



**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 DRY LITTER PIGGERY TECHNOLOGY  
INTRODUCTION IN MELEKEOK STATE"**



**MELEKEOK STATE GOVERNMENT  
REPUBLIC OF PALAU**

**Period from September 28, 2018 thru March 31, 2019**

*Performed by the Office of the Public Auditor*

**JPMEL-19- P02\*opa00**

REPUBLIC OF PALAU



Office of the Public Auditor

P. O. Box 850  
Koror, Republic of Palau 96940  
TEL (680) 488-2889/5687  
FAX (680) 488-2194  
EMAIL: admin@palauopa.org  
Website: www.palauopa.org

March 17, 2021

*Serial#: opa21-050au*

Honorable Henaro Polloi  
Governor  
Melekeok State Government  
Office of the Governor  
Melekeok, Republic of Palau

**Subject: Final Report on the Audit of Japan's Grant Assistance for Grassroots Human Security Project for "The Project for Dry Litter Piggery Technology Introduction in Melekeok State"**

Dear Governor Polloi:

This report presents the results of our audit of Japan's Grant Assistance for "The Project for Dry Litter Piggery Technology Introduction in Melekeok State."

The Office of the Public Auditor (OPA) received your response to the Draft Audit Report. The response is published 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", is written over a horizontal line. The signature is stylized and includes a large loop at the end.

Satrunino Tewid  
Acting Public Auditor, ROP

**Japan’s Grant Assistance for Grass-Roots  
Human Security Project for  
“The Project for Dry Litter Piggery Technology  
Introduction in Melekeok State”**

**Melekeok State Government  
Republic of Palau**

**For the Period September 28, 2018 thru March 31, 2019**

**Table of Contents**

**Performance Audit Report on Japan Grant Assistance – Melekeok State Gov’t. Page No.**

I.	Executive Summary	1-2
II.	Background	2
III.	Objective, Scope and Methodology	2-3
IV.	Grant Contract	3-4
V.	Side Letter	4
VI.	Project Expenditures	5-6
VII.	Findings and Recommendations:	
	1. Accounting Documents	6
	2. Unexpended Balance of Grant Funds	7
	3. Operating Log for Driving the Truck	7-8
VIII.	Conclusion	8



REPUBLIC OF PALAU



P. O. Box 850  
Koror, Republic of Palau 96940  
TEL (680) 488-2889/5687  
FAX (680) 488-2194  
EMAIL: admin@palauopa.org  
Website: www.palauopa.org

Office of the Public Auditor

March 17, 2021

Honorable Henaro Polloi  
Governor  
Melekeok State Government  
Republic of Palau

Dear Governor Polloi:

The Office of the Public Auditor at your request initiated an audit of the Japan's Grant Assistance for Grassroots Human Security Projects (GGP) on "The Project for Dry Litter Piggery Technology Introduction in Melekeok State."

The Embassy of Japan in the Republic of Palau awarded the sum of \$59,416 to Melekeok State Government for the procurement of a compact truck and a wood chipper pursuant to a Grant Contract executed between the Embassy of Japan and Melekeok State Government on September 28, 2018, as shown below:



Signing of the grant contract on September 28, 2018  
Source: Melekeok State Government

The Objective of the audit is to determine whether Melekeok 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) fixed assets were properly tagged and recorded, as appropriate, into the State's accounting records.

**Office of the Public Auditor**

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**

Melekeok State Government entered into a grant contract with the Embassy of Japan in the Republic of Palau for the Project for Dry Litter Piggery Technology Introduction in Melekeok State valued at \$59,416. Pursuant to the terms and conditions of the Grant Contract, the project is required to be completed within one year of the contract date.

The purpose of the grant was to procure the following equipment:

<b>Item</b>	<b>Quantity</b>
Compact Truck	1
Wood Chipper	1
Freight	1
Labor	1

Based on the GGP procurement guidelines, the recipient is required to submit three price quotations from which procurement of equipment shall be selected among the three quotations.

**Objective, Scope, and Methodology**

The objective of the audit is to determine whether (1) Melekeok State Government administered the grant funds in compliance with the terms and conditions of the grant contract, (2) the Project’s procurement process adhered to the GGP procurement guidelines, and (3) fixed assets were properly tagged and recorded, as appropriate, into the State’s accounting records.

The scope of the audit covered the period from September 28, 2018 through March 31, 2019.

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

In line with Japan’s Grant Assistance for Grassroots Human Security Project (GGP), the Government of Japan imposes and requires recipients to follow GGP procurement policies and therefore we did not assess compliance with the Republic of Palau (ROP) Procurement Law and Regulations. In addition, the terms of the agreement also requires the recipient to deposit and administer the grant funds outside of and separate from the national treasury of the ROP under the control of the Grantor. Hence, we did not assess compliance with the ROP national treasury laws.



## Office of the Public Auditor

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 objective, we reviewed relevant project documents maintained at the Melekeok State Government 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 Accountant of Melekeok State Government and conducted on-site visit of the project to inspect the wood chipper and the truck.

### **Grant Contract**

In accepting the grant from the Embassy of Japan, Melekeok 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 the 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 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 instructions;
- E. To complete the project within one year after the contract date;

**Office of the Public Auditor**

- F. To consult with and receive instructions from the donor in case the recipient wishes:
  - 1. To change how the grant is spend 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 spend 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 donor promptly on all matters which may have 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, Melekeok State Government agreed to additional terms and conditions in a "Side Letter" of Commitment with the Embassy of Japan stipulating the following:

- 1. Melekeok State Government will open an account with Bank of Hawaii exclusively for the purpose of the aforementioned project.
- 2. Melekeok State Government will not withdraw any amount from the said account without prior written consent from the Embassy of Japan.
- 3. Melekeok 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. Melekeok State Government will be responsible for the fuel expenses, daily inspection and the fee for any maintenance of the items granted.
- 5. Melekeok State Government will keep an operating log for driving of a truck in order to prevent personal or other usage aside from its intended purpose.
- 6. Melekeok State Government will submit an audit report on the Government of Japan's grant issued by the Public Auditor upon completion of the project.



### Project Expenditures

Melekeok State Government purchased a Wood Chipper and a Truck as shown below:

**Table 1: Cost of the wood chipper and truck:**

Item/Quantity	Price (\$US)	Description
<b>Total Japan Grass-roots Grant</b>	<b>\$ 59,416</b>	The fund was deposited into BOH C/A No. 0032-792332 on October 15, 2018
1	35,000	Wallenstein CR70 Wood Chipper
1	24,000	Elf Truck
Total Expenditures	\$ 59,000	
Balance	\$ 416	

As shown above, the total amount of the GGP grant was \$59,416 and the total cost of the equipment was \$59,000, leaving a balance of \$416.

Melekeok State Government, except as noted in the Findings section of this report, complied with the terms and conditions of the Grant Contract for the Project for Dry Litter Piggery Technology Introduction in Melekeok State by procuring the Compact Truck and Wood Chipper, which are recorded in the state’s fixed asset records.

On February 7, 2019, the compact truck and wood chipper were turned over to Melekeok State Government in a formal Handover Ceremony as shown below:



Handover ceremony on February 7, 2019  
Source: Melekeok State Government



As previously noted, Melekeok State complied with the terms and conditions of the Grant Contract except for three (3) issues, namely: (1) Accounting Documents, (2) Unspent Funds and (3) Equipment Logbook, which are discussed in the Findings and Recommendation below:

## **FINDINGS AND RECOMMENDATIONS**

### **Finding No. 1 – Accounting Documents**

The Grant Contract requires the grant recipient to keep accounting documents that verify how the grant was spent for at least five years after the completion of the Project.

During our review of the accounting documents, we found that there were no vendor invoices in the records to support the payments for the compact truck and the wood chipper. The only records provided were vendor quotations, not invoices. Invoices serve as standard basis to support payments to the vendor and the cost of equipment.

We did note however that in addition to the quotations, the vendor issued receipts to acknowledge payments received for the equipment.

The Accountant did not ensure that vendor invoices were obtained to support payments to the vendor and cost of equipment.

As a result, the State did not comply with the terms and conditions of the Grant Contract by failing to obtain the proper records to support expenditure of grant funds. In addition, the State does not have the proper records in file to support the recorded cost of the equipment and the project.

**Recommendation:** We recommend the Governor direct the State Treasurer to continue to pursue the vendor for invoices for the equipment. In addition, in the future the State Treasury should be more vigilant in handling business transactions to ensure that payments for goods and services be issued only upon presentation of a vendor invoice.

**MSG's Response:** *The quotation from the vendor was used in our grant proposal and was the basis for the approved grant amount. When the grant was received, the state went to make the partial payment as agreed with the vendor and has received a purchase receipt.*

*We have done your recommendation but the vendor has made their stand of not issuing an invoice. Melekeok State will be more diligent in choosing and dealing with vendors in the future.*

**Finding No. 2 –Unexpended Balance of Grant Funds**

The Grant Contract under Part J states: 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.

We found that the recipient (Melekeok State Government) received a grant in amount of \$59,416 and expended \$59,000 to complete the project, leaving a balance of \$416. The balance of \$416 is still in the State account and has not been returned to the Donor and the State has not communicated with the Donor for instructions as to the ultimate disposition of the funds.

This is due to the fact that the vendor provided a discount for shipping and handling of the equipment and, as a result, the project has \$416 of unspent funds.

**Recommendation:** We recommend that Melekeok State Government communicates with the Embassy of Japan (Donor) for instructions regarding the disposition of the \$416 unspent balance of the grant. Upon receiving instructions from the Donor, the State should follow those instructions to bring forth resolution of this matter.

**MSG’s Response:** *We are ready to return and close the account. We need to submit a formal letter with the audit report from your office as an attachment for the Japan Embassy to finally allow us to withdraw the balance and close the account.*

**Finding No. 3 – Operating Log for Driving the Truck**

Pursuant to the “Side Letter”, Melekeok State Government pledged to keep a logbook for operating the truck in order to prevent personal or other usage outside its intended purpose.

We found that Melekeok State Government did keep a log for operating the truck as well as the Wood Chipper with the following information:





Office of the Public Auditor

- Date
- Mileage Start
- Mileage End
- Destination
- Initial and Assistant Operator

We commend the State for complying with its pledge to keep a log for operating the equipment (truck and wood chipper) however information regarding “purpose” of use should be included in the logbook to ensure that the equipment are being used for the intended purpose of the Project.

The cause of the above condition is that the logbook was not initially formatted to capture information to identify “purpose” for use of equipment.

**Recommendation:** We recommend that the operating log be revised to include “purpose” and “approved by” to capture essential information to comply with the intended purpose of project equipment.

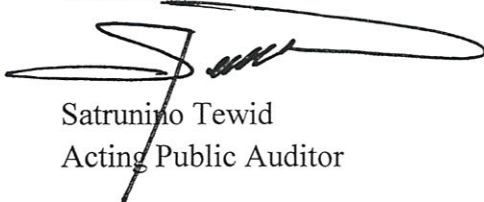
MSG’s Response: *We concur to your findings. The logbook information will be updated with “Purpose” and “Approved by” columns immediately.*

**Conclusion**

Melekeok State Government applied for and was awarded a grant from the Government of Japan’s Grant Assistance for Grass-Roots Human Security Project (GGP) for the procurement of the Compact Truck and Wood Chipper to introduce Dry Litter Piggery Technology project. The purpose of the project is to support dry litter piggery and forest restoration efforts in the State. The compact truck and wood chipper provides Melekeok State Government the capacity to support pig farmers and, at the same time, support reforestation efforts in the State to revitalize forestland.

The Office of the Public Auditor would like to thank the staff and management of Melekeok State Government 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:**

**OFFICE OF THE PUBLIC AUDITOR  
REPUBLIC OF PALAU  
P. O. BOX 850  
KOROR, REPUBLIC OF PALAU 96940**

**Ground Floor  
Orakiruu Professional Building  
Madalaii, Koror, Republic of Palau**

**TELEPHONE NOS: (680) 488-2889/5687  
FACSIMILE NO: (680) 488-2194  
WEBSITE ADDRESS: [www.palauopa.org](http://www.palauopa.org)  
E-MAIL ADDRESS: [admin@palauopa.org](mailto:admin@palauopa.org)**

**MONDAY THRU FRIDAY  
7:30 a.m. - 4:30 p.m.**

**(Closed on Legal Holidays)**