended \$85,000 on the project, leaving a balance of \$3,950 of unspent funds.

As a result, the amount of three thousand nine hundred and fifty dollars (\$3,950) remained unexpended after the completion of the project.

Ngchesar State did not provide any communication from the Embassy of Japan regarding the disposition of the \$3,950.

Recommendation: We recommend the Governor of Ngchesar State Government either refunds the Embassy of Japan (Donor) the \$3,950 of unused funds or obtain approval from the grantor to use the funds for other activities related to the Project.

NSG's Response: *I am writing this letter as a response to the audit report findings. We would like to inform your office that we have communicated with Japan Embassy regarding the disposition of the remaining fund of \$3,950.00. This is the reason why we have initiated a request to your office for this.*

The Grant Coordinator advised us to get an audit report from your office and when we have submitted the said report, that is the time they will decide whether to take or give us the money.

OPA's Comments: The Office of the Public Auditor has verified the communication between Ngchesar State Government and the Embassy of Japan in the Republic of Palau regarding the disposition of the unspent balance of the grant, \$3,950. The ultimate disposition of the \$3,950

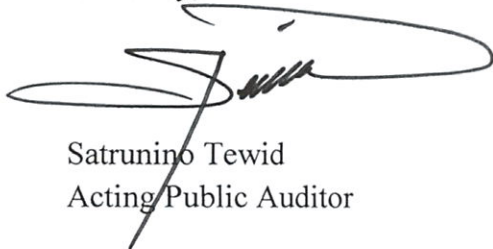
will be determined by the Embassy of Japan upon the completion and issuance of this audit report.

Conclusion

To improve the safety, accessibility and efficiency of road systems in Ngchesar State, Ngchesar State Government applied for and was awarded 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 Project (GGP). The grant provided the funding to procure critical equipment for the repair and maintenance of roads and drainage systems in the State. Through the grant project the State was able to procure a Dump Truck and a Motor Grader. Today, the equipment are being used to improve the road infrastructure in the State to provide safe, accessible and efficient transportation for the citizens of the State and visitors to and from the State.

The Office of the Public Auditor would like to thank the staff and management of Ngchesar State Government and the Embassy of Japan in the Republic of Palau for their professional courtesy and cooperation during this audit.

Sincerely,

A handwritten signature in black ink, appearing to read 'Satrunino Tewid', is written over a horizontal line. The signature is stylized with a large loop and a diagonal stroke.

Satrunino Tewid
Acting Public Auditor



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

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