OFFICE OF THE PUBLIC AUDITOR
REPUBLIC OF PALAU

PERFORMANCE AUDIT REPORT

on

STABLECOIN PILOT PROJECT

MINISTRY OF FINANCE
REPUBLIC OF PALAU

For the period from October 26, 2021, through November 27, 2023

Performed by the Office of the Public Auditor

Report Number: 2025-005

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
www.palauopa.org

Office of the Public Auditor

June 11, 2025
Serial#:opa25-095au

Mr. Kaleb Udui, Jr.
Director of the Bureau of Budget & Planning
Ministry of Finance
Koror, Republic of Palau

Subject: Final Report on the Audit of Ministry of Finance's Stablecoin Pilot Project

Dear Director Udui:

Transmitted herewith is the final audit report of the Ministry of Finance's Stablecoin Pilot Project.

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 them at your request.

Sincerely,

Satrunino Tewid
Acting Public Auditor
Republic of Palau

Stablecoin Pilot Project
Ministry of Finance
Republic of Palau

For the period from October 26, 2021, through November 27, 2023

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BACKGROUND

The Ministry of Finance (MOF), on behalf of the Republic of Palau (ROP), and Ripple Services Inc. (Ripple) entered into a Memorandum of Understanding, dated October 26, 2021, formalizing a collaborative partnership to explore the technology, use cases, and potential solutions and benefits associated with digital payments and creating a digital currency backed by the US Dollar for Palau (interchangeably "Palau Stablecoin" or "PSC"). On December 19, 2022, the ROP and Ripple entered into a services agreement (Ripple Master Hosted Stablecoin Services Agreement) to launch a Pilot Project to explore and implement, in a secure and controlled live environment, technological solutions enabling the MOF to manage the minting, distribution, redemption, and destruction of PSC digital currency recorded on the public XRP Ledger backed by a $25,000 investment by Ripple. Jay Hunter Anson, the Director of the Digital Residency Office, served as the Project Manager.

According to the Services Agreement, the pilot project was structured to:

- Develop a collateralization framework for PSC that aligns with commercial banks and regulatory requirements.
- Establish a financial integration plan between the XRP Ledger and Palau's core financial systems.
- Gather insights from end users to refine PSC's usability beyond the pilot phase.
- Evaluate the feasibility of stablecoin adoption and present findings to key stakeholders, including financial regulators and the Palau National Congress.

The MOF led this initiative as part of the country's broader financial technology (fintech) strategy, which seeks to modernize Palau's financial services infrastructure. The introduction of PSC was aimed to:

- Improve financial accessibility, particularly for underserved communities.
- Reduce transaction costs, such as ATM fees, cash transfer fees, and credit card processing costs.
- Enhance payment efficiency and security.
- Decrease the reliance on physical cash, reducing energy consumption and lowering Palau's carbon footprint.

The Palau Project Team involved nine (9) government employees and three legal advisors that administered the project in Palau, along with 154 government employee volunteers who signed consent forms agreeing to participate in the Project by using the 100 PSC at three (3) selected major retailers in exchange for sharing their demographic information and purchasing habits, including completing a post-project survey. In addition, three retailers, Surangel & Sons Co., Penthouse Hotel, and King's Minute Mart, were selected for the project based on the reliability of their internet connectivity, the capabilities of their point-of-sale system, and their commitment to participate in the project. All the selected retailers signed participation agreements outlining their specific responsibilities in the Project, which included redeeming PSC to U.S. Dollars.

AUTHORITY TO AUDIT

Article XII, Section 2(b) of the Constitution of the Republic of Palau declares, in part, "The Public Auditor shall inspect and audit accounts in every branch, department, agency, or statutory authority of the national government and in all other public legal entities or nonprofit organizations receiving funds from the national government." This mandate is further reaffirmed through the Public Auditing Act of 1985 (40 PNCA § 200 *et. seq.*), which charges the Public Auditor to "act to prevent and detect fraud, waste and abuse in the collection and expenditure of all public funds." (Id., §224.)

On July 19, 2023, the Honorable Senator Mark Rudimch, Chairman, Senate Committee on Resources, Commerce, Trade, and Development, Eleventh Olbiil Era Kelulau, requested the Office of Public Auditor to conduct an audit of the Palau Stablecoin Pilot Project (Project) under the Ministry of Finance (MOF). The Senate raised concerns about the constitutionality, security, accountability, statutory authority, and oversight of the Project. The OPA also conducted a meeting with Senator Rudimch to discuss the Committee's concerns about the Project and to gather information for the design of the scope and objective of the audit.

OBJECTIVE

The objective of the audit is to determine whether the Ministry of Finance (MOF) (1) had a legal basis to enter into an agreement with a private entity to administer the Stablecoin Pilot Project (Project) and (2) administered the Project in accordance with the Republic of Palau laws.

SCOPE & METHODOLOGY

The audit focused on the Ministry of Finance's administration of the Palau Stablecoin Pilot Project. The audit covered the period from October 26, 2021 through November 27, 2023, encompassing the period of the pilot project, and included other periods as necessary to meet the audit objectives.

As this is a performance audit, we did not conduct audit procedures to assess the fairness of the financial statements of the Ministry of Finance and/or the Palau Stablecoin Pilot Project and, therefore, express no opinion on the financial statements.

We conducted this audit in accordance with the *Generally Accepted Government Auditing Standards*. 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 conclusion based on our audit objectives.

To accomplish our audit objective, we examined the memorandum of understanding, services agreement, relevant Republic of Palau laws, and related documents pertaining to the project. In addition, the Office of the Public Auditor obtained a legal opinion from its legal counsel to guide its analysis of the various legal issues surrounding the Palau Stablecoin Pilot Project. Furthermore, we reviewed bank statements and the MOF's financial records and reports pertaining to the deposit and expenditure of funds for the project. Finally, we interviewed the Ministry of Finance's key personnel responsible for the Project's administration.

PRIOR AUDIT COVERAGE

The latest Single Audit of the Republic of Palau, that included the Ministry of Finance, was for the fiscal year ended September 30, 2021, which would be outside the scope of the activities surrounding the Stablecoin Pilot Project. Consequently, there were no other audits, evaluations, or studies to consider pertaining to the Palau Stablecoin Pilot Project.

PROJECT EXPENDITURES

On March 10, 2023, Ripple Services Inc. deposited $25,000 into the Republic of Palau National Treasury. The money was to be used to fund the activities of the pilot project, primarily the use of the PSC. The total project expenditures amounted to $14,035, leaving a balance of $10,965. The bulk of the project expenditures was incurred as payments to the three participating vendors to redeem the stablecoins used by test participants at these retail establishments. According to Director Anson, the disposition of the remaining funds is contingent upon the decision of the parties as to how to move forward with the outcome of the first phase of the project. No final decision has been made as of the date of this report.

POST DATE	AMOUNT	CHECK NO	VDR NAME/ITEM DESC	COMMENTS
DEPOSIT				
03/17/2023	$ 25,000.00	0		030223WT-RIPPLE SERVICE INC
EXPENDITURE				
08/11/2023	$ 15.00	120935	KING'S MINUTE MART	STABLECOIN REDEMPTION PAYMENT
08/11/2023	$ 1,354.00	120935	KING'S MINUTE MART	STABLECOIN REDEMPTION PAYMENTS
08/11/2023	$ 10.00	121000	THE PENTHOUSE HOTEL	STABLECOIN REDEMPTION PAYMENTS
08/11/2023	$ 500.00	121000	THE PENTHOUSE HOTEL	STABLECOIN REDEMPTION PAYMENTS
08/14/2023	$ 2,159.00	1676	SURANGEL & SONS CO.	STABLECOIN REDEMPTION PAYMENTS
08/14/2023	$ 1,374.00	1676	SURANGEL & SONS CO.	STABLECOIN REDEMPTION PAYMENTS
08/24/2023	$ 375.00	121740	KING'S MINUTE MART	STABLECOIN REDEMPTION PAYMENTS
08/24/2023	$ 1,317.00	1718	SURANGEL & SONS CO.	STABLECOIN REDEMPTION PAYMENTS
10/05/2023	$ 2,334.00	123850	KING'S MINUTE MART	STABLECOIN REDEMPTION PAYMENTS
11/27/2023	$ 4,021.00	99669	SURANGEL & SONS CO.	STABLECOIN REDEMPTION PAYMENT
11/27/2023	$ 576.00	127660	THE PENTHOUSE HOTEL	STABLECOIN REDEMPTION PAYMENTS
TOTAL EXPENDITURE	$ 14,035.00			
REMAINING FUNDS	$ 10,965.00			

FINDINGS AND RECOMMENDATIONS

Based on the audit, the Office of the Public Auditor determined that the services agreement (Ripple Master Hosted Stablecoin Services Agreement) between the Ministry of Finance and Ripple Services, Inc. to administer the Palau Stablecoin Pilot Project to evaluate the feasibility of the use of a stablecoin payment system falls within the MOF's broad authority and does not constitute a violation of its mandate set by law. In addition, Ripple's financing (investment) in the Project, $25,000, was properly accounted for and deposited into the National Treasury on March 10, 2023, and appropriated through the 2023 Budget Law (RPPL 11-24, Section 18, Outside Grants and Development Assistance), prior to disbursement. Furthermore, the participation of government employees, whether as administrators or volunteers, during the course of the pilot project, did not interfere with their duties and responsibilities or conflict with the Public Service System rules and regulations. However, we did find that two important certification processes required by the Republic of Palau laws were not obtained, as described in Findings 1 and 2 below:

Finding No. 1: The Agreements were not certified by the Attorney General

The Republic of Palau Procurement Law and Regulations, 40 PNCA Chapter 6, under §612, Duties of Attorney General, states… "The Attorney General…shall certify the form and legality of every government contract and change order."

We found that the Ministry of Finance and Ripple executed a Memorandum of Understanding (MOU) and its implementing Services Agreement (Ripple Master Hosted Stablecoin Services Agreement) without the certification by the Attorney General as required by law.

We were unable to determine why the MOU and its implementing Services Agreement bypassed the Attorney General's review and certification for form and legality.

Without proper review and certification by the Attorney General, the ROP cannot ascertain the form and legality of the agreements as intended by law. Consequently, any terms and conditions in the agreements that may not serve the benefit or best interest of the ROP may not have undergone the legal scrutiny necessary to protect the ROP.

Recommendation: We recommend the Ministry of Finance adhere to and comply with the ROP's Procurement Law and Regulations by ensuring that every government contract and/or agreement is certified by the Attorney General for form and legality. In doing so, the Ministry should not effectuate or process any contract or agreement without the required certification by the Attorney General.

Ministry of Finance's Response: Thank you for the findings, which are accepted as presented…Please note that we have consistently relied upon legal advice provided by the Office of the President's legal staff. We also understand that agreements that do not bind the Republic are often acceptable without AG review, as in the case of the MOU. *See Appendix 1, page 7-8, for the complete response.*

Finding No. 2: The availability of funds was not certified by the National Director of Program, Budget, and Management

40 PNC §603 directs that the Procurement Law "applies to every expenditure of public funds by the national government or any government agency . . . that receives national government funding or state governments, irrespective of source, including United States Federal assistance monies." In addition, 40 PNC Section 401 (b) states: "No person shall enter into any contract which purports to obligate public funds or which purports to obligate funds from any appropriation, apportionment, reapportionment, or allotment of funds made available or appropriated by the Olbiil Era Kelulau (OEK, Palau National Congress) or of public funds from any other source whatsoever, unless the National Director of Program, Budget and Management…first certifies in

writing on the document to be used as a contract that funds are available to complete the contract. Any contract entered into in violation of this subsection shall be void. […]". Furthermore, 40 PNC Section 401 (a) states, "Unless otherwise specified by law, all projects and operations financed by means of appropriation laws of the Olbiil Era Kelulau shall be contingent upon the availability of funds. No person shall obligate or expend any funds made available or appropriated by the Olbiil Era Kelulau until he receives written certification from the National Director of Program, Budget and Management for expenditures and obligations of the executive branch. . . that funds are available and that obligations may be incurred."

Financing for the Stablecoin Pilot Project, $25,000, provided by Ripple Services Inc. pursuant to a "Ripple Master Hosted Stablecoin Services Agreement", was deposited into the National Treasury and appropriated by the Olbiil Era Kelulau; thus, requiring prior certification of funds by the National Director of Program, Budget and Management to incur obligations or expenditures. In respect to the aforementioned 40 PNC Section 401 (b), we found no evidence to substantiate that the Services Agreement referred to above was properly certified by the National Director of Program, Budget and Management that funds are available to complete the contract. However, with respect to 40 PNC Section 401 (a), a review of the actual disbursement of funds revealed that certification of funds did occur.

It appears the absence of certification of the Services Agreement by the Attorney General for form and legality, as noted in Finding No. 1 above, may have contributed to the Agreement bypassing the required certification of funds availability by the National Director of Program, Budget and Management.

Without the proper certification of funds availability by the National Director of Program, Budget and Management that funds are available to complete a contract, the critical internal control mechanism intended to prevent the occurrence of expenditures without appropriation is bypassed. This is an important checkpoint that ensures that expenditures do not occur without appropriation as intended by law. In this case, however, although the National Director of Program, Budget, and Management did not certify the agreement that funds are available, the certification of funds did occur at the point of actual disbursement of funds; thus, complying with Section 401 (a) above.

Recommendation: We recommend the Ministry of Finance be more diligent in processing contracts and/or agreements that involve expenditures of public funds to ensure that the required certifications by the National Director of Program, Budget, and Management for funds availability is obtained pursuant to law. Absent the required certifications, contracts and/or agreements should not be processed and returned to the initiating department.

Ministry of Finance's Response: Thank you for the findings, which are accepted as presented…Regarding funds certification, there was certification of the payments in the pilot. Taken separately, this would be the normal procedure and requirement. You also note the grant nature of the project which is generally covered by grants under budget laws each year. *See Appendix 1, page 7-8, for the complete response.*

CONCLUSION

The Ministry of Finance, on behalf of the Republic of Palau, endeavors to enhance its fintech strategy to support a diversified economy bolstered by digital payment systems. Acting within its authority, the Ministry of Finance entered into a services agreement with Ripple Services Inc. to establish a collaborative partnership to explore the technology, use cases, and potential solutions and benefits associated with digital payments and creating a digital currency backed by the US Dollar for Palau- Palau Stablecoin or PSC. Through a Services Agreement, the partnership launched the Palau Stablecoin Pilot Project to explore and implement, in a secure and controlled live environment, technological solutions enabling the Ministry of Finance to manage the minting, distribution, redemption, and destruction of PSC digital currency recorded on the public XRP Ledger resource.

The project aims to improve financial access for underserved communities by lowering transaction costs and increasing efficiency. Additionally, stablecoin adoption could reduce energy consumption from currency transportation, supporting Palau's sustainability goals. The project was funded by Ripple Services Inc. with a contribution of $25,000, which was deposited into the National Treasury and appropriated in the FY 2023 Budget Law. The funds were used to redeem stablecoins used by participating volunteers to make purchases at participating local vendors.

While the MOF executed the pilot project within its authorized mandate, the MOF carried out the project without obtaining the required certifications from the Attorney General and the National Director of Program, Budget, and Management.

Any further steps toward establishing a circulating currency would require legislative approval. Without the enactment of a law by the Olbiil Era Kelulau, such an expansion would be unlawful.

The Office of the Public Auditor would like to thank the staff and management of the Ministry of Finance for their professional courtesy and cooperation during this audit.

Satrunino Tewid
Acting Public Auditor
Republic of Palau

APPENDIX 1

REPUBLIC OF PALAU
Office of the Minister
Ministry of Finance
P.O. Box 6011
Koror, Republic of Palau 96940
Tel:(680)767-2561/Fax:(680)767-2168/E-mail : mof@palaugov.org

May 28, 2025
Serial No. MOF-2025-057

Office of the Public Auditor
Received
Date 5/28/25 Time 2:33pm
Received By meilah
No. OPA 25-040

Mr. Satrunino Tewid
P.O. Box 850
Koror, Republic of Palau

Subject: Response to Report on Stablecoin Pilot Project

Dear Public Auditor,

Apologies for the delay. To expedite my response, I am sending you this letter via email, hardcopy to follow, representing my response to the performance audit on the subject project.

First, let me thank you for issuing such a good report. I know you are busy with getting the National Government Audits finalized. The audit plan is ambitious and requires the full attention of the Republic.

Second, thank you for the findings, which are accepted as presented. Many countries, large and small, are pursuing innovative solutions to long-standing challenges in the payment system space that are only now possible because of new technology. Many of these countries are also having to design new structures to govern this space given the popularity of decentralized payment systems—of which our Stablecoin project is not one.

Lastly, due mainly to the issues raised in the foregoing paragraph, the appropriate rules are often non-existent. As part of our Stablecoin project4, we have developed and proposed to President Whipps a payment system legislation developed by the World Bank for the Pacific Region.

Please note that we have consistently relied upon legal advice provided by the Office of the President's legal staff. We also understand that agreements that do not bind the Republic are often acceptable without AG review, as in the case of the MOU.

Regarding funds certification, the payments were certified in the pilot. Taken separately, this would be the normal procedure and requirement. You also note the grant nature of the project which is generally covered by grants under budget laws each year.

I note for your consideration that, taken as a whole, the grant is the service itself as a checking account that would be viewed under procurement. The funds that were provided were like paper provided with a new printer. The funds would not have been provided without the payment service. This view is non-traditional, as is the issue at hand. We do intend to address this issue

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As part of the process in procuring the final service similar to that has been proven to be valuable by the pilot. Guidance by GASB and FASB will likely soon be developed which we will incorporate to address government involvement in this FinTech Space.

Thank you again for your good work and the opportunity to comment on the report.

Best regards,

Kaleb Udui Jr.
Former Minister of Finance

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, Palau

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

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(Closed on Legal Holidays)