



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

PERFORMANCE AUDIT REPORT

ON

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

FOR

**"THE PROCUREMENT OF RADIO COMMUNICATION EQUIPMENT
FOR KOROR STATE RANGERS"**



**KOROR STATE GOVERNMENT
REPUBLIC OF PALAU**

Period from February 05, 2019 thru February 04, 2020

Performed by the Office of the Public Auditor

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**Japan's Grant Assistance for Grass-Roots
Human Security Project for
"The Procurement of Radio Communication Equipment
for Koror State Rangers"**

**Koror State Government
Republic of Palau
Period from February 05, 2019, through February 04, 2020**

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Office of the Public Auditor

June 5, 2024

Honorable Eyos Rudimch
Governor
Koror State Government
Koror, Republic of Palau

Dear Governor Rudimch:

The Office of the Public Auditor at your request initiated an audit of the Japan's Grant Assistance for Grassroots Human Security Projects (GGP) for the project for "Procurement of Radio Equipment for Koror State Rangers".

The Embassy of Japan in the Republic of Palau awarded the sum of \$62,041.00 to Koror State Government for the procurement of radio communications equipment pursuant to a Grant Contract executed between the Embassy of Japan and Koror State Government on February 5, 2019, as shown below:



*Signing of the Grant Contract on February 05, 2019
Source: Embassy of Japan Website*

The objective of the audit is to determine whether Koror State Government: 1) Administered the grant in compliance with the terms and conditions of the Grant Contract, 2) adhered to the GGP Procurement Guidelines in administering the project’s procurements, and 3) properly recorded the fixed assets in the State’s accounting records.

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

Background

Koror State Government (KSG) is one of sixteen (16) state governments in the Republic of Palau. As one of its major departments, the Department of Conservation and Law Enforcement (DCLE) was established to monitor and enforce Koror State maritime boundaries via the Koror State Rangers.

Through the Government of Japan’s Grant Assistance for Grassroots Human Security Project, KSG was able to procure 47 radio communications equipment to support the operations of State Rangers with a reliable and efficient communications system. The equipment improved and strengthened the capabilities of the rangers in the area of communication, work coordination, readiness, responsiveness, and other aspects of work. Shown below is a breakdown of the radio equipment that was procured via the grant:

Item	Quantity
Repeater System (Ngemelis)	1
Repeater System (Malakal)	1
VHF Radio Base	3
VHF Radio Base – for Boat	9
Transceiver	30
Multi-unit Transceiver Charger	3

Objective, Scope, and Methodology

The objective of the audit is to determine whether Koror State Government: 1) Administered the grant in compliance with the terms and conditions of the Grant Contract, 2) adhered to GGP Procurement Guidelines in administering the project’s procurements, 3) and had properly recorded the fixed assets in the State’s accounting records.

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The scope of the audit covered the period from February 5, 2019 through February 4, 2020, as well as other period(s) as necessary. The focus of the audit was primarily on the procurement of radio equipment. The Government of Japan's Grant Assistance for Grassroots Human Security Project imposes and requires recipients to follow the GGP procurement policies and therefore OPA did not assess compliance with the Republic of Palau's Procurement Law and Regulations. In addition, as the grant funds are required to be deposited into a separate bank to be administered outside of and independent of the state and national treasury, we did not assess compliance with state or national treasury laws and regulations.

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.

Furthermore, 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 expenditure 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 objectives, we reviewed records and documents maintained at the Koror State Department of Conservation and Law Enforcement, Koror State Department of Finance, as well as project records at the Japan Embassy. We also reviewed the Grant Contract and the GGP procurement guidelines. Moreover, the OPA discussed the project with official from DCLE and Koror State Department of Finance as well as the Grants Coordinator at the Embassy of Japan in the Republic of Palau. Finally, the OPA conducted a site visit to the DCLE office to inspect the radio equipment.

Grant Contract

In accepting the GGP grant from the Embassy of Japan, Koror State Government agreed to the following terms and conditions in 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 of the contract and not to use those products and/or services purchased with the grant for purposes other than the execution of the Project, without acquiring any prior written approval from the Donor;

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- D. To provide 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.
- 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 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;
- G. To keep accounting documents that verify how the grant was spent 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 the Donor promptly on all matters which may have any 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 this contract; and
- K. That this contract 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, Koror State Rangers also agreed to additional terms in a "Side Letter" of commitment with the Embassy of Japan stipulating the following:

- 1. Koror State Rangers will open an account with Bank of Hawaii exclusively for the purpose of the aforementioned project.
- 2. Koror State Rangers will not withdraw any amount from the said account without prior written consent of the Embassy of Japan.
- 3. Koror State Rangers will shoulder any excess amount necessary to complete the project if the cost of the project surpasses the Government of Japan's grant

4. Koror State Rangers will be responsible for regular inspection and the fee for any maintenance of the items granted.
5. Koror State Rangers will submit an audit report on the Government of Japan's grant issued by the Public Auditor upon completion of the project.

Project Expenditures

In May 2019, Koror State Government entered into a purchase contract with Palau Telecom to purchase radio communications equipment. As stipulated in the contract, a 60% down-payment is to be made 7 days after the signing of the contract, May 24, 2019. The remaining 40 % is to be paid in two separate payments after the successful installation, inspection, testing, and acceptance by Koror State Rangers. The schedule of expenditures (payments) is shown in Table 1 below:

Table 1: Project Expenditures

Payment No.	Check No.	Check Date	Check Amount	Total	Amount of Grant Awarded
					\$ 62,041.00
1 st Payment (60% Down payment, paid with Grant Fund)	023159	07/03/2019	\$ 39,696.30		
2 nd Payment (Paid with Grant Fund)	024359	01/24/2020	\$ 22,344.70		
Subtotal (Grant Expenditures Amount)				\$ 62,041.00	
3 rd Payment (Payment for additional Repeater System, Paid by KSG)	024140	12/19/2019	\$4,860.00		
4 th Final Payment (Project cost in excess of Grant amount, paid by KSG)	024486	02/25/2020	\$ 4,119.50		
Subtotal (Project Expenditures in Excess of Grant Amount, Paid by KSG)				\$8,979.50	
Total Project Expenditure				\$71,020.50	

The amount of the grant awarded to Koror State Government was \$62,041.00. The total project cost was \$71,020.50, due to price increase on some of the materials after the original quotation and the acquisition of an additional Repeater Communication System during the implementation of the project. However, the difference (excess) in project cost and grant funding (\$71,020.50 - \$62,041.00), of \$8,979.50 was paid by KSG, as agreed to in the Side Letter of commitment by KSG. On January 24, 2020, the radio communication equipment was turned over to the Koror State Rangers in a formal handover ceremony, as shown on the next page:



*Handover Ceremony on January 24, 2020
Source: Embassy of Japan Website*

Findings and Recommendations

Based on our audit, the Office of the Public Auditor (OPA) found that Koror State Government administered the Japan's Grant Assistance for Grassroots Human Security Project (GGP) in compliance with the terms and conditions of the grant contract and abided by the GGP procurement guidelines. In addition, OPA report that the recipient (KSG) appropriately allocated the grant fund towards the completion of the project. Furthermore, OPA found that the radio communications equipment were properly recorded in the state's accounting books. However, during the audit we found an internal control issue of fixed asset management, described below.

Finding No. 1 - Fixed Asset Management

Koror State Rangers via the GGP grant was able to purchase communication equipment and accessories including 30 units of Handheld Motorola Radios, 12 VHF Base Transceiver, 3 Multi-unit Charger, and 2 ICOM FR5000 Repeater System. According to the Side Letter of commitment entered into by Koror State Government (KSG), KSG agreed to be responsible for regular inspections and the fee for any maintenance of the items granted. In addition, Koror State Rangers' Grant Application projected to use the equipment for the period covering January 2019~January 2034.

The audit revealed that Koror State Rangers did not conduct periodic inspections and inventory of its communication equipment to ensure their physical custody, security, and proper maintenance. Please refer to Table 2 below for comparative status of radio equipment as of January 24, 2020 and December 7, 2023:

Table 2: Condition of Radio and Accessories

Condition Summary		
	As of 01/24/2020	As of 12/07/ 2023
Missing	0	10 - Handheld Radio
New (stand-by)	47	8 - Handheld Radios 3 - Base Transceiver 1 - Multi-unit Charger
Broken	0	7 - Handheld Radios 6 - Base Transceiver 1 - Multi-unit Charger
Good (In use)	0	5 - Handheld Radio 3 - Base Transceiver 2 - Repeater System 1 - Multi-unit Charger

The cause of the above condition is lax policies on regular inspections and inventory to ensure the proper custody/security of radio equipment and their upkeep. In addition, Koror State Rangers did not plan ahead to identify and secure the proper technicians to repair damaged equipment when the need arises.

As a result, after only 3 years of operation, 10 handheld radios are missing and 7 are damaged and 6 base transceivers and 1 Multi-unit charger are also damaged. However, several of the equipment are still relatively new in condition and are on stand-by as back-ups, including 8 handheld radios, 3 base transceivers, and 1 multi-unit charger. Currently, Koror State Rangers are operating with only 5 handheld radios, 3 base transceivers, 2 FR5000 Repeater Systems, and 1 Multi-unit charger. Based on the total number of handheld radios, 30, with only 5 radios in active use, the Rangers may not be operating at full capacity, somewhat removed from full capacity three years ago. The reduced capacity of communication equipment reduces the capability of the Rangers to effectively and efficiently patrol the territorial waters of Koror State as intended by the grant assistance.

Recommendation: We recommend Koror State Rangers develop and implement policies for conducting regular inspections and inventory of its communication equipment (radios) and other support equipment. The radios are one of the most critical support equipment of the rangers that allows them to communicate with the base and deploy officers where needed to save time and costs. Therefore, it stands to reason that the Rangers need to implement stricter policies for conducting regular inspections and inventory of its communication and other support equipment to ensure their custody and proper maintenance. In addition, the Koror State rangers should bring up the matter of damaged radios with the supplier to see how it can facilitate the repair of the radios and eventually put them back into service. The policies should include, among other matters, the following:

1. Require inspection of radio equipment during changeover of shifts
2. Require incident report from responsible officer(s) if radio is damaged or lost
3. Use Koror State property tags to tag radio equipment and make sure property tags are in place during inspections and inventor
4. Damaged or unused radios should be stored in secured designated location accessible by authorized personnel only

Koror State Government's Response:

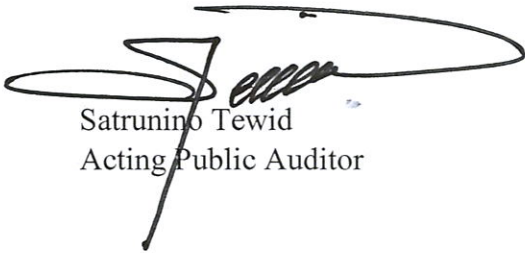
After careful review of the audit report, please accept this letter as my concurrence with the REVISED Draft Performance Report referenced above. Your objective evaluation has highlighted areas that need our attention, and we are committed to implementing the necessary actions to address this finding.

Conclusion

The Japan Embassy in the Republic of Palau through the Grant Assistance for Grass-Roots Human Security Projects (GGP) awarded a grant in amount of \$62,041.00 for the procurement of 47 radio communication equipment to the Koror State Rangers. The radio equipment and support system boosted Koror State Rangers operational capabilities in terms of communication, coordination, deployment of resources, readiness, and such other capabilities critical to carrying out its responsibilities of monitoring and enforcing laws and regulations within Koror State territorial boundaries. However, the Koror State Government Rangers need to develop policies requiring regular inspections and inventory of the radio equipment. These policies are essential in ensuring the proper custody and maintenance of the equipment to prolong their service life in support of the Rangers operations.

The Office of the Public Auditor would like to thank the Staff and Management of Koror State Government, and the Embassy of Japan in the Republic of Palau for their professional courtesy and cooperation during this audit.

Sincerely,



Satrunino Tewid
Acting Public Auditor

Appendix A: Pictures of radio communication equipment

Picture 1

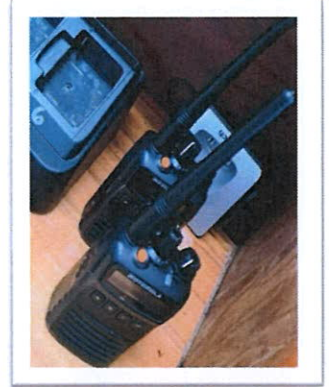


Picture 1 above shows two (2) Motorola CM200F VHF Base Radio Units (Analog/Digital) that cost \$1,777.00 per unit. Both units were installed at KSG Rangers central Office. The base radio on the right no longer functions; the one to the left is currently in operation.

Picture 2



Picture 3



Pictures 2 and 3 above shows the daily operated portable radios and charging port. (2 are used at Central Office and 2 used by rangers during sea patrol).

Picture 4



Picture 5

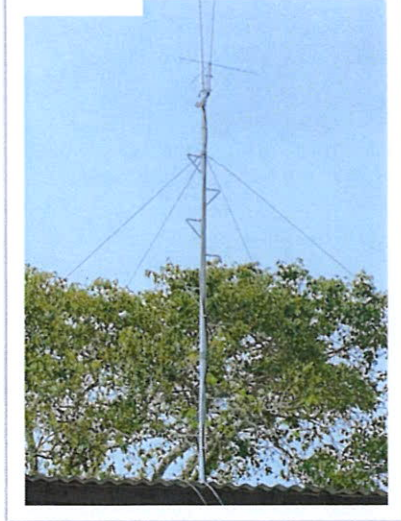


Picture 6



Pictures 4, 5 and 6 show the Repeater System Package installed at Ngemelis Island which costed \$15,350.00. Picture 6 is the 60 feet antenna tower of the system on top of Uchul a Rois (also known as "Arimasuku").

Picture 7



Picture 7 is the antenna tower of the second Repeater System Package installed at the Palau Telecom Malakal Tower which costed \$13,560.00.

Appendix B: Pictures of new radio equipment that are on stand-by

Picture 8



Picture 9



Picture 10



Pictures 8, 9 and 10 above show all the new radio equipment still in boxes and plastics. Currently, there are eight (8) portable radios, three (3) base radios for boats, and one (1) multi-charger unit that are on standby.

Appendix C: Pictures of damaged radio communication equipment

Picture 11



Picture 11 shows seven (7) portable radios that are not operating.

Picture 12

Picture 12, on the right, shows 1 of 4 base radios that are damaged yet still installed in the boats.



Picture 13



Picture 13, on the left, are detachable batteries with the KSG tags.

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

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