



**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 THE PROCUREMENT OF SCHOOL  
BUSES FOR HEAD START CENTERS"**



**PALAU COMMUNITY ACTION AGENCY  
REPUBLIC OF PALAU**

**Period from March 05, 2020 thru March 04, 2021**

*Performed by the Office of the Public Auditor*

JPPCAA-21- P01\*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](mailto:admin@palauopa.org)  
Website: [www.palauopa.org](http://www.palauopa.org)

October 13, 2021  
*Serial#: opa22-002au*

Ms. Marcia Inacio  
Executive Director  
Palau Community Action Agency  
Koror, Republic of Palau

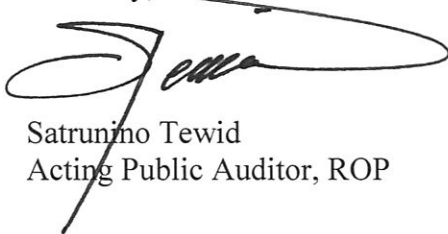
Dear Executive Director Inacio:

This report presents the result of our audit of Japan's Grant Assistance for Grass-Roots Human Security Project (GGP) for "The Project for the Procurement of School Buses for Head Start Centers".

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,



Satrunino Tewid  
Acting Public Auditor, ROP

**Japan's Grant Assistance for Grass-Roots  
Human Security Project for  
"The Project for Procurement of School  
Buses for Head Start Centers"**

**Palau Community Action Agency  
Republic of Palau**

**For the Period March 05, 2020 thru March 04, 2021**

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

Office of the Public Auditor

October 13, 2021

Marcia Inacio  
Executive Director  
Palau Community Action Agency  
Republic of Palau

Dear Executive Director Inacio:

The Office of the Public Auditor pursuant to a Grant Contract between the Embassy of Japan in the Republic of Palau and Palau Community Action Agency (PCAA) initiated an audit of the Japan's Grant Assistance for Grassroots Human Security Project (GGP) for "The Project for Procurement of School Buses for Head Start Centers".

The Embassy of Japan in the Republic of Palau awarded the sum of \$79,917.00 to Palau Community Action Agency for the procurement of School Buses pursuant to a Grant Contract executed between the Embassy of Japan and Palau Community Action Agency on March 05, 2020, as shown below:



*Signing of the Grant Contract on March 05, 2020  
Source: Embassy of Japan Website*

The objective of the audit is to determine whether the Palau Community Action Agency:

- (1) Administered the grant funds in compliance with the terms and conditions of the Grant Contract, (2) complied with the grant's GGP procurement guidelines and (3) the school buses were properly recorded into the PCAA's accounting records.

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

## Background

As part of its mission “to empower Palauans to value, grow and utilize their skills, resources and knowledge to become self-reliant”, the Palau Community Action Agency (PCAA) continues the implementation of the Belau Head Start Program. This Program with its vision of “children of Belau will be healthy and ready to learn” provides curriculum based early education and other services for children ages 3-5. To assist the Program’s implementation, a reliable transportation system is critical to ensure that children can get to and from the Head Start Centers safely and on time. For that reason, the Belau Head Start Program applied for and obtained, through PCAA, funding from the Government of Japan’s Grant Assistance for Grassroots Human Security Project (GGP) to procure school buses for the Head Start Centers, specifically for Ngeremlengui and Melekeok. The school buses will replace existing buses that are deteriorating and have major mechanical issues. The Palau Community Action Agency worked with the Embassy of Japan to procure the buses and related accessories.

The purpose of the grant was to procure the following:

| Item       | Quantity |
|------------|----------|
| Microbus   | 2        |
| Painting   | 2        |
| Spare Tire | 8        |

## Objective, Scope and Methodology

The objective of the audit is to determine whether Palau Community Action Agency:

(1) Administered the grant funds in compliance with the terms and conditions of the grant contract, (2) complied with the grant’s GGP procurement guidelines, and (3) the school buses were properly recorded into the PCAA’s accounting records.

The scope of the audit covered the period from March 05, 2020, through March 04, 2021.

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

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In line with Japan's Grant Assistance for Grassroots Human Security Project (GGP), the Government of Japan imposes and requires recipients to follow the GGP procurement guidelines and therefore we did not assess compliance with the PCAA's procurement policies. Additionally, the grant funds were deposited and administered separately from the PCAA's general account and under the control of the Donor, further affirming the inapplicability of the PCAA's procurement policies. Therefore, we assessed compliance with the GGP procurement guidelines.

Furthermore, as the grant funds were deposited and administered separately from the PCAA general account and under the control of the Donor, we did not assess compliance with the PCAA's internal financial policies and procedures and instead assessed compliance with the terms and conditions of the Grant Contract.

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 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 objectives, we reviewed relevant project documents maintained at the Palau Community Action Agency and the Japan Embassy in the Republic of Palau. We also reviewed the applicable GGP procurement guidelines. In addition, we discussed the project with the Executive Director and Fiscal Officer of the PCAA and conducted on-site visits of the project to inspect the School Buses at Ngeremlengui and Melekeok Head Start Centers.

### **Grant Contract**

In accepting the grant from the Embassy of Japan, Palau Community Action Agency 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 the documents relevant to the Project such as procurement contracts for products and/or services upon request by the Donor;

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- 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 prior written approval from the Donor;
- D. To provide 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). One (1) Interim Report to be reported within six months after the contract date.
  - 2. Any other reports on the Project to be provided upon the request of the Donor, in accordance with the Donor's instructions;
- E. To complete the Project within one year after the contract date;
- 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 the 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 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 the contract; and
- K. The 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, Palau Community Action Agency also agreed to additional terms in a "Side Letter" of Commitment from the Embassy of Japan stipulating the following:

Office of the Public Auditor

1. Palau Community Action Agency will open an account with Bank of Hawaii exclusively for the purpose of the aforementioned project.
2. Palau Community Action Agency will not withdraw any amount from the said account without prior written consent of the Embassy of Japan.
3. Palau Community Action Agency will shoulder any excess amount necessary to complete the project, if the cost of the project surpasses the Government of Japan’s grant.
4. Palau Community Action Agency will be responsible for the fuel expenses, daily inspection and the fee for any maintenance of the items granted.
5. Palau Community Action Agency will submit an audit report on the Government of Japan’s grant issued by the Office of the Public Auditor upon the completion of the project.

**Project Expenditures**

Palau Community Action Agency purchased two (2) 15-seater school buses and related accessories. Table 1 below shows the costs of two (2) 15-seater school buses and accessories:

**Table 1: Cost of School Buses and Accessories**

| <b>Item/Quantity</b>                 | <b>Price (\$US)</b>        | <b>Description</b>   |
|--------------------------------------|----------------------------|--|
| <b>Total Japan Grass-roots Grant</b> | <b>\$ 79,917.00</b>        | The fund was deposited into BOH C/A No. 0032-659713 on March 30, 2020  |
| 2 Each 20191023001                   | \$ 71,990.00               | Nissan E26 Urvan Microbus 15 seater<br>Model: VVL4LDRE26KWA-C-A-<br>Engine: YD25/5MT/Left Hand Drive/15 seater |
| 2 Each                               | 5,500.00                   | Painting Materials –Yellow   |
| 2 Each                               | 1,100.00                   | Bus Sticker and Logo   |
| 8 Each @ \$111.95                    | <u>895.60</u>              | Tire, #15 195/80 96S Nankang   |
| <b>Total Expenditures</b>            | <b><u>\$ 79,485.60</u></b> |  |
| <b>Balance</b>                       | <b>\$ 431.40</b>           |  |



The Buses arrived in Palau on September 14, 2020. The buses were taken to a local refurbishing company for painting and other retrofitting services, as shown below after refurbishing:



*Ngeremlengui Bus*

*Melekeok Bus*

The school buses were turned over to the Palau Community Action Agency on November 4, 2020 in a formal Handover Ceremony as shown below:



*Handover Ceremony on November 04, 2020  
Source: Embassy of Japan Website*

## Findings and Recommendations

Based on our audit, the Office of the Public Auditor found that the Palau Community Action Agency administered the Japan's Grant Assistance for Grassroots Human Security Project (GGP) in compliance with the terms and conditions of the Grant Contract except as described below:

### Finding No. 1 – 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 (Palau Community Action Agency) received a grant in the amount of \$ 79,917 and expended \$ 79,485.60 to complete the Project, leaving a balance of \$ 431.40.

The PCAA did not provide documentation to substantiate that the Donor has submitted a claim for the return of the \$431.40 unspent funds or authorization by the Donor to use the unspent funds for other purposes.

As a result, we were unable to determine the appropriate disposition of the unspent funds.

**Recommendation:** We recommend that Palau Community Action Agency communicates with the Embassy of Japan (Donor) for instructions regarding the disposition of the \$ 431.40 unspent balance of the grant. Upon receiving instructions from the Donor, PCAA should follow those instructions to bring forth resolution of this matter.

**PCAA's Response:** *The Agency has issued a check to remit the remaining unexpended balance back to Japan Embassy.*

**OPA's Comments:** The OPA verified that the PCAA returned the unspent amount of the GGP grant for \$431.40 to the Japan Embassy by examining the copy of the check, check number 103, dated October 7, 2021, and supporting documents. Based on this action, the OPA considers this finding resolved and requires no further action.

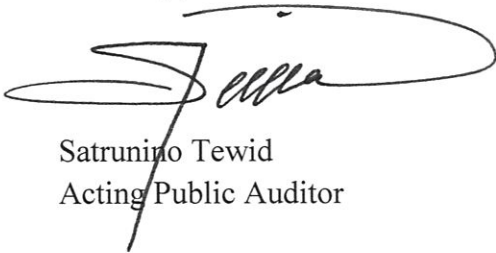
## Conclusion

The Palau Community Action Agency was awarded a grant from the Government of Japan's Grant Assistance for Grass-Roots Human Security Project (GGP) for the project for procurement of school buses for Head Start Centers. The purpose of procurement of school buses is to replace the aging school buses for Ngeremlengui and Melekeok Head Start Centers that are facing major mechanical and safety issues.

Today, Ngeremlengui and Melekeok Head Start Centers have the capacity to provide safe and reliable transportation services for its students to and from school and to support other school-related activities outside of the school campus. Hence, Palau Community Action Agency's partnership with the Embassy of Japan resulted in the improvement of transportation services of both Centers. Approximately (37) school children of Ngeremlengui and Melekeok Head Start Centers benefit from this project, as well as school personnel, parents, and community members who participate in school-related activities today and years to come.

The Office of the Public Auditor would like to thank the staff and management of Palau Community Action Agency 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  
Madalaih, 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)

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