



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 RECONSTRUCTION OF KOROR
STATE RECYCLING CENTER"**



KOROR STATE GOVERNMENT
REPUBLIC OF PALAU

Period from February 23, 2018 thru February 22, 2019

Performed by the Office of the Public Auditor

JPKOR-19-P06*opa00



REPUBLIC OF PALAU

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Office of the Public Auditor

September 19, 2022
Serial#: opa22-059au

Honorable Eyos Rudimch
Governor
Koror State Government
Koror, Republic of Palau

Subject: Final Report on the Audit of Japan's Grant Assistance for Grassroots Human Security Project for "The Project for Reconstruction of Koror State Recycling Center"


Dear Governor Rudimch:

This report presents the result of our audit of Japan's Grant Assistance for the Project for Reconstruction of Koror State Recycling Center.

The Office of the Public Auditor (OPA) received your response to the Draft Audit Report. Accordingly, your response is incorporated 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 Reconstruction of Koror
State Recycling Center”**

**Koror State Government
Republic of Palau**

For the Period February 23, 2018 thru February 22, 2019

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September 19, 2022

Honorable Eyos Rudimch
Governor
Koror State Government
Koror, Republic of Palau

Dear Governor Rudimch:

The Office of the Public Auditor initiated an audit of the Japan's Grant Assistance for Grassroots Human Security Project (GGP) for "The Project for Reconstruction of Koror State Recycling Center." The audit is required pursuant to the terms and conditions of the Grant Contract.

The Embassy of Japan in the Republic of Palau awarded the sum of \$136,066.00 to Koror State Government for the procurement of a Wood Chipper and a Paper Shredder pursuant to a Grant Contract executed between the Embassy of Japan and Koror State Government on February 23, 2018, as shown below:



*Signing of the Grant Contract on February 23, 2018
Source: Koror State Government Solid Waste Management*

The Objective of the audit is to determine whether Koror State Government: (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 equipment were properly recorded into the Koror State Government's accounting records.

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The Office of the Public Auditor audited the administration of the grant funds focusing on the Project’s procurements, receipts and disbursements of funds, reporting mechanisms, and other related requirements pursuant to the Grant Contract and GGP procurement guidelines.

Background

Koror State Government operates a Solid Waste Management (SWM) program under its Department of Public Works. Since the inception of the SWM Division in 2004, it has grown to create more than 80 jobs and start seven (7) pro-environment recycling projects such as composting and urban growers, plastic to oil conversion, glass crafting, beverage container recycling, community waste segregation, and waste collection services.

Due to an accidental fire in May 2017, destroying one of the recycling facilities along with vital equipment, Koror State Government applied for and obtained a grant from the Government of Japan’s GGP development project to procure a paper shredder and a wood chipper to be used at the composting facility with the aim of reducing the disposal of green waste to the landfill.

Upon approval of its application, Koror State Government entered into a Grant Contract with the Embassy of Japan in the Republic of Palau for the Project for Reconstruction of Koror State Recycling Center. The project is to be completed within one year period after the grant contract date.

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

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

Item	Quantity
Wood Chipper	1
Paper Shredder	1

Objective, Scope, and Methodology

The objective of the audit is to determine whether Koror State Government’s Solid Waste Management: (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) fixed assets were properly tagged and recorded, as appropriate, into the Koror State Government’s accounting records.

The scope of the audit covered the period from February 23, 2018 through February 22, 2019.

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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 Koror 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 the GGP procurement policies. In addition, the grantor imposed the requirement that the grant funds be deposited and administered outside of and separate of Koror State Government Treasury, under the control of the Grantor. Accordingly, the requirement essentially negates compliance with ROP Procurement Laws and imposes compliance with GGP procurement policies and procedures. Therefore, we did not assess compliance with ROP Procurement Law and Regulations.

In addition, as the grant funds were deposited into a separate bank account and administered outside of and separate of Koror State treasury, we did not assess compliance with Koror State treasury laws and regulations.

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 Koror State Government including Finance Office, Solid Waste Management, 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 Manager of Solid Waste Management of the Koror State Government and conducted on-site visit of the project to inspect the Wood Chipper and Paper Shredder.

Grant Contract

In accepting the grant from the Embassy of Japan, Koror 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;

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- 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 purposes other than the execution of the Project, without acquiring 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;
- 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
- 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 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. 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, Koror State Government also agreed to additional terms in a “Side Letter” of Commitment from the Embassy of Japan stipulating the following:

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

Project Expenditures

Koror State Government purchased a paper shredder and wood chipper. Table 1 below shows the costs of the equipment, including packing and shipping cost.

Table 1: Costs of the paper shredder and wood chipper

Item/Quantity	Price (\$US)	Description
Total Japan Grass-roots Grant	\$ 136,066.00	The fund was deposited into BOH C/A No. 0032-646921 on March 21, 2018
Paper Shredder		
Tok 1	\$ 47,361.00	Paper Shredder Model: DA—820+SB250 Crusher: DA820A, Motor : 22 KW Cut Blower: SB-250H, Motor: 15kW Cyclone without cradles Safety Box with magnetic separators
Tok 1	\$ 851.00	Stand for the Cyclone
Tok 1	\$ 905.00	Piping Materials
Tok 1	\$ 18,944.00	Dust Collector equipped with parts for air
Tok 1	\$ 745.00	Piping Materials for dust collectors
Tok 1	\$ 225.00	Vanning Charge

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	\$ 2,000.00	Domestic Shipping Charge
	\$ 2,760.00	Ocean Freight
	<u>\$ 650.00</u>	Insurance
Total Paper Shredder	\$ 74,441.00	
Wood Chipper		
1 Each	\$ 26,000.00	Model 200XP- (12" Disc Style) Brush Bandit
1 Each	\$ 20,500.00	990-RC1310-891 Caterpillar C4.4, 114 HP-Tier 3
1 Each	\$ 1,725.00	990-100030 Reversing Auto Feed System
1 Each	<u>\$ 13,400.00</u>	Freight/Handling/Insurance
Total Wood Chipper	\$ 61,625.00	
Total Expenditures	\$ 136,066.00	
Total Grant Awarded	\$ 136,066.00	
Balance	\$ 0.00	

The Paper Shredder arrived on July 17, 2018 while the Wood Chipper arrived on August 20, 2018 in Palau. The Paper Shredder and Wood Chipper were turned over to Koror State Government on September 26, 2018 in a formal Handover Ceremony as shown below:



Handover ceremony on September 26, 2018
Source: Koror State Government Solid Waste Management

Finding of Compliance

Based on our audit, the Office of the Public Auditor found that Koror State Government administered the GGP grant in compliance with the terms and conditions of the Grant Contract, Side Letter and the GGP Procurement guidelines. In addition, Koror State Government's Solid Waste Management maintained proper controls over the paper shredder and wood chipper and all the records pertaining to the procurement. Therefore, there are no findings to this audit report.



Wood Chipper (KSG 3311)
Photo by: Office of the Public



Wood Chipper (KSG 3311)
Photo by: Office of the Public

Koror State Government's Response: *I am in receipt of the Draft Audit Report on Japan's Grant Assistance for Grass-Roots Human Security Project for "The Project for Reconstruction of Koror State Recycling Center" specifically to procure a Wood Chipper and a Paper Shredder, and I concur with the findings.*

I would like to take this opportunity and thank you and your office for assisting us with this request. I am very pleased to see that there were no findings.

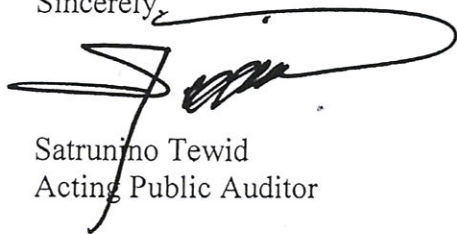
Conclusion

Koror 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 project for procurement of a paper shredder and wood chipper. The purpose of the paper shredder and wood chipper is to be used at the composting center with the aim of reducing the disposal of green waste to the landfill. The conversion and treatment of waste at the composting center will prolong the lifespan of the national landfill and produce valuable resources to support agriculture, food security and control emissions of harmful Green House Gases such as methane.

Office of the Public Auditor

The Office of the Public Auditor would like to thank the staff and management of Koror State Government including the Finance Office, Solid Waste Management and the Embassy of Japan in the Republic of Palau for their professional courtesy and cooperation 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
Acting Public Auditor



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

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