

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

**PERFORMANCE AUDIT REPORT**

**ON**

**ELECHUI WATER SYSTEM PROJECT PHASE II**

**AIMELIK STATE GOVERNMENT  
REPUBLIC OF PALAU**

**PERIOD COVERED**

**MAY 2008 THROUGH AUGUST 2009**

*Performed by the Office of the Public Auditor*

AIM-EWSPPII-09-01\*opa10



# REPUBLIC of PALAU

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Office of the Public Auditor

March 24, 2010  
*Serial#: opa10-060au*

Honorable Leilani Reklai  
Governor  
Aimeliik State Government  
Aimeliik, Republic of Palau

And

Mr. Techur Rengulbai  
Director, Bureau of Public Works  
Ministry of Public Infrastructure,  
Industries, and Commerce  
Koror, Republic of Palau

**Subject: Final Report on the Audit of Elechui Water System Project Phase II.**

Dear Governor Reklai and Director Rengulbai:

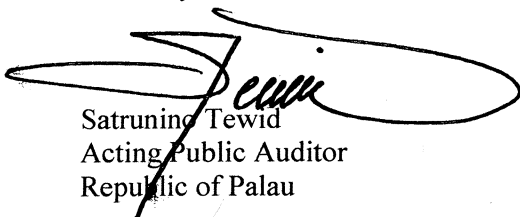
This report presents the results of our audit of Elechui Water System Project Phase II of Aimeliik State Government for the period from May 2008 through August 30, 2009.

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

The OPA has established an audit recommendation tracking system to keep track of the status of recommendations issued in this report. Accordingly, the OPA will conduct follow up inspections on your responses and corrective action measures to assess their implementation and operation. On a semi-annual basis, June 30 and December 31 each year, the OPA will report the status of the recommendations to the Office of the President and presiding officers of the Olbiil Era Kelulau for their information and disposition.

If you have any questions regarding matters of audit findings and recommendations, the OPA will be available to discuss such matters at your request.

Sincerely,



Satruning Tewid  
Acting Public Auditor  
Republic of Palau

**AIMELIIK STATE GOVERNMENT  
ELECHUI WATER SYSTEM PROJECT PHASE II**

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Honorable Leilani N. Reklai  
Governor, Aimeliik State  
Aimeliik State, Republic of Palau

And

Techur Rengulbai  
Director, Bureau of Public Works  
Ministry of Public Infrastructure,  
Industries, and Commerce

Dear Governor Reklai and Director Rengulbai:

In line with a request to audit the Elechui Water System Project Phase II, the Office of the Public Auditor (OPA) conducted a limited-scope review of the construction project to address certain concerns raised in the request and to assess the administration and execution of the project from start to progress-to-date.

The Elechui Water System Project involved two (2) phases, Phase I and II. Phase I was funded via Economic Stimulus Grant from the Republic of China-Taiwan for \$50,000 for the construction of a storage tank. This audit will focus only on Phase II of the Elechui Water System Project.

## **Background**

### **Project Allotment Schedule- Elechui Water System Project Phase II**

One of the fundamental aspects of the audit was to identify the source of funding for the Elechui Water System Project Phase II (the Project). According to the Project Allotment Schedule (PAS), the project was funded by a Republic of China – Taiwan Grant (Economic Stimulus) and was authorized and appropriated under RPPL No. 7-37, Section 16. The total budget for the Project was \$150,000.00. Out of this amount, \$135,000.00 was allotted to procure materials and equipment to construct a power pump house, install pumps, power generating unit, filter tank, install pipes from dam to filter tank, from filter



tank to the existing storage tank, and from the storage tank to the village of Elechui. Based on the proposed project budget breakdown prepared by the Ministry of Public Infrastructures, Industries, and Commerce (i.e. Bureau of Public Works and Design and Engineering Office), the funding should be adequate to complete the project scope of work, provided that there will be no significant change orders on the project.

The remaining \$15,000.00 from the total proposed budget (\$150,000-\$135,000) for the Project was allotted to the Design and Engineering Office, Bureau of Public Works, for administration (\$3,000.00), design (\$3,000.00), inspection (\$3,000.00), and contingency (\$6,000.00). These overhead costs are charged directly to the Project account at National Treasury when the Design and Engineering Office provides service (e.g. Inspection) to the project. Illustrated below is the Project Budget for the Elechui Water System Project Phase II.

ROP Administration (2% of Project Budget)	\$ 3,000.00
Design (2% of Project Budget)	3,000.00
Construction (90% of Project Budget)	135,000.00
Inspection (2% of Project Budget)	3,000.00
Contingency (4% of Project Budget)	6,000.00
<b>Total Proposed Project Budget</b>	<b>\$ 150,000.00</b>

The PAS contains policies and procedures for drawdown of project allotments, one of which is that documentation (invoices, receipts, timesheets, etc.) must support expenditures. The PAS also includes a Monthly Drawdown of Funds schedule illustrated below:

**Table II**  
**Monthly Drawdown Schedule**  
**(Elechui Water System Project Phase II – Ainaliik State ESP FY 2008)**

	May	Jun	Jul	2008 Aug	0 Sep	0 Oct	8 Nov	Dec	2009 Jan	09 Feb	Total
Administration	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	3.0
Design		1.0	1.0	1.0							3.0
Construction			16.9	16.9	16.9	16.9	16.9	16.9	16.8	16.8	135
Inspection			0.38	0.38	0.38	0.38	0.37	0.37	0.37	0.37	3.0
Contingency											6.0
<b>Total Cost</b>	<b>0.3</b>	<b>1.3</b>	<b>18.58</b>	<b>18.58</b>	<b>17.58</b>	<b>17.58</b>	<b>17.57</b>	<b>17.57</b>	<b>17.57</b>	<b>17.57</b>	<b>150</b>

Furthermore, according to the PAS, the project schedule and timelines are shown below:

**Table I**  
**Proposed Project Schedule**  
**Aimeliik State Economic Stimulus Package FY 2008**  
**Elechui Water System Project Phase II**

ITEM	2008								2009	
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
<b>I</b> Project Allotment Schedule Approved	■									
Prepare In-House Design Team	■	■								
<b>II</b> Design Staff commence Design Work		■								
Conduct Necessary Field Inspection		■								
<b>III</b> Arrange Land Use Approval		■								
<b>IV</b> Review and Approval of Initial, Intermediate and Final Design		■								
<b>V</b> Construction Bid Solicitation	■	■								
Prepare Inspection Force and Evaluate Bids		■								
<b>VI</b> Award Contract(s)		■								
<b>VII</b> Administer Construction			■	■	■	■	■	■	■	■
<b>VIII</b> Inspection			■	■	■	■	■	■	■	■
<b>IX</b> As-Built Drawings Preparation and Submission								■	■	■
<b>X</b> Acceptance of the Work										■

To execute the project, the National Government (i.e. Bureau of Public Works) entered into a Force Account Agreement with Aimeliik State for the construction of the Elechui Water System Project Phase II. The Agreement calls for Aimeliik State to supply manpower, supervision, materials, tools and equipment necessary to perform satisfactorily the scope of work, which includes but not limited to the following:

1. procurement of materials and equipment;
2. construction of a power/pump house and installation of pumps, power generating unit and filter tank;
3. pipe installation from dam to filter tank, from filter tank to the existing water storage tank and from the storage tank to Elechui village

### Objective, Scope and Methodology

The objective of the audit was to determine whether (1) competitive bidding requirements were followed in the administration of the project, (2) the parties (Aimeliik State Government and National Government) complied with the terms and conditions of the Force Account Agreement and Project Allotment Schedule, and the project was executed in effective and efficient manner towards ensuring its timely completion.


The audit covered the period from May 2008 through August 30, 2009. As this is a performance audit, we did not conduct audit procedures to assess the fairness of the financial statements of the Aimeliik State or any component or accounts within those financial statements and therefore express no opinion on the financial statements.

**Office of the Public Auditor**

To accomplish our audit objective, the Office of the Public Auditor reviewed RPPL No. 7-37, Section 16, Project Allotment Schedule, Force Account Agreement, accounting records and related documents maintained at National Treasury and the Design and Engineering Office (DEO), Bureau of Public Works. The OPA also reviewed detailed accounting records of the project at Aimeliik State Government. In addition, we conducted on-site inspections of the project and interviewed the Governor of Aimeliik State, State Treasurer/Accountant and DEO project engineer in charge of the Elechui Water System Project Phase II.

Finally, the Office of the Public Auditor would like to thank the staff and management of the Aimeliik State Government and Capital Improvement Project Office, Bureau of Public Works, for their professional courtesy and cooperation during the audit.

Sincerely,



Satruning Tewid  
Acting Public Auditor  
Republic of Palau

## **FINDINGS AND RECOMMENDATIONS**

### **Finding No. 1: Lack of Competitive Bidding**

The Republic of Palau Procurement Law and Regulations require that any procurement of goods or services by a State Government costing \$5,000 or more shall be subject to competitive bidding.

The audit revealed that the Aimeliik State spent over \$98,000 on supplies and materials for the Elechui Water System Project without going through proper bidding procedures. Instead, the State requested price quotations from several local vendors and selected a vendor to purchase materials from, depending on what materials are needed at particular phases of the project.

Although the Project Allotment Schedule (PAS) discusses the requirements for competitive bidding, the PAS failed to spell out which agency is responsible for handling the bidding process. In addition, the administering agency, Ministry of Public Infrastructures, Industries, and Commerce (formerly Ministry of Resources and Development), failed to advise or instruct Aimeliik State to put out for bid the materials requirements for the Project.

As a result, the procurement process used to purchase supplies and materials for the Elechui Water System Project did not comply with the Republic of Palau's Procurement Law and Regulations. Thus, we were unable to determine that the State received the lowest price or best quality product possible for the money that it paid

### **Recommendation**

We recommend that bidding requirements be clearly defined and responsibility for the conduct of bids be clearly spelled out in future Project Allotment Schedules or Force Account agreements on all Capital Improvement Projects. In addition, the Ministry of Public Infrastructures, Industries, and Commerce (i.e. Bureau of Public Works) should closely monitor these projects to ensure that bidding requirements are adhered to as a prerequisite for drawdown of funds.

*ASG's Response: Based on the costs of materials we received from local vendors, we found that to put the materials to bid would exceed the budget of the project. Outside vendors provided prices that met the project budget requirements but they did not want to bid due to the small size of the project. In addition, the project was "awarded" to the State under force account because the funds were already established by CIP, to be insufficient to fully complete the project and having the State implement the project was the only way to complete the project with the limited funds. The State was further informed that because it is already a "winning" contractor of the project, bidding was not required, that three price quotes would be sufficient. For example, prices acquired*

*from local vendors for 5' diameter filter tank ranged from \$85K to \$90+K. This item alone represented over 50% of the total project cost. By purchasing directly from dealer outside, the cost including shipping was \$58K.*

**OPA's Comments:** Based on our analysis of purchases of materials and equipment for the project, the State purchased at least 75%, or the equivalent of \$101,233, worth of the materials and equipment from local vendors. Thus, it begs the question that if the State purchased 75% of the materials and equipment locally, how can a local bid tender process cause the prices to exceed the budget. On the contrary, the prices, because of competition, would be expected to go down. With respect to the Force Account Agreement arrangement, the only aspect of cost that would not require bidding is labor services because the State is using its own employees; however, materials and equipment costs, if total value exceeds \$5,000, would require competitive bidding. As for the filter tank, records show that it was purchased from a local vendor serving as an intermediary for an outside supplier.

**CIP's Response:** *I could not agree more to this finding. However, the CIP Office' position on this issue is that all state governments know this "above \$5,000, you have to bid" clause. The situation is very regrettable, in hindsight. The auditor's recommendation to put a "Bidding Requirements Clause" is noted and such will be incorporated in any and all future Force Account Agreements.*

**OPA's Comment:** According to the Project Allotment Schedule, the former Ministry of Resources and Development was the administrating agency and the Contracting/Procurement Officer was the Director of Public Works. Thus, the administrating agency or the Contracting/Procurement Officer should have notified the National Treasury to suspend or terminate the disbursement of the initial \$102,600 lump sum drawdown to the State on the basis that competitive bidding was not conducted. On the contrary, on August 26, 2008 and August 27, 2008 the Minister of Resources and Development and the Procurement Officer respective wrote letters to the Director of National Treasury urging the latter to disburse the lump sum payment to the State. With that, the OPA will continue to monitor Future Force Account Agreements and related projects to ensure compliance with competitive bidding requirements.

## **Finding No. 2: Drawdown of Funds**

The Force Account Agreement states in part under Article 3: "Agency shall invoice the Government for all payments due under this agreement... Submitted invoices shall show relevant information on the expenditure of the monies remitted. This includes materials used for the project and cost of labor." In addition, the Project Allotment Schedule (PAS) requires monthly allotment drawdown schedule as follows:

**Table II**  
**Monthly Drawdown Schedule**  
**(Elechui Water System Project Phase II – Aimeliik State ESP FY 2008)**

	May	Jun	Jul	2008 Aug	2008 Sep	2008 Oct	2008 Nov	2008 Dec	2009 Jan	2009 Feb	Total
Administration	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	3.0
Design		1.0	1.0	1.0							3.0
Construction			16.9	16.9	16.9	16.9	16.9	16.9	16.8	16.8	135
Inspection			0.38	0.38	0.38	0.38	0.37	0.37	0.37	0.37	3.0
Contingency											6.0
<b>Total Cost</b>	<b>0.3</b>	<b>1.3</b>	<b>18.58</b>	<b>18.58</b>	<b>17.58</b>	<b>17.58</b>	<b>17.57</b>	<b>17.57</b>	<b>17.57</b>	<b>17.57</b>	<b>150</b>

The audit revealed that the Bureau of Public Works and the Ministry of Finance did not adhere to the terms and conditions of the Force Account Agreement or the Project Allotment Schedule with respect to allotment drawdown for the project. For example, the Bureau of Public works and the Ministry of Finance approved a lump sum (\$102,600) advance payment to Aimeliik State for purchase of supplies and materials for the project, not on a reimbursement basis as required by the PAS.

The cause of the above condition is that the State lacked the money with which to purchase supplies and materials to start Phase II of the project.

As a result, the Bureau of Public Works and the Ministry of Finance did not comply with the terms and conditions of the Force Account Agreement and the Project Allotment Schedule.

**Recommendation**

We recommend the Bureau of Public Works and the Ministry of Finance administers capital improvement projects in accordance with the terms and conditions of contracting documents. If the terms and conditions of contracting documents are impractical, then they should be revised to reflect more effective and practical solutions. For example, advance payment system is workable, however; some element of control must be built into the process to ensure accountability. Thus, a first advance allotment would be disbursed but the second and subsequent allotments would require that the State submit all the required supporting documents (invoices, receipts, etc.) to substantiate expenditure of preceding allotment. Final allotment is withheld pending the filing of all supporting documents and certification of completion of project.

**ASG’s Response:** *We were informed that this too was possible given proper justifications. Realistically, States do not have the funds to meet the language requirement of the contract. The force account agreement contracts with States should reflect the realities of funding, taking into account the State’s financial situations. It is also true, that toward the final phase of the project, the State government will be utilizing its own funds to complete the remaining 15 to 20% of the project. Government reimbursement usually takes 6 months or more. The State is then seriously affected due*

*to that remaining balance unpaid. For example, the EWS Phase 1 had a budget of \$63,000, \$45,360 of which was disbursed to the State. That phase was completed five (5) months ago and the request for reimbursement of \$17,360 was made and to date, no payment has been received.*

**OPA's Comments:** That is the heart of the problem with the use of the Force Account Agreement (FAA) or the Project Allotment Schedule (PAS). These agreements (FAA and PAS) are standardized agreements that do not take into consideration the financial constraints faced by the States in implementing these types of projects. Thus, the agreements become impractical and unworkable to adhere to, such as the case with the "Reimbursable" basis of funding drawdown requirement contained in the Elechui Water System FAA and PAS. The Bureau of Public Works needs to consult with each State government for each project and formulate an FAA and PAS that is practical to financial condition of the State and, at the same time, build in to the agreements necessary controls to ensure accountability in the use of the funds. Otherwise, what you end up with are agreements that the parties do not adhere to due to their impracticality.

**CIP's Response:** *It should be noted that the funds drawdown schedules, whether quarterly or monthly, on all PAS' for CIP Projects are projections only. The actual amount of funding drawdown depends on actual completion. In the case of Aimeliik State, it was not actual completion that determined approval of payment. It was a cooperative and proactive approach by the Government and Aimeliik State to front load the project to avoid setbacks. Please see attached Aimeliik State Request dated August 28, 2008 and Minister Koshiba's approval letter.*

*Please also note that that Koshiba's approval letter allowed the government exceed the drawdown limit. Note No.3 of the Draw Down Table shown in page 7 of the PAS allows.*

*This finding therefore should be considered mute.*

**OPA's Comment:** As stated above in the OPA's response to Aimeliik State, the FAA and the PAS for the Elechui Water System was unrealistic to begin with. The funding mechanism in the PAS required the State to fund expenditures up-front and obtain reimbursements from National Treasury. This is further reinforced in the PAS in Part V, Financial Process, under item (C), Purchases of Materials and Equipment, which states in part: "Payments or drawdowns for materials and equipment purchases may be made only on a reimbursable basis"...Thus, the Monthly Drawdown Schedule in the PAS would have depended entirely on the Aimeliik State having funds available to purchase materials and equipment for the project and requesting reimbursement, an unrealistic expectation given that the State did not have the money. The problem becomes more apparent when one considers that the PAS and the FAA were executed on August 11, 2008 and August 22, 2008, respectively, however, purchases of materials and equipment did not commence until after January 6, 2009, the date that Aimeliik State received the \$102,600 lump sum payment from National Treasury. It is evident that the Bureau of Public Works needs to consult with each State government for each project to formulate

an FAA and PAS that is practical to the financial condition of the State and, at the same time, build in to the agreements necessary controls to ensure accountability in the use of the funds (e.g. competitive bidding). Otherwise, what you end up with are agreements that the parties do not adhere to due to their impracticality.

**Finding No. 3: Project Schedule**

Project timelines should be meticulously constructed and adhered to to ensure that the project is completed on time to avoid project cost overruns.

We found that the Project Allotment Schedule (PAS) contained a Project Schedule detailing all works that need to be completed: from planning, to bid solicitation, to contracting, construction, inspection, and acceptance of work. We found that the Bureau of Public Works, as the administering agency for the Project, failed to adhere to the project schedule. According to the PAS, the Project should have been completed in March 2009; however, according to the Governor, completion date has been pushed back to October 2009. The table below shows the Project Schedule:

**Table I**  
**Proposed Project Schedule**  
**Aimelilik State Economic Stimulus Package FY 2008**  
**Elechui Water System Project Phase II**

ITEM	2008								2009	
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
<b>I</b> Project Allotment Schedule Approved	■									
Prepare In-House Design Team	■	■								
<b>II</b> Design Staff commence Design Work		■								
Conduct Necessary Field Inspection		■								
<b>III</b> Arrange Land Use Approval		■								
<b>IV</b> Review and Approval of Initial, Intermediate and Final Design		■								
<b>V</b> Construction Bid Solicitation		■								
Prepare Inspection Force and Evaluate Bids		■								
<b>VI</b> Award Contract(s)		■								
<b>VII</b> Administer Construction			■	■	■	■	■	■	■	■
<b>VIII</b> Inspection			■	■	■	■	■	■	■	■
<b>IX</b> As-Built Drawings Preparation and Submission									■	■
<b>X</b> Acceptance of the Work										■

Based on our review of project documents and discussions with officials, several factors contributed to multiple delays on the Project. First, according to the Project Schedule, the Project Allotment Schedule should have been approved in May 2008; instead the PAS was approved in August 2008, some three months late. Secondly, and a paramount factor, although the Project Budget was certified as to the availability of funds in August of 2008, the first allotment drawdown (\$102,600) for the Elechui Water System Project Phase II was not disbursed to the State until January 2009, a delay of approximately five



(5) months after the PAS and the Force Account Agreement were executed and the notice to Proceed was issued by the Director of Bureau of Public Works. The long overdue disbursement of the \$102,600 allotment delayed the procurement of supplies and materials for the project, which in turn setback construction works on the project. Thirdly, a vital equipment (excavator) used on the project developed mechanical problems and had to undergo repair, which put another two (2) months delay on underground pipe laying and connection. Other causes of delay are attributed to change in DEO engineer on the project and change of plan to relocate the power and pump houses to a higher ground due to their proximity to the Dam area, which pose contamination risk.

Due to the above conditions, the Elechui Water System Project Phase II, originally scheduled for completion the latter part of February 2009 was pushed back to October 2009, a setback of eight (8) months.

### **Recommendation**

We recommend the Ministry of Public Infrastructure, Industries, and Commerce (i.e. Bureau of Public Works) collaborates with the Ministry of Finance on the formulation of Force Account Agreements (FAA) and Project Allotment Schedules (PAS) to ensure the availability and timeliness of project funding. Project funding is the most critical component of project planning and implementation without which a project cannot get off the ground. In addition, the terms and conditions of the FAA and PAS should support an effective and workable mechanism towards the implementation and administration of projects, rather than processes that are impracticable to implement. For example, the FAA and PAS for the Elechui Water System Project Phase II required Aimeliik State to obtain Stimulus Funds for the Project from National Treasury on a reimbursement basis; which is not practical as the State does not have the funds to purchase supplies and materials for the project and turn around and request reimbursement from National Treasury.

**ASG's Response:** *Yes, it is true that the project has not followed the timetable given under the contract. And as well documented, the process from PAS approval, to execution of contract to notice to proceed are all not in line with the schedule. Of course the delay in the release of payments and other factors have pushed the timetable back. The project timetables for projects under force account should take into account these important factors when estimating timelines to ensure that they reflect realities of the State including funding issues. The contracts should take into account factors that occurs at State level that are vastly different from companies and reflect them accurately so that the terms of the contracts can be met by all parties.*

**OPA's Comments:** The OPA concurs.

**CIP's Response:** *Similar to the Funds Drawdown Schedule, project schedules too are projections. Additionally, they are projections assuming everything goes smoothly and as expected. In the construction industry there are always delays. The findings in the*

*report, such as late approvals, late disbursements, etc etc. are some of the many delay factors we face on our projects. The CIP Office has no control over these matters. Despite the auditor's recommendation to have the Bureau of Public Works (BPW) and Ministry of Finance (MOF) to collaborate, I feel that this will not solve the issues. The fact of the matter is approvals, payments, and other whatnots are late because there is no cash. This situation at Finance ultimately causes delays and is beyond our control, even the states.*

*In future force account works, I doubt there will be any, we will "amend" the PAS to suit the States in terms of funding (drawdown schedule and amount), project scheduling etc. Making it more practicable and implementable for the states. I feel however, that this is like making the carriage pull the horse.*

**OPA's Comment:** The OPA feels that the planning process (e.g. project timetable) could be improved by closer collaboration between the Bureau of Public Works/CIP Office and Bureau of National Treasury in terms of availability of funding (cash). In addition, the funding mechanism could be restructured (e.g. staggered advance payment) to make the process more practicable for State Governments. The Project Timetable for the Elechui Water System was unrealistic and unfeasible simply because the State did not have the money to purchase the materials and equipment and request reimbursement from National Treasury.

#### **Finding No. 4: Project Inspection**

The Project Allotment Schedule delegates the responsibility for inspection functions to the Bureau of Public Works' Design and Engineering Office (DEO). In addition, inspections conducted should be reported in Inspection Reports and projects inspected should be charged for the inspection services in accordance with the Project Budget.

The audit showed the following deficiencies relating to inspections conducted on the Elechui Water System Project:

- a) \$568 of charges lacked supporting timesheets to verify number of hours of inspections and Inspection reports indicate inspection services for Nekken Water System and charged to Elechui
- b) \$2,524 of charges lacked Inspection Reports

It appears the Bureau of Public Works' Design and Engineering Office is not properly documenting its inspection functions to support charges to projects.

As a result, we were unable to verify the propriety of inspection charges as they relate to the Elechui Water System Project. In addition, inspection charges for the Nekken water system may have been improperly charged to the Elechui account.

**Recommendation**

We recommend the Bureau of Public Works' DEO document its inspection services to support charges to projects. Inspections should be properly documented with timesheets and corresponding inspection reports to show number of hours and inspection activities conducted. In addition, inspection reports and timesheets should be reviewed and approved to insure that only those projects receiving inspection services are charged for the service.

**ASG's Response:** *I was not aware of the requirement from the CIP side on inspections and although the CIP engineer did visit the State project regularly, I was not made aware that there were reports to be submitted or written on those visits. I would also like to know what those reports reflected and what the charges were for.*

**OPA Comments:** The State should review the inspection charges to ensure that only those inspections relating to the Elechui Water System are charged accordingly.

**CIP's Response:** *I have reviewed this finding and have consulted with my accounting staff. However, there seems to be a confusion on our (CIP) part regarding this finding. Based on this, I would like to request for a meeting to discuss this and compare records. After the settlement of this matter, I will be able to respond accordingly.*

**OPA's Comment:** Subsequent to receiving your response, the OPA and your accounting staff met to review and reconcile the records (timesheets and inspection reports). As a result of the process, the OPA revised parts of its initial finding; however, the remainder is sustained.

# EXHIBIT I

Office of the Public Auditor

FROM : AIMSPLA

FRX NO. : 6085442967

Oct. 22 2009 10:45AM P3

	A	B	C	D	E	F	G	H
1								
2								
3								
4								
5	EMS Phase 2							
6		1010-Salary and Wages					\$ 102,600.00	
7		Salary Wages Total			\$ 16,466.52		\$ 86,133.48	
8								
9		Total 1010- Salary and Wages			\$ 16,466.52			
10								
11		1011-Social Security						
12		SS 1st Qtr. FY 2009			\$ 907.20		\$ 85,226.28	
13		SS 2nd Qtr. FY 2009			\$ 777.60		\$ 84,448.68	
14								
15		Total 1011-Social Security			\$ 1,684.80			
16								
17		1012-Income Tax						
18		10/29/08 to 8/27/09			\$ 1,296.00		\$ 83,152.68	
19								
20		Total 1012-Income Tax			\$ 1,296.00			
21								
22		1014-Allotment						
23					\$ 1,674.12		\$ 81,478.56	
24		Total 1014-Allotment			\$ 1,674.12			
25								
26		1314-Heavy Equipment Maintenance						
27								
28								
29		Total 1314-Heavy Equipment Maintenance					\$ 81,478.56	
30								
31		1400-Supplies, P.O.L. & Equipment						
32		Fuel expense			\$ 625.88		\$ 80,852.68	
33		Hydraulic oil			\$ 228.00		\$ 80,624.68	

Copy of Electric WS Expenses in photo view

# EXHIBIT I

Office of the Public Auditor

A	B	C	D	E	F	G	H
34		Fuel expense		\$ 173.33		\$ 80,451.35	
35		Fuel expense		\$ 388.00		\$ 80,063.35	
36		Fuel expense		\$ 819.22		\$ 79,244.13	
37		Hydraulic oil		\$ 260.00		\$ 78,984.13	
38		Fuel expense		\$ 354.26		\$ 78,629.87	
39		Hydraulic oil & Engine oil		\$ 60.00		\$ 78,569.87	
40							
41		Total 1400-Supplies, P.O.L. & Equipment		\$ 2,908.69			
42							
43		1613-Water System Construction					
44		Partial payment for Filter tank		\$ 24,300.00		\$ 54,269.87	
45		78 pipes 4"		\$ 8,743.06		\$ 45,526.81	
46		2nd Payment for filter tank		\$ 14,580.00		\$ 30,946.81	
47		Final payment for filter tank		\$ 9,720.00		\$ 21,226.81	
48		Full payment for generator & pump		\$ 9,781.36		\$ 11,445.45	
49		Pipes & manhole covers		\$ 3,570.00		\$ 7,875.45	
50		Additional pipes & materials		\$ 4,285.00		\$ 3,590.45	
51		Freight & handling - 1st shipment		\$ 6,600.96		\$ 13,010.51	
52		Black sand		\$ 100.00		\$ 13,110.51	
53		Stainless steel strainers		\$ 5,650.00		\$ 18,760.51	
54		Supplies		\$ 57.37		\$ 18,817.88	
55		Oil change		\$ 52.26		\$ 18,870.14	
56		Storage container for materials		\$ 5,000.00		\$ 19,370.14	
57		Rebars & cement		\$ 695.67		\$ 10,085.81	
58		Materials for filter tank base		\$ 180.00		\$ 10,245.81	
59		Mix for base of filter tank		\$ 83.60		\$ 10,329.41	
60		Truck parts		\$ 993.86		\$ 11,323.27	
61		Lumbers & plywood		\$ 274.88		\$ 11,598.15	
62		Tires		\$ 115.00		\$ 11,713.15	
63		Wrapping film for pipes		\$ 29.98		\$ 11,743.13	
64		Black sand		\$ 480.00		\$ 12,223.13	
65		Black sand		\$ 280.00		\$ 12,503.13	
66		Freight & handling - 2nd shipment		\$ 4,280.52		\$ 16,783.65	

Copy of Electrol W5 Expenses to date.xlsx

# EXHIBIT I

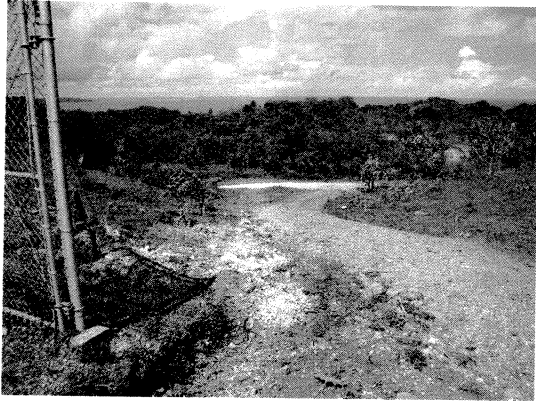
	A	B	C	D	E	F	G	H
67		Black sand			\$ 280.00		\$ (17,063.65)	
68								
69		Total 1613-Water System Construction			\$ 95,633.52			
70								
71		1500-Other Expense						
72								
73		Total 1500-Other Expense			\$ -			
74								
75		Total Expenses			\$ 119,683.65		\$ (17,063.65)	

Based on the above expenditure report prepared by Aimelilik State, the State has overspent its initial allotment by \$17,063.65. However, there's still a remaining balance of \$32,400 of project funding and an additional balance of \$12,872.56 of the grant funding, according to reports from National Treasury.

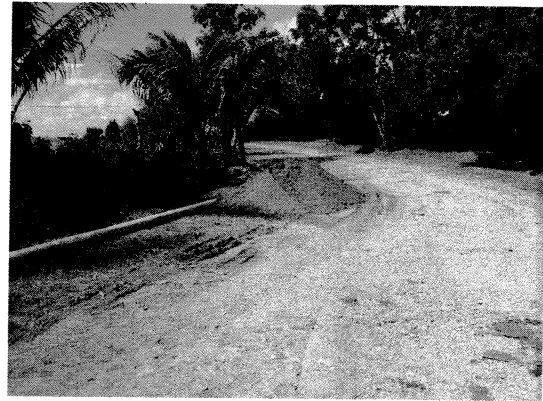
Copy of Election WS Expenses to date.xlsx

# EXHIBIT II

Office of the Public Auditor



Access Road to Dam



Black Sand use for laying pipes



Clearing Area for Generator



Clearing Area for Pump and Generator



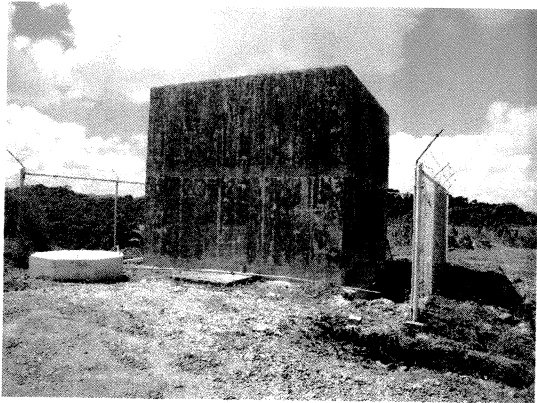
End of Access Road to Dam and  
Water Pump and Generator



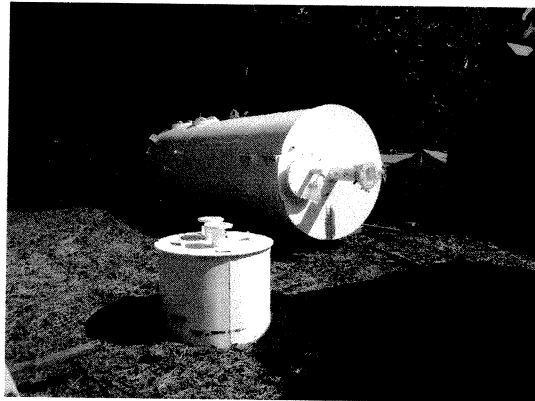
Clearing Area for Water Pump

# EXHIBIT II

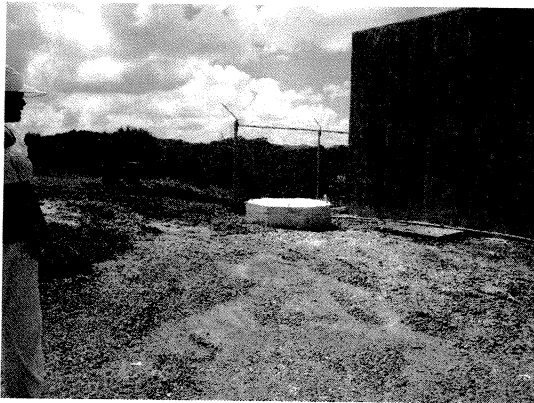
Office of the Public Auditor



Filter Tank Base and Storage Tank



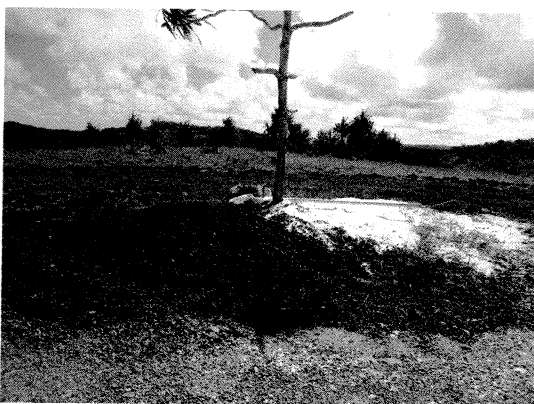
Filter Tank



Filter Tank Base and Storage Tank



Generator and Water Pump



Gravel and Sand used to build base of  
Filter Tank



Pipe going to Elechui



**EXHIBIT II**

Office of the Public Auditor



Pipe laying to Elechui



Pipe on road side of Elechui



Road to Elechui



Water pipes and Manhole



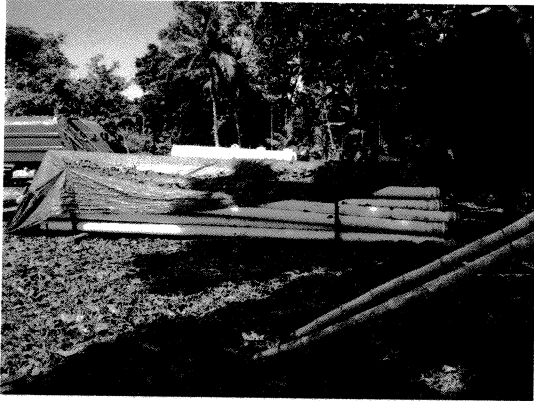
Water pipes to Elechui



Water pipes

**EXHIBIT II**

Office of the Public Auditor



Water Pipes



Water Pipes and Filter Tank