



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

PERFORMANCE AUDIT REPORT

ON

JAPAN GRANT FOR MULTI-PURPOSE BUILDING

**KOROR ELEMENTARY SCHOOL
MINISTRY OF EDUCATION
REPUBLIC OF PALAU**

PERIOD COVERED

NOVEMBER 2006 TO NOVEMBER 2007

Performed by the Office of the Public Auditor

JPKE-06-07P-03*opa06



REPUBLIC of PALAU

Office of the Public Auditor

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March 23, 2010
Serial#: opa10-058au

Mr. Andrew Tabelual
Principal
Koror Elementary School
Koror, Republic of Palau

Subject: Final Report on the Audit of Japan's Grant Assistance for Grassroots Human Security Projects for Koror Elementary School Multi-Purpose Building.

Dear Principal Tabelual:

This report presents the results of our audit of Japan's Grant for Koror Elementary School for the construction of a Multi-Purpose Building for the period of November 2006 to November 2007.

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,

A handwritten signature in black ink, appearing to read "Satruning Tewid", is written over a large, stylized oval flourish.

Satruning Tewid
Acting Public Auditor
Republic of Palau

**Japan Grant to Koror Elementary School
For Multi-Purpose Building
Republic of Palau**

November 2006 to November 2007

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March 23, 2010

Andrew Tabelual
Principal, Koror Elementary School
Republic of Palau

Dear Principal Tabelual:

At the request of the Embassy of Japan in the Republic of Palau, the Office of the Public Auditor initiated audits of several of Japan's Grant Assistance for Grassroots Human Security Projects. One of these projects was awarded to Koror Elementary School for the construction of a Multi-Purpose Building. The Embassy of Japan awarded U.S. \$64,759 to Koror Elementary School as formalized in a Grant Contract entered into between the two parties on November 29, 2006.

The objective of the audit is to determine whether Koror Elementary School administered the grant funds in compliance with the terms and conditions of the grant contract.

The Office of the Public Auditor reviewed the project for the construction of Koror Elementary School Multi- Purpose Building and the administration of grant funds therewith and presents its findings to the extent of the School's compliance with the terms and conditions of the grant contract.

Background

Based on instructions from the Embassy of Japan in the Republic of Palau, three (3) proposals were requested for the construction of the Koror Elementary School Multi-Purpose Building. Upon review of the three (3) proposals received, the Embassy awarded the contract to the lowest bidder. Subsequently, on December 18, 2006, Koror Elementary School and the Ministry of Education jointly entered into an agreement with the contractor for the construction of the Multi-purpose building at a cost of \$64,759. During construction, however, a change order was agreed upon by the parties to change certain dimensions and specifications of the project resulting in increase in cost by \$13,983, which cost was paid for by the Ministry of Education.

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The project payments were divided into five phases based on the progress of the project and schedule of works as follows:

Check date	Check number	Receipt date	Receipt number	Inspection date	Amount
4/11/07	101	4/11/07	178	4/11/07	\$14,850.00
7/17/07	102	7/17/07	179	7/6/07	14,760.00
10/30/07	103	10/30/07	180	10/26/07	15,300.00
None	None	11/29/07	181	11/23/07	18,000.00
3/17/08	106	3/17/08	182	None	1,849.00
				Total	\$64,759.00

Although inspection was not required by the grantor, when each phase is complete the National Government’s Design and Engineering Office (DEO, CIP Office) inspectors were assigned to conduct relevant inspections and certifications prior to disbursement of payment.

Grant Contract

In making available funding for the project, the Grant Contract stipulates that the recipient (Koror Elementary School) complies with the terms and conditions of the grant as set forth below:

- A. To provide the donor with an official receipt for the grant received;
- B. To provide the donor with the 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 the products and/or services necessary for the execution of the Project and not to use such products and/or services purchased with the grant for purposes other than the execution of the Project;
- D. To provide the donor with the following reports on the progress of the Project: (1) one (1) interim report to be provided within six months after the contract date and (2) one (1) final report (including and audit report on the grant issued by an independent accountant/accounting body) to be provided upon the completion of the Project.
- E. To complete the Project within one year;
- 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
 - 5) To return the grant to the donor

Objective, Scope and Methodology

The objective of the audit is to determine whether Koror Elementary School administered the grant funds in compliance with the terms and conditions of the grant contract. The scope of the audit will cover the period beginning November 29, 2006 through November 28, 2007 to coincide with the term of the Grant Contract. 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. As this is a performance audit, we did not conduct audit procedures to assess the fairness of the financial statements of the School or any component or accounts within those financial statements and therefore express no opinion on the financial statements. In addition, we did not conduct procedures to assess compliance with local procurement law 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.

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 project documents maintained at Koror Elementary School (as well as Ministry of Education) and the Embassy of Japan in the Republic of Palau. We also met and discussed the project with Koror Elementary School Principal, officials at the Ministry of Education, and the Coordinator for Government of Japan's Grant Assistance for Grass-roots Human Security Projects (GGP) at the Embassy of Japan. We also conducted on-site visit of the project to inspect the school's multi purpose building.

Finding No. 1: Project Completion, Extension, and Reporting

Grant Contract terms and conditions under Item E require that the project be completed within one year after contract date, or on or before November 29, 2007. In addition, Item F (4) requires that the recipient consult and receive instructions from the grantor should recipient wish to extend completion date of project. Moreover, under Item D, Reporting, recipient is required to submit an Interim Report and a Project Completion Report, accompanied by an audit report, upon completion of project.

The audit revealed that the project (multi-purpose building) was not completed within the one-year timeframe required under the Grant Contract. In addition, we found that the recipient (Koror Elementary School, KES) unilaterally extended the completion date of the project without consulting and receiving instructions from the donor country. Finally, although the recipient provided a Project Completion Report, the report was not accompanied by an audit report, and further, there was no evidence of recipient providing an Interim Report as required under the terms of the Grant Contract.

We were unable to determine why KES did not consult and receive instructions from the donor regarding the extension of completion date of the Project. Furthermore, we were unable to determine why KES did not provide an Interim report or submit an audit report together with the Project Completion Report.

As a result, KES did not comply with the terms and conditions of the Grant Contract concerning the extension of project completion date or the reporting requirements.

Recommendation

We recommend that in future donor-funded projects the management of Koror Elementary School and Ministry of Education (MOE) become familiar with the terms and conditions of the grant in order to be more effective in the execution and administration of projects and related funding requirements. In the meantime, KES and MOE officials should consult with the Embassy of Japan to discuss the non-compliance issues and actions required to rectify them in order not to jeopardize future potential financial assistance.

KES Principal's Response: *First, in all matters relating to the grant from its inception to the final report, I was always in direct communication with Ms. Ueda, Embassy of Japan Special Assistant in charge of the Grassroots Program.*

Second, the extension date of completion for the project was due to two reasons. One was the Change Order requiring engineers to redesign the structure and get a certified approval from Guam and also the contractor's logistics issue in getting materials shipped to Palau on time.

However, Ms. Ueda made a regular inquiry on the progress of the project and the grantor was very much aware of the project's progress. Therefore, it would be unfair to say KES did not consult and receive instructions from the grantor.

As to the notation about interim report, while nothing is written to signify this, I communicated with Ms. Ueda to update her on project's progress. In fact, she came to school on several occasions where we talked with contractors on the project's progress. However, upon completion, all that Ms. Ueda asked was a report, which was furnished. The audit requirement issue came years after the project completion, hence the Draft Report.

OPA's Response: The OPA has no issue with respect to grounds for extending the project completion date. The issue is the *Project Completion Date* (within one year after the contract date) and *consultation with and receiving instructions from the donor* in the event KES wishes to extend the project completion date. And Although KES, as you state, may have communicated the progress of the project and consulted and received instructions from the grantor, it did not obtain in writing such consultations and instructions from the donor.

The Interim Report, like the Final Report, should have been in a written form as stipulated in the Grant Contract. As for the audit report, it was one of the conditions in the grant contract under item D(2), which should have accompanied the Final Report.

Finding No. 2: Bidding Process

Competitive bidding should be conducted in a manner that maximizes open competition among interested bidders. In addition, a bid announcement should contain adequate information to enable prospective bidders to prepare an informed and responsive bid.

The audit revealed that there may not have been a written bid announcement for the Project containing the scope of work, project specifications, amount of funding for the project, etc. to enable bidders to make informed decisions and prepare responsive bids. We requested from the Ministry of Education and Koror Elementary School a copy of the Bid Announcement and they were unable to provide one. In addition, the bidding process was restricted to only three (3) vendors, limiting the extent of competitive bidding rather than opening the bid to the construction market in Palau. Moreover, upon further review of the three (3) proposals submitted, we noticed that each bid proposal exceeded the amount of funding (\$64,759) available for the project; however, it appears that one of the bidders (successful bidder) was allowed to modify (reduce) its bid down to the amount of funding, as evident in the two (2) bids submitted by this particular bidder dated the same date. Finally, we were unable to determine which part(s) of the scope of work or project specifications were modified, reduced, or eliminated to bring down the bid price (successful bidder) from \$97,803 to \$64,759 due to lack of documentation.

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It appears the cause of the above condition is that the grant, funding of which was not administered via the Bureau of National Treasury, by-passed the local bidding requirements. In addition, according to the Ministry of Education officials, selection of contractor and award of contract is administered by the donor country, which imposes more lenient requirements on competitive bidding.

As a result, open competition is restricted and the bidding process is vulnerable to inequitable practices, as evident in one particular vendor being allowed to modify its bid while the others were not accorded the same opportunity.

Recommendation

We recommend that the bidding process be conducted in such a manner that maximizes open competition. To facilitate the process, a bid announcement should be prepared and advertised containing the scope of work, project specifications, and amount of funding available for the project, and other terms and conditions. In addition, the bid process should be administered in such a manner that provides equitable treatment to all bidders.

KES Principal's Response: *No objection to the finding.*

Finding No. 3: Inspections

Periodic Inspections should be conducted and the results documented in Inspection Reports for subsequent follow up to ensure the integrity and quality of the project and to evidence inspections conducted.

The audit revealed that although we found presence of communications which seem to point that inspections were conducted on the Multi-purpose building by the Design and Engineering Office, (DEO, CIP Office), the DEO and Koror Elementary School were unable provide the Office of the Public Auditor the relevant Inspection Reports. Thus, we were unable to ascertain that the required inspections and quality assurance standards were performed by the DEO.

We were unable to determine why the DEO did not conduct the required inspections and, if it did conduct the inspections, why the results were not documented in Inspection Reports.

As a result, the quality assurance standards (Inspections) operated by the DEO to ensure the quality and integrity of projects may not have been followed in the construction of Koror Elementary School Multi-purpose Building.

Recommendation

We recommend that the DEO conduct periodic inspections of construction projects of the Republic of Palau and document the results of its inspections in Inspection Reports. Such inspections and reports are part of the quality assurance standards of the DEO operations to ensure the quality and integrity of construction projects, whether funded in whole, in part by the Republic of Palau, or by grant.

KES Principal's Response: *No objection to the finding.*

EXHIBIT I

Office of the Public Auditor

KOROR ELEMENTARY SCHOOL MULTI-PURPOSE BUILDING

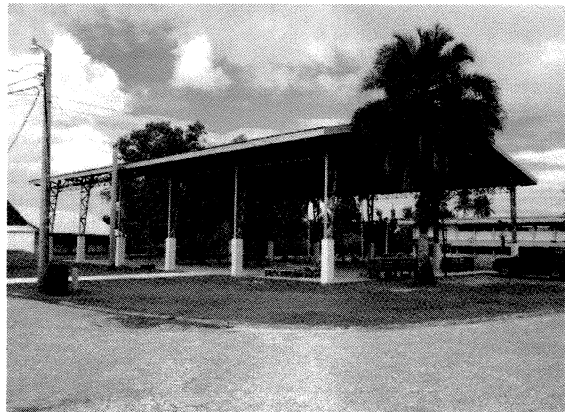
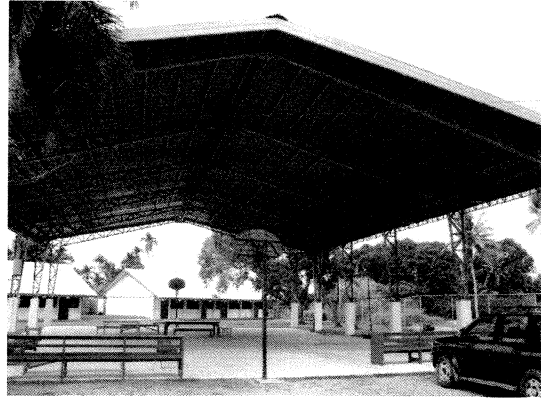


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KOROR ELEMENTARY SCHOOL MULTI-PURPOSE BUILDING

