OFFICE OF THE PUBLIC AUDITOR
REPUBLIC OF PALAU

PERFORMANCE AUDIT REPORT

on

ADB-KASP LOAN PAYMENTS

administered by

MINISTRY OF FINANCE
REPUBIC OF PALAU

For the period of October 1, 2023, through September 30, 2024

Performed by the Office of the Public Auditor

Report Number: 2025-007

REPUBLIC OF PALAU

Office of the Public Auditor

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26-022au
October 28, 2025

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

Subject: **Final Report on the Audit of the ADB-KASP Loan Payments administered by the Ministry of Finance in fiscal year 2024.**

Dear Director Udui:

This report presents the results of our audit of the "ADB-KASP Loan Payments" administered by the Ministry of Finance in fiscal year 2024.

The Office of the Public Auditor (OPA) 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, the OPA will be available at your request.

Sincerely,

Satrunino Tewid
Acting Public Auditor
Republic of Palau

ADB-KASP LOAN PAYMENTS

Administered by
Ministry of Finance
Republic of Palau

For the period of October 1, 2023, through September 30, 2024

Table of Contents

EXECUTIVE SUMMARY 1
BACKGROUND 2
KASP LOAN PAYMENT HISTORY 3
REQUEST FROM SENATE 4
AUTHORITY OF AUDIT 4
AUDIT OBJECTIVE, SCOPE, AND METHODOLOGY 4
PRIOR AUDIT COVERAGE 5
AUDIT FINDINGS AND RECOMMENDATIONS 5
Finding No. KASP 25-01: Compliance with RPPL No. 11-31, Section 36 5
Finding No. KASP 25-02: Authorization and Appropriation of Funds for Debt Payment 7
CONCLUSION 8
APPENDIX 1: Auditee's Response 9

EXECUTIVE SUMMARY

At the request of the Senate, 12th Olbiil Era Kelulau, the Office of the Public Auditor (OPA) initiated an audit of the Asian Development Bank Koror-Airai Sanitation Project loan payments administered by the Ministry of Finance of the Republic of Palau in fiscal year 2024.

The objective of the audit is to determine whether: (1) the Government of the Republic of Palau (ROP), through the Ministry of Finance (MOF), and the Palau Public Utilities Corporation (PPUC) properly disbursed public funds for payment of the Asian Development Bank (ADB) loans used to finance the Koror-Airai Sanitation Project (KASP) and (2) restrictions imposed in RPPL No. 11-31, Section 36, prohibiting the use of public funds to pay the ADB-KASP Loans, were adhered to.

In summary, the report disclosed the following issues for your consideration and further action:

AUDIT FINDINGS

The Office of the Public Auditor reported on two findings:

(1) The ROP's Ministry of Finance complied with the decree (loan payment prohibition) imposed under the RPPL 11-31, Section 36, by suspending all loan payments until conditions articulated in RPPL 11-31, Section 36, are achieved.

(2) The fiscal year 2024 Annual Unified Budget Submission by the President of the ROP did not reflect the KASP loan and related debt service payments in accordance with RPPL 11-13.

RECOMMENDATIONS

To resolve the above Findings, the report offers two recommendations, in the same order, as follows:

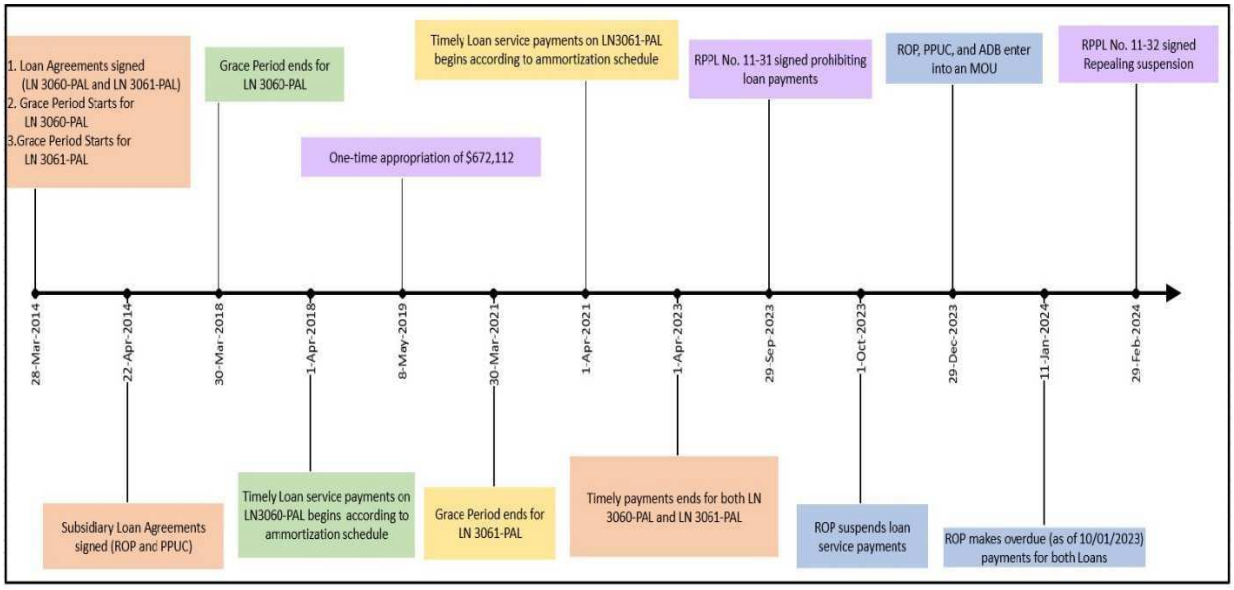
(1) The MOF continues to oversee and follow up on the PPUC's action plans and project schedule for the implementation of the ICB-05, the unfinished section of the KASP, to ensure the plans are carried out in accordance with the Project Schedule to their final conclusion and completion.

(2) The MOF discloses all borrowings and debt service payments in the President's annual budget submission in accordance with the RPPL 11-13 and related laws.

BACKGROUND

The Koror–Airai Sanitation Project (KASP), administered by the Palau Public Utilities Corporation (PPUC), was financed through loan agreements between the Republic of Palau (ROP) and the Asian Development Bank (ADB). These agreements were approved on February 5, 2014, under House Joint Resolution No. 9-46-4 HD1, which authorized the President of the Republic of Palau to secure loans from the ADB for the renovation and construction of sewage and water systems in Koror and Airai. **Figure 1** below illustrates the timeline of KASP loan agreements, repayment history, and key legislation affecting loan payments.

Figure 1: KASP Related Events



On March 28, 2014, the ROP entered into two separate loan agreements with the ADB for a total of USD $28.158 million to finance the KASP (see **Table 1**).

Table 1: ADB-KASP Loans

Loan No.	Loan Amount (Million)	Repayment Period	Terms of Repayment Schedule
LN 3060-PAL	$26.900	20 years	Semi-Annual (April 1st & October 1st) *Beginning April 2018 to October 2037*
LN 3061-PAL	$1.258	24 years	Semi-Annual (April 1st & October 1st) *Beginning April 2021 to October 2044*
TOTAL	$28.158		

Under the terms of the loan agreements, the ROP was required to relend the proceeds to PPUC for implementation of the KASP. Accordingly, the ROP entered into two subsidiary loan agreements with PPUC: The Ordinary Capital Resources (OCR) Subsidiary Loan Agreement for $26.900 million and the Asian Development Fund Subsidiary Loan Agreement for $1.258 million. Because the ROP is the primary borrower, it remains responsible for repayment of the loan to ADB. The relending agreements with PPUC substantially mirror the terms of the original loan agreements. To facilitate repayment, PPUC is obligated to make installment payments to the ROP, which in turn remits payments to the ADB.

The construction of the KASP began in September 2016, targeting critical upgrades across Koror, following the reduction of the scope of work that initially included parts of Airai. Although major scopes of work (ICB-01 through ICB-03) were completed, the Malakal component (ICB-05) was left unfinished, leaving approximately $1.3 million in loan financing unspent as of September 30, 2024, of which $750,000 is reserved for financing ICB-05 and $585,622 for planned refurbishment works at auxiliary pump stations, purchase of essential equipment and materials, and other technical services. Project delays, rising tariffs, and the ongoing burden of loan repayment raised concerns within the Olbiil Era Kelulau (OEK). In response, OEK passed RPPL No. 11-31 on September 29, 2023, with section 36 prohibiting the use of public funds to service KASP loans until ROP, PPUC, and ADB reached an agreement on the unresolved issues.

This restriction led to negotiations, and on December 29, 2023, the ROP, PPUC, and ADB executed a Memorandum of Understanding (MOU) committing to complete the project. Following an ADB mission in February 2024, ADB pledged $650,000 in technical assistance and $2 million in grants to complete the Malakal scope (ICB-05), which is estimated to cost $2.6–$2.8 million. At the time of this audit, PPUC and its consultants were conducting negotiations with the prime vendor leading towards contract award for ICB-05.

KASP LOAN PAYMENT HISTORY

Repayments of the loan began after the grace periods expired in March 2018 for LN 3060 and March 2021 for LN 3061 and continued semi-annually per the amortization schedules.

As shown in **Table 2**, Loan Payment Schedules, the only interruption occurred in October 2023, when loan payments were suspended under RPPL No. 11-31, Section 36. Following the December 29, 2023, MOU, the overdue October 1, 2023, installment was paid on January 11, 2024.

Subsequently, RPPL No. 11-32, enacted on March 5, 2024, repealed the loan repayment prohibition and appropriated $3 million for KASP loan repayments in FY 2024. Loan payments then resumed as scheduled.

Table 2: Loan Payment Schedules

LN3060-PAL		
Due Dates	Check Date	Amount
1-Apr-2018	4/2/2018	$ 222,646.47
1-Oct-2018	10/5/2018	$ 277,734.99
1-Apr-2019	3/28/2019	$ 394,376.58
1-Oct-2019	9/17/2019	$ 472,661.59
1-Apr-2020	3/18/2020	$ 527,753.30
1-Oct-2020	9/28/2020	$ 727,784.35
1-Apr-2021	3/23/2021	$ 684,570.45
1-Oct-2021	9/23/2021	$ 721,842.11
1-Apr-2022	3/28/2022	$ 738,063.51
1-Oct-2022	10/3/2022	$ 194,065.98
	10/28/2022	$ 669,419.34
1-Apr-2023	4/28/2023	$ 1,171,018.87
1-Oct-2023	1/11/2024	$ 1,263,195.27
1-Apr-2024	3/22/2024	$ 1,079,191.04
1-Oct-2024	9/25/2024	$ 1,267,249.23
1-Apr-2025	3/10/2025	$ 1,181,226.60

LN3061-PAL		
Due Dates	Check Date	Amount
1-Apr-2021	3/23/2021	$ 37,769.40
1-Oct-2021	9/23/2021	$ 37,289.79
1-Apr-2022	3/28/2022	$ 36,684.12
1-Oct-2022	10/3/2022	$ 9,513.05
	10/28/2022	$ 34,513.84
1-Apr-2023	4/28/2023	$ 45,791.26
1-Oct-2023	1/11/2024	$ 46,478.81
1-Apr-2024	3/22/2024	$ 44,838.52
1-Oct-2024	9/25/2024	$ 45,347.98
1-Apr-2025	3/10/2025	$ 45,366.92

REQUEST FROM SENATE

On February 28, 2025, the Office of the Public Auditor (OPA) received a request from the Senate Committee on Ways and Means and Financial Matters, 12th OEK, to look into possible unauthorized expenditure of public funds on KASP loan repayments. The Committee's concern was that the repayments made to ADB in the fiscal year 2024 may have been unauthorized because of RPPL No. 11-31, Section 36, Koror-Airai Sanitation Project and related debt obligations, which suspended loan repayments pending resolution of issues related to the unfinished component of KASP. Based on this premise, the Office of the Public Auditor decided to audit the KASP Loan Repayment.

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 implemented 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.)

AUDIT OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of the audit is to determine whether: (1) the Government of the Republic of Palau, through the Ministry of Finance, and the Palau Public Utilities Corporation properly disbursed public funds for payment of the Asian Development Bank loans used to finance the Koror-Airai Sanitation Project and (2) restrictions imposed in RPPL No.11-31, Section 36, prohibiting the use

of public funds to pay the ADB-KASP Loans, were adhered to.

The scope of the audit covered the period of October 1, 2023, to September 30, 2024, encompassing the period covering the loan payment prohibition, and other periods as necessary, to accomplish the audit objective.

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

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.

To accomplish our audit objective, we reviewed the Loan Agreements between ROP and ADB, the House Joint Resolution No. 9-46-4 HD1, and RPPL No. 11-31, Section 36, the MOUs between ROP and PPUC, and the MOU between ROP, ADB, and PPUC.

Additionally, we examined the MOF's documents and reports, including KASP loan repayment expenditures reports, KASP loan expenditures supporting documents, journal entries, and related transaction details. Moreover, we conducted interviews with key management at the MOF and PPUC. Lastly, we consulted with the OPA's Legal Counsel for legal advice on policies and related legal matters.

PRIOR AUDIT COVERAGE

The Office of the Public Auditor previously conducted an audit of the PPUC's Koror-Airai Sanitation Project and issued its report on May 14, 2021. This report cited a number of issues that contributed to the unfinished KASP, including inadequate planning, delays, a reduction in the KASP scope of work, and other issues. While those findings provide context, they were outside the scope of this audit. The most recent Single Audit of the ROP is for fiscal year 2022; however, those activities are outside the scope of this audit.

AUDIT FINDING AND RECOMMENDATIONS

Finding No. KASP 25-01: Compliance with RPPL No. 11-31, Section 36

The ROP and ADB entered into two loan agreements to provide US$28.158 million financing for the construction of the KASP, as approved by House Joint Resolution No. 9-46-4 HD1. Due to mounting public concerns regarding the unfinished KASP, the Olbiil Era Kelulau enacted the RPPL No. 11-31. Section 36 suspended repayments on loans used to fund the KASP until an agreement was reached between the ROP, PPUC, and ADB on unresolved issues relating to the unfinished component of the project.

The Olbiil Era Kelulau enacted RPPL 11-31, Section 36, in response to mounting public concerns related to the unfinished KASP, including concerns about prolonged delays, tariff increases, and repayment of the loan. The OEK was concerned that the tariff increase was set by the PPUC to provide a revenue source for the payment of the KASP loan (payment to ROP), even though the KASP remains unfinished. The OEK raised the same concern with respect to the ROP repaying the loan to ADB on an unfinished project.

Based on our audit, the OPA found that the Ministry of Finance, on behalf of the Republic of Palau, and the Palau Public Utilities Corporation, complied with the restrictions imposed in the RPPL No. 11-31, specifically Section 36, prohibiting the payment of the KASP loan with public funds.

We found that the ROP suspended payments on both loans as required by RPPL No. 11-31, Section 36. Billing statements from ADB for both loans showed that payments due October 1, 2023, were not made at that time. The payments were put on hold and the Ministry of Finance made the payments to the ADB on January 11, 2024, following the signing of the MOU to meet the requirements of the RPPL 11-31, Section 36. This outcome is further affirmed in RPPL No. 11-32 Section 1, legislative findings, wherein it states "… In December 2023, the President of the Republic concluded a Memorandum of Understanding with the Asian Development Bank concerning the completion of the Koror-Airai Sanitation Project. Furthermore, under Section 3, Repealer, the Act repealed Section 36 of RPPL No. 11-31 in its entirety."

The ROP and PPUC were mindful that not resolving the loan payment prohibition contained in RPPL 11-31, Section 36, quickly would only perpetuate delay in making the required KASP loan payments; thus, potentially defaulting on the loan and blacklisting the ROP for future loan or grant opportunities.

Recommendation: We commend the Ministry of Finance and the PPUC for expediting the dialogue and entering into an MOU with the ADB to resolve the issues surrounding the unfinished KASP and related loan payments. We also commend the OEK for its action to compel the MOF and PPUC to take actionable measures to move the KASP forward towards completion. In addition, we credit the OEK for acting swiftly to repeal the prohibition of loan repayments, the continuation of which would likely put at risk the possibility of the ROP defaulting on the loan and facing potential blacklisting and disrepute. This outcome would place the ROP in an unfavorable position for future financial assistance from the ADB, other development partners, and financial institutions. Finally, we recommend that the Ministry of Finance continue to oversee and follow up on the PPUC's action plans and project schedule for the implementation of ICB-05, the unfinished section of the KASP, to ensure that the plans are carried out in accordance with the project schedule to their final conclusion and completion of the KASP.

MOF's Response: *I concur with the finding as presented. The Ministry of Finance complied with the decree imposed by RPPL 11-31 regarding loan payment prohibition.*

Finding No. KASP 25-02: Authorization and Appropriation of Funds for KASP Loan Payment

RPPL No. 11-13, the National Government Fiscal Responsibility and Debt Management Act, Section 505(i) states: "The annual national budget shall reflect all borrowings, repayment obligations, and issuances of securities and bonds of the Republic in detail, for every year such borrowing is in effect."

In addition, Subsection (l) states: "The Olbiil Era Kelulau shall authorize and appropriate such sums as may be necessary to meet the legal obligations incurred by the Republic under this chapter."

Moreover, prior to RPPL 11-13, 40 PNC § 323 and 329 require a Fund Availability Analysis (FAA) and estimated expenditures as part of the annual budget submission.

The audit revealed that the 2024 fiscal year annual unified national budget submission by the President did not reflect the borrowings and debt service payments for the KASP loan in accordance with RPPL 11-13 and related laws. However, in the absence of the required submission, the Olbiil Era Kelulau in the RPPL No. 11-32, Section 44, authorized and appropriated $3,000,000 for fiscal year 2024 for the purpose of payment of the ADB KASP loans. The list below shows debt service payments for the KASP loan in fiscal year 2024:

Loan Description	Due Date of Payment	Date of Payment	Amount Paid
3060-PAL	October 1, 2023	January 11, 2024	$ 1,263,195.27
3060-PAL	April 1, 2024	April 1, 2024	$ 1,079,191.04
3061-PAL	October 1, 2023	January 11, 2024	$ 46,478.81
3061-PAL	April 1, 2024	April 1, 2024	$ 44,838.52
Subtotal			$ 2,433,703.64

According to the Ministry of Finance, the reason the KASP loan payments were not reflected in the 2024 budget submission is that the MOF assumed that the KASP loan was an obligation of the PPUC and, therefore, did not require disclosure in the 2024 Annual Unified National Budget of the ROP. However, this assumption is misguided as the KASP loan is between the ROP and ADB, for which the House Joint Resolution No. 9-46-4 HD1 authorized the President of the ROP to negotiate and secure a loan with ADB. The proceeds of the ADB loan were relent by the ROP to the PPUC for the financing of the KASP; thus, the PPUC's obligation is to the ROP, and the ROP's obligation is to the ADB.

As a result, the 2024 budget submission did not comply with the intent of RPPL 11-13 and related laws. However, absent the essential budget authority in the fiscal year 2024 Annual Unified National Budget to make the required KASP loan payments in FY 2024, that authority was subsequently authorized and appropriated in the RPPL 11-32; thus, providing the budget authority for the KASP loan payments in fiscal year 2024.

Recommendation: We recommend that the Ministry of Finance disclose all borrowings and debt

service payments in the President's annual budget submission in accordance with the RPPL 11-13 and related laws. To that point, all projected revenues, including sources, should be disclosed in the Fund Availability Analysis, and all projected use of those revenues (planned expenditures) should be reflected in the budget submission for the ensuing fiscal year.

MOF's Response: *I concur with the finding as presented. Loans such as KASP that are relent to sub-agencies have not been reflected in the Budget in the past.*

While the final decision to report all debt management in the National Budget rests with our leaders, I will definitely support this format in future budgets. The Ministry of Finance, specifically the Debt Management Unit, does prepare reports on outstanding loans on a Republic-wide basis internally. In the future, we plan to issue reports and bulletins that provide broad information on our debt for wider distribution.

CONCLUSION

In conclusion, the Office of the Public Auditor deduced that the Ministry of Finance complied with the loan payment restrictions imposed in the RPPL No. 11-31, Section 36. However, in the matter of KASP loan payments, the RPPL 11-13 is specific that all borrowings and debt service payments should be reflected in the annual unified budget submission, which was not done so in the fiscal year 2024 budget submission.

Finally, the OPA would like to thank the Management and Staff of the Ministry of Finance, National Treasury, for their professional courtesy and valuable cooperation during our audit.

Sincerely,

Satrunino Tewid
Acting Public Auditor
Republic of Palau

October 28, 2025

Appendix 1: Auditee's Response

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October 7, 2025
Serial No. MOF-2025-057

Office of the Public Auditor
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No. OPA 26-002

Mr. Satrunino Tewid
Acting Public Auditor
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Subject: Response to Report on Koror Airai Sanitation Project Loan Payments

Dear Mr. Public Auditor,

Thank you for sharing your draft report on ADB-KASP Loan Payment compliance report. I think the report is well written and focused on key issues that will improve management of Public Funds. I also note you are busy with National Government Audits and note the progress that is being made to have the FY23 to FY25 audits finalized by the end of next calendar year. The is an ambitous audit plan that requires the full attention of the Republic to avoid a crisis.

Second, thank you for succinctly outlining the findings of your review. I concur with the findings as presented. For the first finding, the Ministry of Finance complied with the decree imposed by RPPL 11-31 regarding loan payment prohibition. For the second finding, loans such as KASP that are relent to subagencies have not been reflected in the Budget in the past.

While the final decision to report all debt in the National Budget rests with our leaders, I will definitely support this format in future budgets. The Ministry of Finance, specifically the Debt Management Unit, does prepare reports on outstanding loans on a Republic-wide basis internally. I the future, we plan to issue reports and bulletins that provide broad information on our debt for wider distribution.

Thank you 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:

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