



**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 RENOVATING SENIOR CITIZENS CENTER"



BUREAU OF PUBLIC HEALTH & HUMAN SERVICES

MINISTRY OF HEALTH AND HUMAN SERVICES

REPUBLIC OF PALAU

Period from February 19, 2020 thru February 18, 2021

Performed by the Office of the Public Auditor

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REPUBLIC OF PALAU

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September 16, 2024
Serial#: opa24-103au

Ms. Sherilynn Madraisau
Director
Bureau of Public Health & Human Services
Ministry of Health and Human Services
Koror, Republic of Palau

Subject: Final Report on the Audit of Japan's Grant Assistance for Grassroots Human Security Project for "The Project for Renovating Senior Citizens Center"

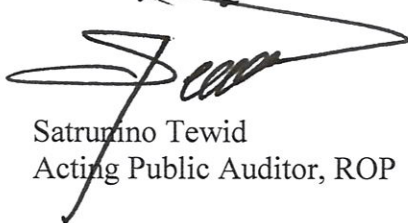
Dear Ms. Madraisau:

This report presents the result of our audit of Japan's Grant Assistance for "The Project for Renovating the Senior Citizens Center", formerly under the Ministry of Community and Cultural Affairs.

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



Saturnino Tewid
Acting Public Auditor, ROP

**Japan's Grant Assistance for Grass-Roots
Human Security Project for
"The Project for Renovating Senior Citizens Center"**

**Bureau of Public Health & Human Services
Ministry of Health and Human Services
Republic of Palau**

For the Period February 19, 2020 to February 18, 2021

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Office of the Public Auditor

September 16, 2024

Ms. Sherilynn Madraisau
Director
Bureau of Public Health & Human Services
Ministry of Health and Human Services
Koror, Republic of Palau

Dear Director Madraisau:

At the request of Ms. Klouldil Singeo, former Director of the Bureau of Aging, Disability, and Gender, the Office of the Public Auditor initiated an audit of Japan's Grant Assistance for Grassroots Human Security Project (GGP) for "The Project for Renovating the Senior Citizens Center".

The Embassy of Japan in the Republic of Palau awarded the sum of \$89,639 to the Bureau of Aging, Disability and Gender (BADG), formerly under the Ministry of Community and Cultural Affairs, for the renovation of the senior citizens center pursuant to a Grant Contract executed between the Embassy of Japan and the Bureau of Aging, Disability and Gender, on February 19, 2020, as shown below:



*Signing of the Grant Contract on February 19, 2020
Source: Embassy of Japan Website*

The objective of the audit was to determine whether the Bureau Aging, Disability, and Gender:
(1) administered the grant funds in compliance with the terms and conditions of the Grant

Contract, (2) adhered to the GGP procurement guidelines in the execution of the project's procurements and (3) the fixed asset (renovation of the center) was properly recorded into the Republic of Palau's accounting records.

The Office of the Public Auditor reviewed the administration of the grant funds pertaining to the procurement procedures, receipt and disbursements of funds, reporting mechanisms, and other related requirements as stated in the Grant Contract and GGP procurement guidelines.

Background

The Bureau of Aging, Disability and Gender (BADG) was a national government agency formerly under the Ministry of Community and Cultural Affairs (MCCA). During the audit we found that Executive Order No. 466, dated October 20, 2021, restructured the Ministry of Health and Human Services, creating a Bureau of Public Health and Human Services, under which a Division of Human Services was formed responsible for old age services and related assistance; thus, replacing Bureau of Aging, Disability and Gender. The Division of Human Services provides a range of social services, foremost of which is the management and operation of the Senior Citizens Center, to assist and support vulnerable populations as well as individuals, families, and communities to achieve the best possible levels of personal and social well-being.



Groundbreaking Ceremony

The Bureau of Aging, Disability, and Gender, via the Ministry of Community and Cultural Affairs, entered into a Grant Contract with the Embassy of Japan in the Republic of Palau for "The Project for Renovating Senior Citizens Center" valued at \$89,639. Through this financial assistance, the BADG will have a refurbished facility to serve the vulnerable people living in Koror and outer states of Palau. The project will enable the BADG to improve services to the elderly population in Koror, to provide more services to people living with disabilities and to provide the victims of family and domestic violence with temporary shelter. Moreover, the project will provide ample space for the staffs and volunteers to deliver assortment of services to clientele, and, in addition, the Center will allow for the larger community to access resources such as counseling, traditional art skills classes and performances.

Objective, Scope and Methodology

The objective of the audit was to determine whether the Bureau of Aging, Disability and Gender, Ministry of Community and Cultural Affairs: (1) administered the grant funds in compliance with the terms and conditions of the Grant Contract, (2) adhered to the GGP procurement

guidelines in the execution of the project's procurements and (3) the fixed assets (renovation of the center) was properly recorded into the Republic of Palau's accounting records.

The scope of the audit covered the period from February 19, 2020, through February 18, 2021.

As this is a performance audit, we did not conduct audit procedures to assess the fairness of the financial statements of the Bureau of Aging, Disability and Gender, Ministry of Community and Cultural Affairs, or any other component or accounts within those financial statements and therefore express no opinion on the financial statements. The audit did not cover compliance with national treasury laws of the Republic of Palau as the grant funds were administered and controlled by the Donor, despite the funds being deposited into a separate account within National Treasury. Similarly, the audit did not cover the applicability of the Republic of Palau Procurement Law and Regulations as the Donor imposed the use of the GGP procurement guidelines.

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 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 objectives, we reviewed relevant project documents maintained at the Bureau of Aging, Disability and Gender 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 Chief of Aging, Japan Embassy GGP Grant Coordinator and conducted on-site visit to inspect the renovated senior citizens center.

Grant Contract

In accepting the grant from the Embassy of Japan, the Bureau of Aging, Disability and Gender, Ministry of Community and Cultural Affairs 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 the 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 this 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;
- 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 above report should outline achieved results in the light of the original goals and objective 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 the 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, the Ministry of Community and Cultural Affairs also agreed to additional terms in a "Side Letter" of commitment with the Embassy of Japan stipulating the following:

- 1. Ministry of Community and Cultural Affairs will open an account with Bank of Hawaii exclusively for the purpose of the aforementioned project.
- 2. Ministry of Community and Cultural Affairs will not withdraw any amount from the said account without prior written consent from the Embassy of Japan.
- 3. Ministry of Community and Cultural Affairs will shoulder any excess amount necessary to complete the project, if the cost of the project exceeds the Government of Japan's grant.

4. Ministry of Community and Cultural Affairs will be responsible for regular inspection and fee for any maintenance.
5. Ministry of Community and Cultural Affairs will be responsible for submitting an audit report on the Government of Japan’s grant issued by the Public Auditor upon the completion of the project.
6. Ministry of Community and Cultural Affairs will be responsible to relocate and to open the center for its clients while the center is under renovation.

Project Expenditures

On behalf of the Ministry of Community and Cultural Affairs (recipient), the Director of Bureau of Public Works (contracting officer for the ROP) entered into a construction contract with HBO Construction for the Project. Pursuant to the Construction Contract entered into between the Republic of Palau’s Contracting Officer/Procurement Officer and the Owner of HBO Construction, dated on September 28, 2020, progress payments were issued as follows:

Payment No.	Check No.	Check Date	Check Amount	Amount of Grant Awarded	Remaining Balance of Grant Award
				\$ 89,639.00	
Payment No.1 (Initial Payment)	27934	10/15/2020	\$ 44,436.60		
Payment No.2 (Final Payment)	41146	2/5/2021	\$ 41,017.48		\$ 4,184.92
Total Expenditure			\$ 85,454.08		

To expedite the payment process to the Contractor, the Bureau of National Treasury, Ministry of Finance, used Local Funds to pay the Project’s cost. Upon completion of the project, the MCCA requested withdrawal of grant funds and approval from the Japan Embassy to reimburse the Bureau of National Treasury for the project cost.

The renovated Senior Citizens Center was handed over in a formal ceremony on December 28, 2020, as shown:



*Handover Ceremony on
December 28, 2020*

Findings and Recommendations

Based on our audit, the Office of the Public Auditor found that the Bureau of Aging, Disability and Gender (BADG), Ministry of Community and Cultural Affairs, for the most part, administered the Japan's Grant Assistance for Grassroots Human Security Project (GGP) in compliance with the terms and conditions of the grant contract. However, in instances noted below under Findings No. 1 and No.2, the OPA found that the BADG did not comply with certain requirements of the Grant Contract and related agreement:

Finding No.1 – Lack of Consultation Prior to Project Modification

Pursuant to the Grant Contract, Section F states in part: 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 contents of the Project.

The audit revealed that the BADG did not consult with and receive instructions from the Embassy of Japan (Donor) prior to making and executing the changes to the project plan. The Embassy of Japan reiterated the conditions of the Grant Contract in its communication stating "it is regrettable that the Embassy was not informed of the change prior to its modification." Although the Embassy approved the changes after the fact, the approval was qualified due to the "after the fact" notification.

It appears the BADG was not familiar with the terms and conditions of the Grant Contract.

As a result, BADG did not comply with the terms and conditions of the Grant Contract with respect to consulting and receiving instructions from the Donor before making changes to the project's original plan.

Recommendation: We recommend that in future GGP-funded projects the BADG (presently the Division of Human Services, Bureau of Public Health & Human Services) adhere to the terms and conditions of the Grant Contract by consulting with and receiving instructions from the Embassy of Japan prior to making changes to the project plans. In addition, we recommend those officials charged with the administration of GGP-funded projects have working knowledge of the terms and conditions of the Grant Contract to facilitate an efficient and effective administration of the project.

Bureau of Public Health & Human Services' Response:

The Bureau of Public Health & Human Services, MHHS concurs with the findings and recommendations and have established corrective actions.

Corrective Actions:

- *There are procedures and guidelines in place however, the Ministry of Health and Human Services Budget and Finance Office will review the Ministry's internal policies and guidelines to ensure compliance with future GGP funding mandates. Any changes of scope in grant funded project will be thoroughly reviewed and funders approval is granted prior to project modification and implementation.*
- *The Ministry will continue to routinely provide trainings on grant funding mandates, fiscal policies, procedures and guidelines to staff who have responsibility in the process.*
- *The ministry will provide additional trainings on project management to staff managing grant funded projects.*

Finding No. 2 – Withdrawal of Grant Funds Prior to Approval

Pursuant to the Side Letter of Commitment agreed to by the BADG, the agency will not withdraw any funds from the project account without prior written consent from the Embassy of Japan.

We found that in connection with the Project, the BADG on February 8, 2021 submitted a request to the Embassy of Japan to withdraw \$85,454.08 from the project account, and the Embassy approved the request on March 19, 2021. However, a review of the withdrawal documents showed that the \$85,454.08 was actually withdrawn prior to the approval, February 9, 2021. In addition, we found that the \$85,454.08 was part of an \$89,639 transfer from the Project Account to a National Treasury account as follows: \$85,454.08 to reimburse National Treasury for payments made on behalf of the project (Check no.'s 27934 and 41146) and the difference, \$4,184.92, deposited to National Treasury Account in order to close the Project account and to make way for another GGP Project, according to justification and supporting documents from National Treasury

The cause of the above condition is that the BADG did not exercise good faith effort in the withdrawal of project funds.

As a result, BADG did not obtain the proper approval for the withdrawal of funds from the Project Account in accordance with the terms and conditions of the Side Letter.

Recommendation: We recommend that for future GGP projects, the BADG (presently the Division of Human Services, Bureau of Public Health & Human Services) adhere to the terms and conditions of the Side Letter, in particular the requirement to obtain the approval of the Donor prior to the withdrawal of project funds. In addition, an employee assigned the responsibility for the administration of the project should have a working knowledge of the terms and conditions of the Grant Contract and related requirements to facilitate an effective and efficient administration of the project. Finally, we recommend the BADG (Division of Human Services, Bureau of Public Health & Human Services) consults with the Embassy of Japan (Donor) for instructions regarding the disposition of the \$ 4,184.92 unspent balance of the grant.

Bureau of Public Health & Human Services' Response:

The Bureau of Public Health & Human Services, MHHS concurs with the findings and recommendations and have established corrective actions.

Corrective Actions:

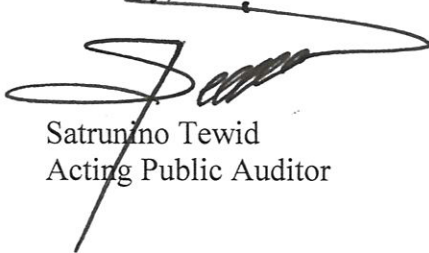
- *The Ministry will ensure that policies, procedures, and guidelines on GGP are clearly communicated to those who have responsibility in the process through continuous training.*
- *The Ministry will review its internal process and update as needed to ensure that expenditures and withdrawal activities of future GGP grant are tracked and monitored on an ongoing basis and are compliant with funding mandates.*

Conclusion

The Bureau of Aging, Disability, and Gender applied for and received from the Embassy of Japan a grant for \$89,639 for the renovation of the senior citizens center, the primary government care facility tailored to provide essential services to the Republic of Palau's senior citizens. The grant was used to renovate and improve the facility in order provide a pleasant environment for clientele to congregate and participate in various activities. As a result, the center is attracting and catering to more senior citizens from within Koror and outer states of Palau, bringing more senior citizens to together for fellowship and enjoyment, thereby improving their health and wellbeing.

The Office of the Public Auditor would like to thank the staff and management of the Bureau of Aging, Disability and Gender, Ministry of Community and Cultural Affairs or (Division of Human Services, Bureau of Public Health & Human Services) 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



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

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