



OFFICE OF THE PUBLIC AUDITOR
REPUBLIC OF PALAU

PERFORMANCE AUDIT REPORT
on
JAPAN'S GRANT ASSISTANCE FOR GRASSROOTS
HUMAN SECURITY PROJECT FOR
**“THE PROJECT FOR THE PROCUREMENT OF
TRACTOR TO KOROR STATE RECYCLING CENTER”**



Solid Waste Management
KOROR STATE GOVERNMENT
Republic of Palau

For the period from March 09, 2021, through August 16, 2021

Performed by the Office of the Public Auditor

Report Number: 2026-001

REPUBLIC OF PALAU



Office of the Public Auditor

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26-080au
April 13, 2026

Honorable Eyos U. Rudimch
Governor
Koror State Government
Republic of Palau

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

Dear Governor Rudimch:

This report presents the results of our audit of Japan's Grant Assistance for Grassroots Human Security Project (GGP) for "The Project for Procurement of Tractor to Koror State Recycling Center".

We received your response to the Draft Audit Report, which is published in its entirety in the final report.

If you have any questions regarding the report or the subject matter discussed therein, we will be available at your request.

Sincerely,

Satrunino Tewid
Acting Public Auditor
Republic of Palau

**JAPAN’S GRANT ASSISTANCE FOR GRASSROOTS
HUMAN SECURITY PROJECT FOR
“THE PROJECT FOR THE PROCUREMENT OF
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**Solid Waste Management
Koror State Government
Republic of Palau**

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Table of Contents

Background.....	2
Objective, Scope, and Methodology.....	2
Grant Contract.....	3
Side Letter.....	4
Project Expenditures.....	5
Handover Ceremony	5
Findings and Recommendations	5
Finding No. 1 – Daily Inspection and Maintenance Responsibility	6
Finding No. 2 - Operating Log Requirement	6
Conclusion	7



Office of the Public Auditor

April 13, 2026

Honorable Eyos U. Rudimch
Governor
Koror State Government
Republic of Palau

Dear Governor Rudimch:

Based on your request received on April 03, 2024, the Office of the Public Auditor (OPA) initiated a performance audit on Japan's Grant Assistance for Grassroots Human Security Project (GGP) for "The Project for the Procurement of Tractor to Koror State Recycling Center" (Project).

The Embassy of Japan (Embassy) in the Republic of Palau (ROP) awarded the Koror State Government (KSG) Solid Waste Management (SWM) a sum of \$90,810.00 for the procurement of a tractor, its attachment, a farm dump, and the cost of shipping. Shown below is the signing ceremony of the Project's Grant Contract between the Embassy and KSG-SWM on March 09, 2021:



Signing Ceremony on March 09, 2021
Source: Embassy of Japan Website

The objective of the audit was to determine whether the KSG-SWM (1) administered the grant in compliance with the terms and conditions of the Grant Contract, (2) adhered to the GGP procurement guidelines, and (3) properly recorded the fixed asset, as applicable, in its accounting records.

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

Background

The Government of Japan offers a financial assistance scheme known as “the Grant Assistance for Grassroots Human Security Projects (GGP)” to help Non-Governmental Organizations (NGOs) and local government authorities develop projects designed to meet the diverse basic human needs of the people in developing countries. Since 1999, the Embassy has been actively engaged in this program, having funded and implemented 105 projects as of March 2025. These projects primarily focus on education, health, and public welfare.

The KSG-SWM, established in 2004, initially focused on basic waste collection but has since expanded its mission to promote sustainability. Over time, it has implemented programs that encourage eco-friendly practices and community engagement, supporting Koror’s progress toward a cleaner, greener future.

In 2014, KSG-SWM launched the Urban Grower’s Program to enhance the agricultural landscape and strengthen food security in Koror State. To effectively achieve the program’s objectives, KSG-SWM identified the need for a tractor capable of clearing, plowing, and preparing larger areas of land.

In response to this need, on March 09, 2021, the Embassy granted the GGP fund of \$90,810.00 to the KSG-SWM for the purchase of the following items:

Item	Quantity
Tractor	1
Attachment	1
Farm Dump	1
Shipping	1

Source: Grant Contract Annex

Objective, Scope, and Methodology

The objective of the audit was to determine whether the KSG-SWM (1) administered the grant in compliance with the terms and conditions of the Grant Contract, (2) adhered to the GGP procurement guidelines, and (3) properly recorded the fixed asset, as applicable, in its accounting records.

The scope of the audit covered the period from March 09, 2021, through August 16, 2021, as well as other periods, as necessary, to meet the audit objectives.

The Government of Japan imposes and requires recipients to follow the GGP procurement guidelines in the procurement of goods and services. Furthermore, the Embassy maintains control over the BOH bank account established for the purpose of the Project. Consequently, we did not assess compliance with the Palau National Government's procurement regulations nor compliance with state or national 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.

The Public Auditing Act of 1985 empowers the Office of the Public Auditor (OPA) to specifically act to prevent fraud, waste, and abuse in the collection and expenditure of public funds. The Public Auditor may make recommendations on the prevention and/or detection of fraud, waste, and abuse of public funds.

To achieve our objectives, we examined project records maintained by the KSG-SWM to assess their compliance with the Grant Contract, Side Letter, and the GGP Procurement Guidelines. Additionally, we reviewed the project expenditure documents obtained from the KSG Treasury, interviewed project administrators, and conducted a site visit at the Koror State Recycling Center to inspect the tractor, its attachment, and the farm dump.

Grant Contract

In accepting the GGP fund from the Embassy, the KSG-SWM 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 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 reports should outline achieved results in light of the original goals and objectives as stated in the application proposal for the Project. The reports 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 the Donor promptly on all matters which may have any 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, the KSG-SWM also agreed to additional terms and conditions contained in a “Side Letter” of commitment with the Embassy, stipulating the following:

1. Koror State Government Solid Waste Management Office will open an account with Bank of Hawaii exclusively for the purpose of the aforementioned project.
2. Koror State Government Solid Waste Management Office will not withdraw any amount from the said account without prior consent from the Embassy of Japan.
3. Koror State Government Solid Waste Management Office 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 Office 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.
5. Koror State Government Solid Waste Management Office will be responsible for registering a tractor and parking the tractor at the state government’s premises or other designated areas.
6. Koror State Government Solid Waste Management Office will be responsible for the fuel expenses, daily inspection and the fee for any maintenance of a tractor.
7. Koror State Government Solid Waste Management Office will keep an operating log for a tractor in order to prevent personal or other usage aside from its intended purpose.
8. Koror State Government Solid Waste Management Office will assign an operator/operators for a tractor from its office.
9. Koror State Government Solid Waste Management Office will put stickers or signs displaying the flag of Japan on the equipment in order to ensure visibility of Japan’s grant assistance.

Project Expenditures

The KSG-SWM, through the KSG Treasury, fully expended the GGP fund of \$90,810.00 for its intended purpose to procure the tractor, its attachment, and farm dump, and shipping costs of these items as enumerated in the Grant Contract annex. The total actual project cost was \$90,810.00, which was disbursed in two installments. A detailed breakdown of the expenditures is shown in **Table 1** below.

Table 1:
GGP Funding and Project Expenditures

Grant Amount		\$90,810.00
Expenditures		
Tractor & attachments (80%)	\$72,648.00	
Tractor & attachments (20%)	\$18,162.00	\$90,810.00
BALANCE		\$0.00

Handover Ceremony

On August 16, 2021, the Tractor, its attachment, and farm dump were turned over to the Koror State Recycling Center in a formal Handover Ceremony, as shown below:



Handover Ceremony on August 16, 2021
Source: Embassy of Japan Website

Findings and Recommendations

Based on our audit, we found that the KSG-SWM, for the most part, administered the GGP fund for the Project in compliance with the terms and conditions of the Grant Contract as well as the

GGP procurement guidelines. In addition, the KSG-SWM, with assistance from the KSG Treasury, ensured that proper controls were maintained over fund disbursement, procurement, accounting, and reporting throughout the Project. However, we identified two instances of noncompliance with specific obligations under the Side Letter, as detailed in the following:

Finding No. 1 – Daily Inspection and Maintenance Responsibility

Item 6 of the Side Letter stipulates that KSG-SWM is to be responsible for fuel expenses, daily inspections, and maintenance fees of the tractor.

We found that the KSG-SWM, although it is responsible for fuel expenses and maintenance fees, does not perform daily inspections of the tractor.

The KSG-SWM was not fully aware of the requirement under Item 6 of the Side Letter.

As a result, the KSG-SWM did not comply with the daily inspection requirements under the Side Letter. The absence of daily inspections increases the risk of undetected mechanical issues, which, if left unresolved, may escalate into problems that are costly and difficult to remedy.

Recommendation:

We recommend that the KSG-SWM conduct daily inspections of the tractor to restore compliance with the Side Letter commitment and recognized good practices in fixed asset management. Regular inspections facilitate the early detection of potential issues, enabling timely repairs, reducing maintenance costs, and minimizing operational downtime. Ultimately, this extends the useful life of the tractor and other equipment granted under this Project.

Governors' response:

The governor concurs with the details in the draft audit report regarding Finding No. 1 - Daily Inspection and Maintenance Responsibility, and acknowledges that it is based on fairly assessed facts.

In addition, measures had already been taken to remedy the finding immediately after OPA made a visit to the Solid Waste Management Office and pointed out the non-compliance. They have also communicated with the Embassy of Japan to work out a template for data log sheets to be utilized to track daily inspections and maintenance, which will be periodically submitted to the Embassy upon request.

Finding No. 2 – Operating Log Requirement

Item 7 of the Side Letter requires KSG-SWM to maintain an operating log for the tractor to ensure it is used solely for its intended purposes and to prevent personal or other unauthorized use.

We found that the KSG-SWM Office does not maintain an operating log for the tractor.

The KSG-SWM was not fully aware of the requirement under Item 7 of the Side Letter.

As a result, the KSG-SWM did not comply with Item 7 of the Side Letter. More importantly, this condition increases the risk of unauthorized or inappropriate use of the tractor and limits transparency and accountability over its operations.

Recommendation:

We recommend that the project administrators thoroughly review and consider each obligation under the Side Letter, as it is a supplement to the Grant Contract itself. To restore compliance, KSG-SWM is further recommended to establish and maintain a formal operating log to record daily usage (e.g., date, time, operator name, purpose). Implementing this control will promote accountability, monitor productivity, prevent unauthorized use, and safeguard the tractor as a property of the State.

KSG’s Response to Finding 2:

The governor concurs with the details in the draft audit report regarding No. 2 – Operating Log Requirement and acknowledges that it is based on fairly assessed facts.

In addition, measures had already been taken to remedy the finding immediately after OPA made a visit to the Solid Waste Management Office and pointed out the non-compliance. They have also communicated with the Embassy of Japan to work out a template for data log sheets to be utilized to track operation activities, which will be periodically submitted to the Embassy upon request.

Conclusion

The KSG-SWM was awarded the sum of \$90,810.00 of GGP funds towards the procurement of a tractor, its attachment, and a farm dump to support the Koror Stater Urban Growers Program. Under this program, the tractor is used to condition otherwise infertile soil to a productive field by using organic compost from the composting facility and liquid fertilizer from the bio-gas plant to enhance farm production. Through this program, the Urban Growers will be able to support its members in preparing their farms to cultivate high-yielding crops to support and sustain food security.

The Office of the Public Auditor would like to thank the staff and management of the KSG-SWM, the KSG Treasury, and the Embassy of Japan for their professional courtesy and cooperation during this audit.

Sincerely,



Satrunino Tewid
Acting Public Auditor
Republic of Palau



**ILLEGAL OR WASTEFUL ACTIVITIES
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