



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

**PERFORMANCE AUDIT REPORT**

**ON**

**Japan Grant Assistance for Grassroots Human Security Projects**

**FOR THE  
PROJECT FOR IMPROVING ENVIRONMENTAL HEALTH  
FOR KAYANGEL STATE**



**KAYANGEL STATE GOVERNMENT  
REPUBLIC OF PALAU**

**Period from February 24, 2017 thru February 23, 2018**

*Performed by the Office of the Public Auditor*

**JPKAY-18-P02\*00**

REPUBLIC OF PALAU



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September 18, 2018  
*Serial#: opa18-163au*

Honorable Midas Ngiracheluolu  
Governor  
Kayangel 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 Improving Environmental Health for Kayangel State for the period of February 24, 2017 to February 23, 2018**

Dear Governor Ngiracheluolu:

This report presents the result of our audit of Japan's Grant Assistance for Grass-Roots Human Security Project for The Project for Improving Environmental Health for Kayangel 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,

A handwritten signature in black ink, appearing to read "Satrunino Tewid". The signature is stylized and written over a horizontal line.

Satrunino Tewid  
Public Auditor, ROP

**Japan's Grant Assistance for Grass-Roots  
Human Security Project for  
"The Project for Improving Environmental Health  
for Kayangel State"**

**Kayangel State Government  
Republic of Palau**

**For the Period February 24, 2017 thru February 23, 2018**

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September 18, 2018

Honorable Midas Ngiracheluolu  
Governor  
Kayangel State Government  
Koror, Republic of Palau

Dear Governor Ngiracheluolu:

On November 21, 2017, the Office of the Public Auditor received your letter requesting an audit of Japan's Grant Assistance for Grass-Roots Human Security Project (GGP) awarded to Kayangel State Government. The total amount of the GGP grant awarded to Kayangel State was USD 63,560. The Grant was used to procure a Backhoe at cost of \$69,560.00. The Grant Contract between the Embassy of Japan and Kayangel State Government was executed on February 24, 2017.

The Objective of the audit was to determine whether Kayangel State Government: (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 that transactions were properly recorded.

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

## **Background**

Pursuant to the State Constitution, Kayangel State Government is responsible for maintaining a clean and healthy environment for its citizens and to ensure the community they reside in is free of deceases and other health hazards that could affect their livelihood. In the aftermath of Typhoon Haiyan in 2013, fallen trees and other debris were scattered throughout the Island and the State lacked the resources to clean-up and remove the ruins. These decaying organic materials created hazardous conditions that posed a health threat to the community. The Project to procure Backhoe equipment for the State was primarily for the purpose cleaning up and removing the debris left-over from the typhoon. In addition, the equipment will promote the State's recycling program and improve its waste management system.

## Objective Scope and Methodology

The Objective of the audit was to determine whether the Kayangel State Government: (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 that transaction were properly recorded.

The scope of the audit covered the period beginning February 24, 2017 through February 23, 2018 to coincide with the term of the Grant Contract.

As this was a performance audit, we did not conduct audit procedures to determine the fairness of the financial statements of Kayangel State Government, the grant 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 compliance with national treasury laws of the Republic of Palau (ROP) as the grantor imposed a requirement that funds be deposited into a bank account separate from and independent of the ROP national treasury, and which funds were administered and controlled by the grantor. Similarly, the audit did not cover the applicability of the Republic of Palau Procurement Law and Regulations as the grantor 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 the Kayangel State 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 responsible for the project to discuss the details of the project and other related concerns.

## Grant Contract

In accepting the grant from the Embassy of Japan, Kayangel State Government 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 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 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 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, Kayangel State also agreed to additional terms in a “Side Letter” of Commitments from the Embassy of Japan stipulating the following:

1. Kayangel State Government will open an account with Bank of Hawaii exclusively for the purpose of the aforementioned project.
2. Kayangel State Government will not withdraw any amount from the said account without written prior consent from the Embassy of Japan.
3. Kayangel 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. Kayangel State Government will be responsible for parking the backhoe at the State Office premises.
5. Kayangel State Government will be responsible for the fuel expenses, regular inspection and the fee for any maintenance of the item granted.
6. Kayangel 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**

Kayangel State used the grant (\$63,560) to purchase a Backhoe with a 4 and 1 Bucket at a cost of \$69,560, including freight, insurance and handling. The first payment for \$17,390 was made on March 17, 2017 followed by a final payment on May 11, 2017 for \$46,170, completing the funding under the grant of \$63,560. Kayangel State on May 11, 2017, as per the Side Letter” commitment paid the \$6,000 excess cost over the grant amount, bringing the total cost to \$69,560. Table 1 below shows the cost of one (1) Backhoe with a 4 and 1 bucket and Exhibit 1 below shows pictures of the equipment:

**Table 1: Cost of Backhoe**

<b>Date</b>	<b>Vendor Name</b>	<b>Item Description</b>	<b>Check No.</b>	<b>Check Amount</b>
3/16/17	Morrigo Equipment LLC	“Used” New Holland B95B 4WD with 4 And 1 Bucket (Unit 739)	1001	\$ 17,390.00
5/11/17	Morrigo Equipment LLC	Equipment and Supplies	1002	\$ 46,170.00
	<b>Total Grant funds</b>			<b>\$ 63,560.00</b>

Amount paid by Kayangel State in excess of grant	\$ 6,000.00
Total cost of Equipment	\$ 69,560.00

**Exhibit 1: Pictures of Equipment**



Side view of Backhoe now in Kayangel State



Front view of Backhoe

On June 28, 2017, the backhoe equipment was turned over to Kayangel State Government (Refer to Exhibit 2 below). The equipment was recorded into the State’s fixed asset system.

**Exhibit 2: Picture of Turnover ceremony**



Turnover Ceremony with Japan Ambassador and Leadership of Kayangel State Government



## Findings

Based on our audit, the Office of the Public Auditor found that Kayangel State Government administered the Japan's Grant Assistance for Grass-Roots Human Security Project (GGP) in compliance with the terms and conditions of the Grant Contract with one exception: (1) Kayangel State did not submit a Project Completion Report upon completion of the project.

## Auditee's Response

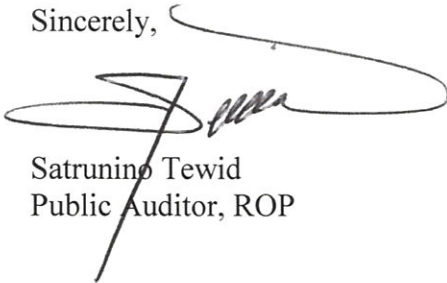
Last July 11, 2018, I submitted the completion report with their specific format through email and delivered to their office the same day to the Grant Coordinator Hitomi Tachiiri. Please see attached furnished copy.

## Conclusion

In the aftermath of typhoon Haiyan, Kayangel State applied for a grant from the Government of Japan's Grant Assistance for Grass-Roots Human Security Project (GGP) for the purpose of purchasing an equipment to remove debris and clean-up the destruction leftover from the typhoon. The fallen trees and other debris wasting around the island created a hazardous environment for harmful inborn diseases and other disease-carrying parasites to emerge causing health concerns for the population. The backhoe enabled the State to remove debris and waste and clean up the surrounding areas thereby removing the threat of diseases and other harmful elements that could affect the livelihood of the people of Kayangel. Further, according to the Governor, the equipment will strengthen the State's recycling and waste management program, ensuring a clean and healthy environment for the people.

The Office of the Public Auditor would like thank the staff and management of Kayangel State Government and the Embassy of Japan for their professional courtesy and cooperation extended to us during this audit.

Sincerely,

A handwritten signature in black ink, appearing to read 'Satrunino Tewid', with a large, sweeping flourish extending to the right.

Satrunino Tewid  
Public Auditor, ROP



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

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7:30 a.m. - 4:30 p.m.

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