



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 CONSTRUCTION OF MULTIPURPOSE CENTER
FOR NGIWAL STATE"**



NGIWAL STATE GOVERNMENT
REPUBLIC OF PALAU

Period from January 21, 2016 thru June 21, 2018

Performed by the Office of the Public Auditor

JPNGW-19-P08*opa00



REPUBLIC OF PALAU

Office of the Public Auditor

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July 29, 2022
Serial#: opa22-052au

Honorable Francisco Melaitau
Governor, Ngiwal State Government
Office of the Governor
Ngiwal State, Republic of Palau

Subject: Final Report on the Audit of Japan's Grant Assistance for Grassroots Human Security Project for "The Project for Construction of Multipurpose Center for Ngiwal State"

Dear Governor Melaitau:

This report presents the result of our audit of Japan's Grant Assistance for Grassroots Human Security Project for "The Project for Construction of Multipurpose Center for Ngiwal State".

The Office of the Public Auditor (OPA) received your response to the Draft Audit Report. The response is published 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,

Satrunino Tewid
Acting Public Auditor, ROP

**Japan’s Grant Assistance for Grass-Roots
Human Security Project for
“The Project for Construction of Multipurpose Center for
Ngiwal State”**

**Ngiwal State Government
Republic of Palau**

For the Period January 21, 2016 thru June 21, 2018

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July 29, 2022

Honorable Francisco Melaitau
Governor, Ngiwal State Government
Office of the Governor
Ngiwal State, Republic of Palau

Dear Governor Melaitau:

The Office of the Public Auditor at your request initiated an audit of Japan’s Grant Assistance for Grassroots Human Security Project (GGP) for “The Project for Construction of a Multipurpose Center for Ngiwal State.”

The Embassy of Japan in the Republic of Palau awarded the sum of \$130,319.00 to Ngiwal State Government for the construction of a Multipurpose Center pursuant to a Grant Contract executed between the Embassy of Japan and Ngiwal State Government on January 21, 2016, as shown below:



*Signing of the Grant Contract on January 21, 2016
Source: Embassy of Japan Website*

The objective of the audit was to determine whether Ngiwal 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) properly recorded the fixed asset (multipurpose center), as appropriate, into the State’s accounting records.

The Office of the Public Auditor reviewed the administration of the grant fund 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

Ngiwal State Government entered into a Grant Contract with the Embassy of Japan in the Republic of Palau for the Project for Construction of a Multipurpose Center for Ngiwal State valued at \$130,319. Prior to securing the grant, Ngiwal State entered into a Memorandum of Understanding (MOU) with the Ngermechau Klobak Association for the purpose of securing financing for the project via the GGP grant and facilitating payments for the project and other related cooperative understandings. Hence, Ngiwal State Government applied for and was awarded the grant. The Project was to be completed in one year as stated in the grant contract that was signed on January 21, 2016. However, the Embassy of Japan approved Ngiwal State's requests to extend the Project's completion date from January 20, 2017 to June 30, 2018.

The purpose of the grant was to procure products and/or services to construct the Multipurpose Center. The purpose of the Center was to provide the residents of Ngiwal State a secured shelter during times of natural disasters, as experienced during Typhoons Bopha and Hiyon. The center would also provide a spacious venue for cultural events, meetings, youth trainings and workshops, and for national government agencies and non-government organizations to conduct outreach awareness programs for the benefit of Ngiwal State residents.

In addition to the Government of Japan's GGP Grant, Ngiwal State Government also requested and received a \$20,000 donation from the Office of the President of the Republic of Palau to supplement the \$130,319 GGP grant, which was necessitated following change orders that increased the project cost to \$151,319. As a result, Ngiwal State was able to construct a center designed to their specific needs.

Objective, Scope and Methodology

The objective of the audit is to determine whether Ngiwal 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) properly recorded the fixed asset (multipurpose center), as appropriate, into the State's accounting records.

The scope of the audit covered the period from January 21, 2016, through June 21, 2018.

As this is a performance audit, we did not conduct audit procedures to assess the fairness of the financial statements of Ngiwal State Government or any other component or accounts within those financial statements and therefore express no opinion on the financial statements. The audit did not cover compliance with national treasury laws of the Republic of Palau as the grant funds

were deposited into a bank account separate from and independent of National Treasury, and which funds were administered and controlled by the Donor. Similarly, the audit did not cover the applicability of the Republic of Palau Procurement Law and Regulations as the Donor 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 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, including the Grant Contract and various expenditures supporting documents, maintained at Ngiwal State Government Office 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 Governor and the State Accountant, Japan Embassy GGP Grant Coordinator, and conducted on-site visit of the project to inspect the Multipurpose Center In Ngiwal State.

Grant Contract

In accepting the grant from the Embassy of Japan, Ngiwal 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 the products and/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 objective 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 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 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, Ngiwal State Government also agreed to additional terms in a "Side Letter" of commitment with the Embassy of Japan stipulating the following:

1. Ngiwal State Government will open an account with Bank of Hawaii exclusively for the purpose of the aforementioned project.
2. Ngiwal State Government will not withdraw any amount from the said account without written prior consent from the Embassy of Japan.
3. Ngiwal 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. Ngiwal State Government will be responsible for regular inspection and fee for any maintenance.
5. Ngiwal 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

Pursuant to the Construction Contract entered into between Ngermechau Klobak Association/Ngiwal State Government and Surangel & Sons, dated August 3, 2016, payments for services followed the progress of work as follows:

Payment No.	Check No.	Check Date	Check Amount	Amount of Grant Award	Balance of Grant	Total Project Cost
				\$ 130,319.00		\$ 151,319.00
1st Payment	1001	03/16/2018	\$ 86,879.34		\$ 43,439.66	
2 nd Payment						
3 rd Payment	1002	06/26/2018	\$ 43,439.66		\$ 0.00	
Total			\$130,319.00			\$ 130,319.00
Balance owed						\$ 21,000.00

The Multipurpose Center was turned over to Ngiwal State Government in a formal handover ceremony on June 21, 2018, as shown below:



Handover Ceremony on June 21, 2018

Source: Embassy of Japan Website

Subsequent Event

Subsequent to the Handover ceremony, and in accordance with the terms and conditions of the Side Letter agreement, stipulating that Ngiwal State shall assume responsibility for the cost of the project exceeding the \$130,319 GGP Grant, Ngiwal State on January 27, 2022 issued the final payment on the balance owed on the project for \$21,000.

Finding and Recommendation

Based on our audit, the Office of the Public Auditor found that Ngiwal State Government, for the most part, administered the Japan's Grant Assistance for Grassroots Human Security Project (GGP) in compliance with the terms and conditions of the Grant Contract, except in one instance observed below:

Finding No. 1 – Maintenance of Multipurpose Center

Construction of capital infrastructure is a major investment of public funds that should be accompanied by a maintenance plan to support the proper upkeep of the facility so as to ensure the safety and health of users and to extend the useful life of the facility.

In our discussions with Ngiwal State Governor, we found that the Multipurpose Center has not been utilized since its handover from the Embassy of Japan on June 21, 2018. Since then, we inspected the facility and observed signs of deterioration and lack of maintenance.

The cause of inactivity surrounding the use of the multi-purpose center appears to be a misunderstanding between Ngermechau Klobak Association and Ngiwal State regarding the ownership of the facility. The prolonged delay to resolve this misunderstanding only further deprive the citizens' access to and use of the facility, as was the intended purpose of the facility, as well as preventing proper maintenance of the facility.

As a result, the citizens of Ngiwal, who are the intended beneficiaries of the facility, have become innocent bystanders of the misunderstanding regarding the ownership of the facility, which, at the same, has been neglected of needed maintenance.

Recommendation: We recommend that the leadership of Ngiwal State and the Ngermechau Klobak Association find an amicable resolution to the dispute so as to end further denial of the citizens the use of the multi-purpose center and to start timely maintenance work on the structure, further delay of which will only increase the cost of maintenance.

Ngiwal State Government's Response: *Thank you for meeting with me (Governor) to discuss the subject Draft Report at your office on July 28, 2022.*

Based on my review of the Draft Report, I agree with the finding and recommendation in the report and its contents.

As this audit report is long overdue, please let us work together to expedite the issuance of the final report.

Conclusion

Ngiwal State Government was awarded a grant from the Government of Japan's Grant Assistance for Grassroots Human Security Project (GGP) for the project for construction of a Multipurpose Center for Ngiwal State. The purpose of the Center is to provide a safe shelter for the residents during natural disasters and also serve as a venue for cultural events and other State functions. The multi-purpose building has been completed and turned over to the State but its use has been delayed due to a dispute regarding its ownership. The disputing parties should find an amicable resolution to the impasse so as to deliver to the citizens the facility for their intended use.

The Office of the Public Auditor would like to thank the staff and management of Ngiwal State Government and the Embassy of Japan in the Republic of Palau for their professional courtesy and cooperation during this audit.

Sincerely,

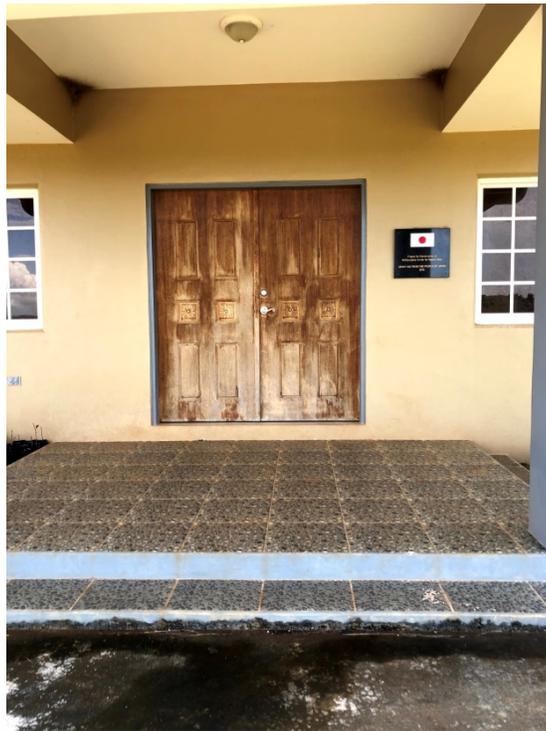

Satrunino Tewid
Acting Public Auditor

Appendix A

Appendix A: Pictures of Ngiwal State Multipurpose Center:



Front view of the Multipurpose Center



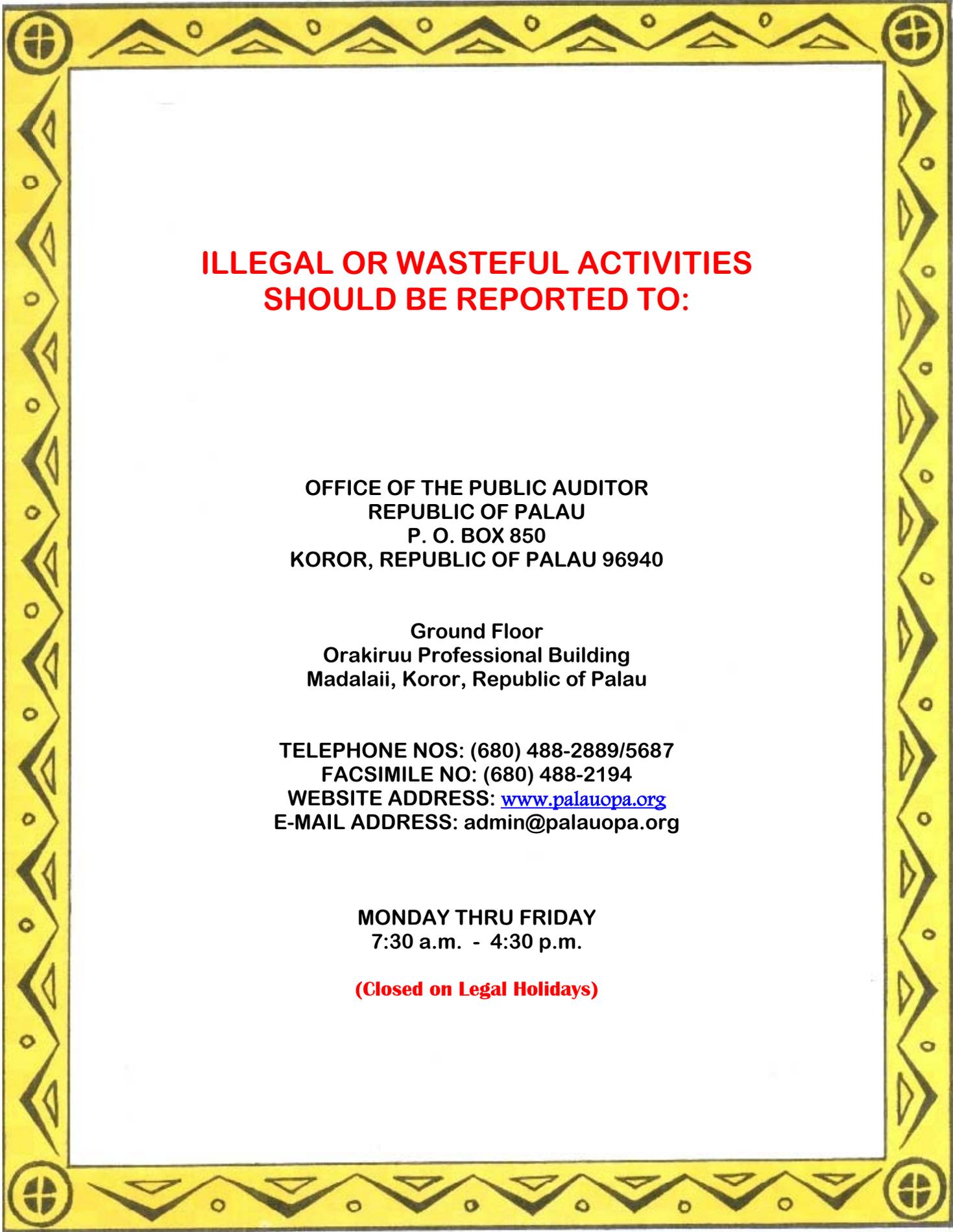
Front Door



Side View



Side and Back View



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

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

(Closed on Legal Holidays)