



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

PERFORMANCE AUDIT REPORT

ON

Japan Grant Assistance for Grassroots Human Security Projects

**FOR THE
PROJECT FOR THE PROCUREMENT OF FIRE TRUCKS
FOR ANGAUR STATE**



**ANGAUR STATE GOVERNMENT
REPUBLIC OF PALAU**

Period from February 18, 2016 thru February 17, 2017

Performed by the Office of the Public Auditor

JPANGAUR-17-P02*00



REPUBLIC OF PALAU

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Office of the Public Auditor

October 23, 2017

Serial#: opa18-008au

Honorable Kenneth Uyehara
Governor
Angaur State Government
Office of the Governor
Koror, Republic of Palau

Subject: Final Audit Report on Japan's Grant Assistance for Grass-Roots Human Security Project (GGP) for The Project for the Procurement of Fire Trucks for Angaur State for the period of February 18, 2016 to February 17, 2017

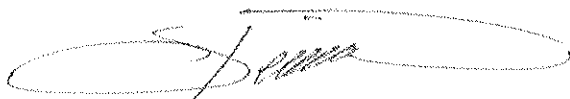
Dear Governor Uyehara:

This report presents the result of our audit of Japan's Grant Assistance for Grass-Roots Human Security Project for The Project for the Procurement of Fire Trucks for Angaur State.

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

**Japan's Grant Assistance for Grass-Roots Human Security
Project for the Project for the Procurement of Fire Trucks for
Angaur State**

Angaur State Government
Republic of Palau

For the Period February 18, 2016 to February 17, 2017

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October 23, 2017

Honorable Kenneth Uyehara
Governor
Angaur State Government
Office of the Governor
Koror, Republic of Palau

Dear Governor Uyehara:

On February 20, 2017, the Office of the Public Auditor received your letter requesting an audit of Japan Grant Assistance for Grass-Roots Human Security Project awarded to Angaur State Government by the Embassy of Japan in the Republic of Palau. The main purpose of the Grant Assistance was for the procurement of fire trucks to support the state's capacity to combat fires and related public safety measures. The Embassy of Japan awarded to Angaur State Government U.S. \$89,996.00 for the procurement of two (2) refurbished fire trucks, which was formalized in a Grant Contract Agreement entered into between the two parties on February 18, 2016.

The Objective of the audit is to determine whether Angaur State: (1) Administered the grant in compliance with the terms and conditions of the Grant Contract, (2) complied with the grant's GGP procurement guidelines, and (3) had established internal controls to ensure the proper safeguarding of its fixed assets and transactions were properly recorded.

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

Background

Angaur State is one of the outlying States of the Republic of Palau organized and structured pursuant to Article XI, Section 1, of the Constitution of the Republic of Palau. Angaur State Constitution under Article V, Section 1 (a) states: "The Angaur State Government shall take positive action to protect and maintain the safety and security of persons and property." Due

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to the State's remoteness and lack of roads connecting it to the main island of Koror, the State is unable to avail from services provided by the Division of Fire and Rescue of the national government, which are critical to the protection of people and property in case of fire or other disasters. To develop its capacity to combat fires and minimize their potential effects on people



and property, the State on December 11, 2015, submitted its application for Japan Grass-Roots



Grant Assistance for Human Security Project to the Embassy of Japan in the Republic of Palau for the procurement of fire trucks. On February 18, 2016, the Angaur State was awarded a U.S. \$89,996.00 grant to procure two (2) refurbished fire trucks, spare parts and accessories, including short training on how to operate and maintain the equipment. The award was formalized in a Grant Contract

agreement entered into between Angaur State and the Embassy of Japan on February 18, 2016, as shown in the pictures herein.

Objective Scope and Methodology

The Objective of the audit is to determine whether Angaur State: (1) Administered the grant fund in compliance with the terms and conditions of the Grant Contract, (2) complied with the grant's GGP procurement guidelines and (3) had established internal controls to ensure the proper safeguarding of its fixed assets and transaction were properly recorded.

The scope of the audit covered the period beginning February 18, 2016 through February 17, 2017 to coincide with the term of the Grant Contract.

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

Further, the audit did not cover the applicability of Angaur State Treasury laws as the grant funds were deposited into a bank account separate from and independent of the State Treasury, and which funds were administered and controlled by the Donor. 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 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 audit objective the OPA reviewed project expenditures and related documentation maintained at Angaur State Government office. The OPA also collaborated with the Embassy of Japan in the Republic of Palau to obtain other needed documents as necessary. Further, the OPA met with the State Accountant and the Governor to discuss the details of the project and related concerns.

Grant Contract Requirements

In accepting the grant to procure two (2) reconditioned fire trucks, parts and accessories, including related training for the effective usage and maintenance of the equipment, the Angaur State Government (recipient) agrees to the following:

- 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 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 (including and audit report on the grant issued by and independent accountant/accounting body) to be provided upon the completion of the project (The above 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 instruction;
- E. to complete the project within one year after the contract date;
- F. to consult with and receive instruction 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 content 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 project;
- J. to recognize that the Donor reserves the right to claim and 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 Agreement, there was also a "Side Letter" of Commitments from the Embassy of Japan that Angaur State Government agreed to comply with:

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

4. Angaur State Government will be responsible for parking the fire trucks at the State Office premises.
5. Angaur State Government will be responsible for the fuel expenses, regular inspection and the fee for any maintenance of the fire trucks.
6. Angaur State Government will be responsible for submitting an audit report on the grant issued by the Public Auditor to be provided upon the completion of the Project.

Project Expenditures

Angaur State entered into a Partnership (Purchase) Agreement with the Society for the Promotion of Japanese Diplomacy (SPJD) for the purchase of two (2) refurbished Fire Trucks, parts and training. Table 1 below shows the costs of equipment, parts and training:

Table 1:

Item	Price (JPY)	Price (US\$)	Description
Total Japan Grassroot Grant		\$ 89,996.00	The fund was deposited into BOH C/A No. 0032-932924 on March 24, 2016
1 Reconditioning	\$ 7,523,068.00	\$ 62,691.00	Includes: parts change, external cleaning, marking & insignia, paint, spare parts purchased, tank modification on pumper
1-1 Trucks (2) Units	5,764,985.00	48,041.00	Same as description above
1-2 Equipment	254,880.00	2,124.00	Hose (20m) 10pc, nozzle 2 pc per truck
1-3 Coupling	203,688.00	1,697.00	Coupling adaptors for 2 trucks
1-4 Manual Translation	615,600.00	5,130.00	User's manual etc. to English 200 pages
1-5 Vehicle Relevant Expenses	683,915.00	5,699.00	Requesting and receiving donation, directive and examination on reconditioning, equipment/apparatus purchase, related documentation
2 Transportation	\$ 2,406,140.00	20,049.00	
2-1 Domestic Transportation	160,000.00	1,333.00	From donor gov't - stockyard
2-2 Storage	80,000.00	666.00	JPY 20,000 x 2 months x 2 units
2-3 Shipment	1,947,400.00	16,228.00	Loading charge, ocean freight, insurance from Yokohama to Palau (vehicles, spare parts)
2-4 Transport Relevant Expenses	218,740.00	1,822.00	Shifting vehicle registration (temporary deletion, export certificate), obtaining temporary plate, compulsory auto insurance for temporary drive, packing arrangement, related documentation
3 Short Term Training Program	870,820.00	7,256.00	1 trainer and 1 coordinator-interpreter, 8 nights, 9 days
3-1 Travel Expenses	410,820.00	3,423.00	Air fare (J-Koror) flight charter (Koror-Angaur), accommodation (Koror 3 nights, Angaur 5 nights)
3-2 Per Diem	360,000.00	3,000.00	1 trainer and 1 coordinator-interpreter, 9 days
3-3 Program Conducting Expenses	100,000.00	833.00	Plan organize the content of training, liaison between the trainer and trainee, administration of the training program
Total		\$ 89,996.00	
Remaining Balance		\$ 0.00	

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Upon finalizing the negotiations and related paper works, the SPJD invoiced Angaur State for the cost of equipment, parts and training for \$89,996, which Angaur State remitted payment for said amount on May 18, 2016.

Shipment of Equipment

The picture below shows the refurbished equipment before their shipment from Japan to Palau:



The firetrucks arrived on Palau on August 16, 2016. Subsequent to their arrival, efforts got underway to prepare, organize and transport the firetrucks, parts and accessories to Angaur.

On February 11, 2017, the fire trucks, parts and accessories finally were transported to Angaur. Training on the operation and maintenance of the equipment followed on February 13, 2017.

The pictures below show the Fire Trucks at Fisheries Dock, Malakal, before shipment to Angaur:



Pictures of refurbished Fire Trucks at Fisheries Dock, Malakal, before shipment to Angaur



Finding and Conclusion:

Based on our audit, the Office of the Public Auditor found that Angaur State Government administered the GGP grant in compliance with the terms and conditions of the Grant Contract and the GGP procurement guidelines. Further, the State maintained proper controls over its assets and records concerning the procurement of the equipment.

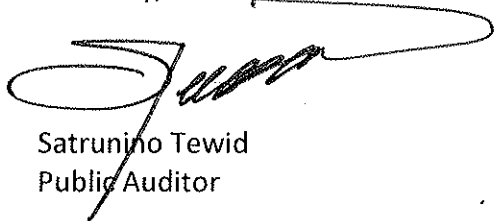
In conclusion, the Embassy of Japan in the Republic of Palau approved and funded the Project for the Procurement of Two (2) refurbished Fire Trucks, Parts and Training for Angaur State Government. The Project was made possible through the Government of Japan's Grass-Roots Grant Assistance for Human Security Project. The fire-fighting equipment will provide the State with the capacity to effectively combat fires and other disasters in the protection of life and property. The training will enhance the operators' skills in operating the equipment and their maintenance to extend the useful lives of the equipment and the service they provide to the community.

***Angaur State's Response:** I am in receipt of the draft report on the audit of Japan's Grant Assistance for Grassroots. The report accurately reflects the transactions and the timeline of the execution of the grant.*

I thank you for the completion of this report. We know it will greatly assist Japan Embassy in their conclusion of the grant that provided Angaur State with the capability to fight fire on our island.

Finally, the Office of the Public Auditor would like to thank the staff and management of Angaur State for the professional courtesy and cooperation extended to us during the audit.

Sincerely,



Satrunino Tewid
Public Auditor



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

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