

September 9, 2010

Ms. Deborah Barker-Manase
General Manager
National Environmental Protection Authority

Dear Ms. Barker-Manase:

In planning and performing our audit of the financial statements of the National Environmental Protection Authority Fund (EPA) as of and for the year ended September 30, 2009, (on which we have issued our report dated September 9, 2010) in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered EPA's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of EPA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of EPA's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to EPA's internal control over financial reporting and other matters as of September 30, 2009 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated September 9, 2010, on our consideration of EPA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreement and other matters.

The definition of a deficiency is also set forth in the attached Appendix I.

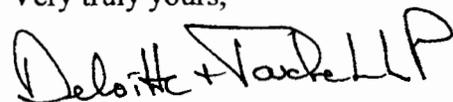
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of the Board of Directors, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of EPA for their cooperation and assistance during the course of this audit.

Very truly yours,



SECTION I – CONTROL DEFICIENCIES

We identified, and have included below, control deficiencies involving the EPA's internal control over financial reporting as of September 30, 2009 that we wish to bring to your attention:

(1) Fixed Asset Register

The lack of a reconciliation of the fixed asset register to the general ledger and a lack of review of fixed asset and depreciation schedules led to over recognition of depreciation expense and a negative net book value of \$4,362. Accordingly, we proposed an audit adjustment to correctly record depreciation expense. We recommend monitoring and review of the fixed asset register.

(2) Closing of books

The preliminary opening fund balance was not reconciled to prior year audited accounts. Not all prior year adjustments were recorded which resulted in misstatements in the preliminary balance sheet accounts. Accordingly, we proposed an audit adjustment to correctly present beginning net assets. We recommend that appropriate financial closing and reconciliation procedures, including related reversal of closing balances in the subsequent period, be implemented.

(3) Grant Receivable Recording and Monitoring

During the year, a grant receivable was credited but no related receivable was ever established. Further, a 2006 grant has an outstanding balance of \$1,945 as at September 30, 2009 even though the program was discontinued in 2007. Accordingly, we proposed an audit adjustment to correctly record grant revenue. We recommend that review of receivable sub ledger accounts be performed to identify unusual credit balances and long outstanding receivables.

(4) Payroll Reconciliation

The payroll transaction report and the summary of expenditures per budget report from the Ministry of Finance are not reconciled by \$4,575. We recommend monitoring, review and reconciliation of payroll reports to ascertain whether funding provided by RepMar is misstated.

(5) Accounts Receivable with Credit Balances

As at September 30, 2009, credit receivable balances amounted to \$3,762. Lack of monitoring resulted in unusual debit/credit balances. We recommend that management ensure that credit balances are reviewed and timely adjusted.

(6) Grant Fund Balance Monitoring and Reconciliation

We noted a discrepancy between the cash balance per the bank reconciliation and the expected fund balance which was calculated based on funds received less those expended. Since no reconciliation is maintained, the difference could indicate that specific grant funds may have been used for unrelated projects. Lack of reconciliation may lead to an incorrect fund balance which may impact the budget and related project implementation activities. We recommend that policies and procedures be in place to ensure that grant funds are expended in accordance with grant terms and conditions. Monitoring and reconciliation should be implemented to support variances between the bank balance and the expected project fund balance.

(7) Project Expenditure Reconciliation

Recorded expenses per QuickBooks do not agree with the amount of disbursed funds in the progress reports. Variances between QuickBooks and disbursed funds per the project progress reports should be reconciled, supported and documented. This would help ensure timely recording of expenses and will serve as a more reliable basis of reporting expenses.

(8) Contract Agreement

EPA does not maintain a copy of the MOU with CMI-CRE for the Water Quality Awareness and Monitoring Project. This was later obtained from CMI. We recommend that documents underlying significant agreements and transactions entered into by EPA be obtained and be on file.

(9) Journal Entries

During the year, we noted unsupported, inappropriate journal entries with incorrect attachments. Further, unusual receivable credit balances were noted as a result of posting errors. We recommend that adequate journal entry review be implemented to help reduce uncorrected errors, irregularities and inaccurate or incomplete information in accounts and reports. There should be another level of review and approval performed by a knowledgeable individual independent of the process. The review process shall include transaction validation and checking of supporting documentation. Journal entries should contain supporting documentation to validate the nature of the transaction and to allow for determination of the proper accounting treatment to be followed which would enable the reviewer to identify errors and omissions. The review and approval should be documented to verify that a review has been performed.

(10) Travel Advance

In accordance with RepMar travel rules and regulations, travelers are required to submit within fifteen days of the end of travel, a travel voucher claim (TVC) to liquidate travel advances. Failure to submit a TVC within the required period results in a payroll deduction.

As of September 30, 2009, travel advances which remained unliquidated include transactions from 2005. We recommend that management ensure compliance with established travel policies.

(11) Expense Accrual

EPA does not accrue for expenses incurred. We recommend proper cut-off in recording expenses. Recurring expenses unbilled at year-end and subsequent payment for billings received before year-end should be appropriately provided for. Subsequent billings should be reviewed for recognition in the correct accounting period. Year-end accruals should be evaluated for adequacy and reasonableness.

SECTION II — OTHER MATTERS

Our observations concerning other matters related to operations, compliance with laws and regulations, and best practices involving internal control over financial reporting that we wish to bring to your attention at this time are as follows:

(1) Progress Reports

The EPA accounting/finance office does not maintain copies of progress reports. Progress reports signed by an appropriate officer are a required submission. The reports include financial statements and a narrative account of what has been accomplished by the expenditure of funds, including a description of progress made towards achieving project goals. We recommend that signed reports be obtained and filed to facilitate report reconciliation and to track financial reporting progress.

SECTION II — OTHER MATTERS, CONTINUED

(2) Bank Reconciliation

A bank reconciliation for EPA Grants Account # 105055355 is prepared every mid-month following the bank statement date. We recommend that the bank reconciliation be prepared as of September 30 to coincide with the financial reporting date and to facilitate recording and transactional cut-off.

SECTION III – DEFINITIONS

The definition of a deficiency that is established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, is as follows:

A *deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

EPA's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.