

REPUBLIC OF THE MARSHALL ISLANDS

OFFICE OF THE AUDITOR-GENERAL

NATIONAL ENVIRONMENTAL
PROTECTION AUTHORITY FUND

(A COMPONENT UNIT OF THE REPUBLIC
OF THE MARSHALL ISLANDS)

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2015 AND 2014



AUDIT No.: OAG 06/15-2077

December 19, 2016
Date

P.O. BOX 245
MAJURO, MH 96960
REPUBLIC OF THE MARSHALL ISLANDS

**NATIONAL ENVIRONMENTAL
PROTECTION AUTHORITY FUND**

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**NATIONAL ENVIRONMENTAL
PROTECTION AUTHORITY FUND**

Years Ended September 30, 2015 and 2014

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REPUBLIC OF THE MARSHALL ISLANDS
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Republic of the Marshall Islands
National Environmental Protection Authority Fund:

Report on the Financial Statements

We have audited the accompanying financial statements of the National Environmental Protection Authority (EPA) Fund, a component unit of the Republic of the Marshall Islands, which comprise the statements of net position as of September 30, 2015 and 2014, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Environmental Protection Authority Fund as of September 30, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

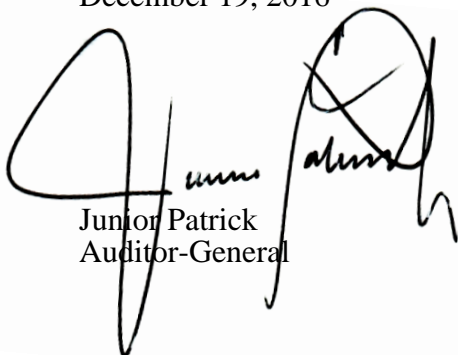
Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 7 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2016, 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 agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financing reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering EPA's internal control over financial reporting and compliance.

December 19, 2016



Junior Patrick
Auditor-General

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Management's Discussion and Analysis
September 30, 2015 and 2014

This section of the Environmental Protection Authority (EPA) annual financial report presents our discussion and analysis for EPA's financial performance during the fiscal year that ended on September 30, 2015. Please read it in conjunction with the financial statements, which follow this section.

EPA PURPOSE AND MANDATE

The EPA was first established in 1984 while the Republic of the Marshall Islands (RMI) was in its last years as a UN Trust Territory administered by the USA. The *Environmental Protection Act* and the activities encompassed by the EPA were largely set up at that time. A global shift in focus towards environmental issues, increased rate of development, and issues such as waste management on small islands has left the EPA in a rapidly changing environment with a need to reassess its role and mandate. As a result of the foregoing, EPA is looked upon by the general public and government for the total management of the environment although our Acts only gives us the authority to protect and police and this Act, in some cases, is so general in nature we do not have a clear authority to act to protect in some cases.

The purpose of EPA in the RMI is to study and monitor the human and natural impacts in the following major areas:

- Water Quality Monitoring and Laboratory
- Land, Coastal, and Conservation Management
- Waste and Pollution, and;
- Education and Awareness

The functions and duties of the EPA are mandated under the following Acts and Legislation:

- An Act to provide for the establishment of a National Environmental Protection Authority for the protection and management of the environment National Environment Protection Act 1984 [P.L. 1984-31][P.L. 1987-2]
- The EPA is responsible for the administration, control, custody and management of the Coastal Zone, and for the implementation of the provisions of the *Coastal Conservation Act (1988)*, with respect to the obligations and mandates described above in the *Environment Protection Act (1984)*[P.L. 1988-13].
- *Public Health, Safety and Welfare Act, Chapter 1 Public Health and Sanitation*, EPA in the past conducted food inspections to improve safety of foods sold by grocery stores, restaurants and cooked food. EPA continues to do public awareness on the importance of having sanitary toilet facilities and septic systems; however, budgetary constraints and limited human resources have limited EPA's ability to continue to take the lead on Food Safety in the RMI. This issue is currently being revisited with the Ministry of Health, which has the mandate to undertake these functions.
- EPA is also mandated to administer and enforce the *Ozone Layer Protection Regulations (2004)* and the *Pesticides and Persistent Organic Pollutants (POPs) Regulations (2004)*.

ORGANIZATIONAL STRUCTURE

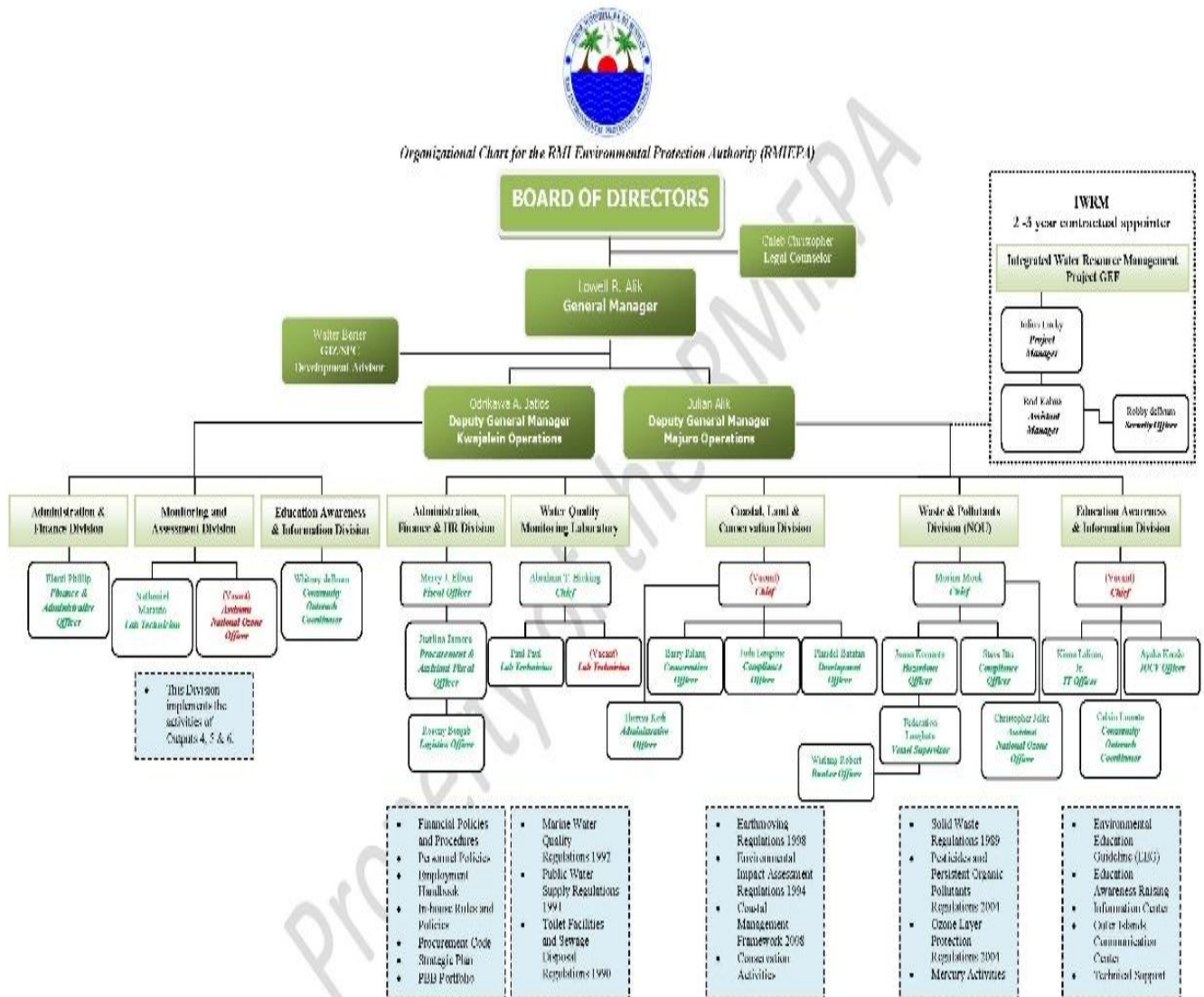
The Authority's executive function is headed by the General Manager who provides overall leadership in administering the affairs of the Authority. The General Manager facilitates cooperative efforts with other Ministries/Agencies and supplies the Board of Directors with policy advice and assistance with Cabinet-level concerns. The General Manager is assisted by a Deputy General Manager in directing the areas of Policy and Planning in order to improve the delivery of services nationally and within communities. The Authority strives to be innovative in strengthening its capacity to provide more effective leadership. Systems effective management principles will be observed in executing the

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

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Authority's mandate to provide quality services to the people of the Marshall Islands. This approach is based on the principles of efficiency, effectiveness, transparency and accountability in the Authority's expenditures and performance through the Authority's Strategic Action Plan.

In line with the guiding principles of accountability, transparency and efficiency, the Authority's procurement systems will be reviewed in order to reflect compliance with the national procurement procedures. The Organizational Chart has created a position for a Procurement Office to ensure the better management of assets acquired for the Authority. The Division heads will be accountable for annual expenditure reports to be included in the EPA Annual Report. EPA's organizational chart shown below provides an overview of all the divisions and external programs currently administered by the organization.



**NATIONAL ENVIRONMENTAL
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Management's Discussion and Analysis
September 30, 2015 and 2014

FINANCIAL HIGHLIGHTS

Management's Discussion and Analysis for the year ended September 30, 2015 is set forth in the report on the audit of EPA's financial statements. The Discussion and Analysis explains the major factors impacting the 2015 financial statements.

EPA's change in net position decreased in 2015 by \$12,336 or 7% from \$184,060 in 2014 to \$171,724 in 2015 due to an increase in operating revenues of \$412,743 or 63% offset by an increase in expenditures of \$371,444 from \$707,661 to \$1,079,105 or 52%. The increase in both operating revenues and operating expenses in 2015 is due to revenues earned from a settlement agreement of \$600,000 and an expenditure of \$540,000 to record landowner's share.

FINANCIAL ANALYSIS OF EPA

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position provides an indication of EPA's financial condition. EPA's net position reflects the difference between assets and liabilities. An increase in net position over time typically indicates an improvement in EPA's financial condition.

A summary of EPA's Statement of Net Position is presented below:

<u>Year ended September 30</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Current assets	\$ 692,858	\$ 162,651	\$ 197,777
Capital assets	<u>46,021</u>	<u>77,268</u>	<u>74,502</u>
Total assets	<u>\$ 738,879</u>	<u>\$ 239,919</u>	<u>\$ 272,279</u>
Current liabilities	<u>\$ 567,155</u>	<u>\$ 55,859</u>	<u>\$ 34,584</u>
Net Position:			
Net investment in capital assets	46,021	77,268	74,502
Unrestricted	81,533	58,115	76,235
Restricted	<u>44,170</u>	<u>48,677</u>	<u>86,958</u>
Total net position	<u>171,724</u>	<u>184,060</u>	<u>237,695</u>
Total liabilities and net position	<u>\$ 738,879</u>	<u>\$ 239,919</u>	<u>\$ 272,279</u>

As indicated above, the total net position has decreased by \$12,336 from \$184,060 in 2014 to \$171,724 in 2015. This decrease in total net position reflects a decrease in grant awards received from foreign funding sources - IWRM and Monitoring fees-RSA Project have been completed prior to completion of FY15.

Current liabilities reflect an increase of \$511,296 from \$55,859 in 2014 to \$567,155 in 2015. The increase relates to settlement of fine of \$540,000 payable to landowners. This amount was recorded as a liability to recognize a settlement of fine that was paid subsequent to year end.

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Management's Discussion and Analysis
September 30, 2015 and 2014

A Summary of EPA's Statement of Revenues, Expenses and Change in Net Position is presented below:

Year ended September 30	2015	2014	2013
Revenues:			
Total Operating revenues*	\$ 1,090,436	\$ 677,748	\$ 857,434
Expenses:			
Total Operating expenses**	<u>1,102,772</u>	<u>731,383</u>	<u>836,902</u>
Change in net position	<u>\$ (12,336)</u>	<u>\$ (53,635)</u>	<u>\$ 20,532</u>

*Includes Nitijela Appropriations

**Includes EPA recording payments made by RepMar relating to salaries, wages and benefits of EPA employees and bad debts expense.

The Statement of Revenues, Expenses and Changes in Net Position identifies the various revenue and expense items that impact the change in net position. As indicated above, EPA's total revenues have increased by \$412,688 from \$677,748 in 2014 to \$1,090,436 in 2015. The significant increase is due to increased collection of fines and fees.

Below is the summary of the major components of operating revenues for EPA in 2015 compared to 2014 and 2013:

Operating revenues

Year ended September 30	2015	2014	2013
Nitijela appropriations	\$ 316,494	\$ 313,996	\$ 353,733
Grants	32,135	70,482	160,989
Monitoring fees-RSA Project	-	29,134	153,468
Fines	601,900	30,000	23,500
Fees and charges	117,574	140,808	91,512
Compact revenues	20,457	55,061	33,047
Others	<u>1,876</u>	<u>38,267</u>	<u>41,185</u>
	1,090,436	677,748	857,434
Less uncollectible accounts	<u>(23,667)</u>	<u>(23,722)</u>	<u>(2)</u>
Net Operating revenues	<u>\$ 1,066,769</u>	<u>\$ 654,026</u>	<u>\$ 857,432</u>

The data provided above portrays that the total operating revenues have increased by \$412,688 from \$677,748 in 2014 to \$1,090,436 in 2015 and were primarily due to the increase in revenues obtained from Fines less amounts received from Nitijela appropriations and Compact expenses. Figures for Grants have reduced due to the completion of the IWRM Project.

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Below is a summary of the major components of operating expenses for EPA in 2015 compared to 2014 and 2013.

Year ended September 30	<u>2015</u>	<u>2014</u>	<u>2013</u>
Landowner share	\$ 540,000	\$ -	\$ -
Salaries and Wages Marsh*	363,054	377,516	485,896
Travel	26,807	57,054	31,754
Supplies and Materials	28,355	43,204	67,173
Consultant services	-	-	3,149
Depreciation	39,702	42,593	36,503
Compact expense	20,457	55,061	33,047
Other Expenses	<u>60,730</u>	<u>132,233</u>	<u>179,378</u>
Total Operating expenses	<u>\$ 1,079,105</u>	<u>\$ 707,661</u>	<u>\$ 836,900</u>

*Includes Nitijela Appropriations

Figures above outlines the increase in total operating expenses by \$371,444 from \$707,661 in 2014 to \$1,079,105 in 2015. As stated in the figures, 2015 has increased for landowner share of fines with a decrease in other expenses with the procurement of office supplies, materials, and other related items needed for upgrading of the office. There were also a decrease in Salaries and Wages from reshuffled of personnel, and Compact expenses.

CAPITAL ASSETS

Net capital assets decreased by \$31,247 from \$77,268 in 2014 compared to \$46,021 in 2015 as a result of decrease in additions in the current year of only \$8,455 compared to prior year additions of \$45,575.

A summary of EPA's capital assets is presented below:

Year ended September 30	<u>2015</u>	<u>2014</u>	<u>2013</u>
Motor Vehicles	\$ 116,799	\$ 116,799	\$ 88,849
Office furniture and equipment	68,146	59,691	42,066
Boat	<u>28,744</u>	<u>28,744</u>	<u>43,744</u>
	213,689	205,234	174,659
Less accumulated depreciation	<u>(167,668)</u>	<u>(127,966)</u>	<u>(100,157)</u>
	<u>\$ 46,021</u>	<u>\$ 77,268</u>	<u>\$ 74,502</u>

Additional information on EPA's capital assets is disclosed within note 3 to the accompanying financial statements.

ADDITIONAL FINANCIAL INFORMATION

This discussion and analysis is designed to provide EPA's counterparts with an overview of EPA's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request for additional information, please contact the National Environmental Protection Authority, General Manager, at P.O Box 1322, Majuro, MH 96960

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Statements of Net Position
September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<u>ASSETS</u>		
Current assets:		
Cash	\$ 66,787	\$ 124,657
Receivables:		
Grants	31,495	21,525
Other	657,762	55,988
	<u>689,257</u>	<u>77,513</u>
Less allowance for doubtful accounts	(63,186)	(39,519)
	<u>626,071</u>	<u>37,994</u>
Total current assets	692,858	162,651
Capital assets, net	<u>46,021</u>	<u>77,268</u>
	<u>\$ 738,879</u>	<u>\$ 239,919</u>
<u>LIABILITIES AND NET POSITION</u>		
Liabilities:		
Accounts payable	\$ 9,000	\$ 36,944
Payable to landowners	540,000	-
Other liabilities and accruals	18,155	18,915
	<u>567,155</u>	<u>55,859</u>
Net position:		
Net investment in capital assets	46,021	77,268
Restricted	44,170	48,677
Unrestricted	81,533	58,115
	<u>171,724</u>	<u>184,060</u>
Total net position	<u>\$ 738,879</u>	<u>\$ 239,919</u>

See accompanying notes to financial statements.

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PROTECTION AUTHORITY FUND**

Statements of Revenues, Expenses, and Changes in Net Position
Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating revenues:		
Fines	\$ 601,900	\$ 30,000
Nitijela appropriations	316,494	313,996
Fees and charges	117,574	140,808
Grants	32,135	70,482
Compact revenues	20,457	55,061
Monitoring fees - RSA project	-	29,134
Other	1,876	38,267
	<u>1,090,436</u>	<u>677,748</u>
Less uncollectible accounts	(23,667)	(23,722)
Total operating revenues	<u>1,066,769</u>	<u>654,026</u>
Operating expenses:		
Landowner share	540,000	-
Salaries, wages and employee benefits	363,054	377,516
Depreciation	39,702	42,593
Supplies and materials	28,355	43,204
Travel	26,807	57,054
Compact expense	20,457	55,061
Communications	14,944	19,873
Fuel	11,872	24,645
Rentals	10,435	12,600
Food stuffs	6,347	18,846
Contractual services	3,350	7,200
Printing and reproduction	2,494	3,783
Freight	2,053	1,027
Repair and maintenance	1,732	6,977
Advertisement	1,312	2,258
Utilities	150	400
Miscellaneous	6,041	34,624
Total operating expenses	<u>1,079,105</u>	<u>707,661</u>
Change in net position	(12,336)	(53,635)
Net position at beginning of year	<u>184,060</u>	<u>237,695</u>
Net position at end of year	<u>\$ 171,724</u>	<u>\$ 184,060</u>

See accompanying notes to financial statements.

**NATIONAL ENVIRONMENTAL
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Statements of Cash Flows
Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Operating grants received	\$ 42,622	\$ 180,668
Cash received from customers	119,576	321,584
Cash payments to suppliers for goods and services	(164,293)	(321,338)
Cash payments to employees for services	(47,320)	(63,520)
Net cash provided by (used for) operating activities	(49,415)	117,394
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(8,455)	(45,359)
Net change in cash	(57,870)	72,035
Cash at beginning of year	124,657	52,622
Cash at end of year	\$ 66,787	\$ 124,657
Reconciliation of change in net position to net cash provided by (used for) operating activities:		
Change in net position	\$ (12,336)	\$ (53,635)
Adjustments to reconcile change in net position to net cash provided by (used for) operating activities:		
Depreciation	39,702	42,593
Bad debts	23,667	23,722
(Increase) decrease in assets:		
Receivables:		
Grants	(9,970)	55,125
Other	(601,774)	28,313
Increase (decrease) in liabilities:		
Accounts payable	(27,944)	23,444
Payable to landowners	540,000	-
Other liabilities and accruals	(760)	(2,169)
Net cash provided by (used for) operating activities	\$ (49,415)	\$ 117,394

Noncash investing, capital, and financing activities:

During the years ended September 30, 2015 and 2014, EPA recorded on-behalf payments of \$316,494 and \$313,996, respectively, made by RepMar relating to salaries, wages and benefits of EPA employees.

See accompanying notes to financial statements.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Notes to Financial Statements
September 30, 2015 and 2014

(1) Organization

The National Environmental Protection Authority (EPA) Fund, a component unit of the Republic of the Marshall Islands (RepMar), was created by the National Environmental Protection Authority Act of 1984 (Public Law No. 1984-31, the Act). EPA began operations as a statutory corporation on December 19, 1984, in accordance with the Act. The objectives of EPA are to preserve and improve the quality of the environment of the Republic of the Marshall Islands.

The operations of EPA were accounted for as a separate fund within RepMar's Ministry of Finance. In April 1997, EPA established a separate bank account outside of RepMar's Treasury for the purpose of receiving and disbursing funds in accordance with Public Law No. 1984-31. Accordingly, the accompanying financial statements relate solely to those accounting records maintained by EPA and do not incorporate any accounts related to EPA's operations that may be accounted for by RepMar's Treasury or any of RepMar's other branches, departmental units or component units.

EPA is governed by a Chairman and four other members, all of whom are appointed by the President of RepMar. EPA's financial statements are incorporated into the financial statements of RepMar as a component unit.

(2) Summary of Significant Accounting Policies

The accounting policies of EPA conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities, specifically proprietary funds.

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and modified by Statement No. 38, *Certain Financial Statement Note Disclosures*, establish financial reporting standards for governmental entities which require that management's discussion and analysis of the financial activities be included with the financial statements and notes and modify certain other financial statement disclosure requirements.

To conform to the requirements of GASB Statement 34, equity is presented in the following net position categories:

- Net investment in capital assets; capital assets, net of accumulated depreciation, plus construction or improvement of those assets.
- Restricted; resources which EPA is legally or contractually obligated to spend in accordance with restrictions either externally imposed by creditors, grantors, contributors, and the like, or imposed by law. All of EPA's restricted net position is expendable.

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Notes to Financial Statements
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(2) Summary of Significant Accounting Policies, Continued

- Unrestricted; net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Restricted net position at September 30, 2015 and 2014, consists of the following:

	<u>2015</u>	<u>2014</u>
Persistent Organic Pollutants Project	\$23,416	\$30,000
Hydrofluorocarbons Phase Out Management Plan Project	-	17,750
Secretariat of the South Pacific	18,445	-
Other	<u>2,309</u>	<u>927</u>
	<u>\$44,170</u>	<u>\$48,677</u>

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and deferred outflows of resources, liabilities and deferred inflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows of resources, and liabilities and deferred inflows of resources associated with the operation of the fund are included in the statements of net position. Proprietary fund operating statements present increases and decreases in net position. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. EPA considers revenues and costs that are directly related to operations to be operating revenues and expenses. Revenues and expenses related to financing and other activities are reflected as nonoperating.

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Notes to Financial Statements
September 30, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

Cash

Custodial credit risk is the risk that in the event of a bank failure, EPA's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. EPA does not have a deposit policy for custodial credit risk.

For purposes of the statements of net position and cash flows, cash is defined as cash on hand and cash held in demand accounts. As of September 30, 2015 and 2014, the carrying amount of cash was \$66,787 and \$124,657, respectively, and the corresponding bank balances were \$74,319 and \$125,985, respectively. Of the bank balance amounts, \$62,936 and \$116,648, respectively, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2015 and 2014, these deposits were fully FDIC insured with the remaining deposits of \$11,383 and \$9,337, respectively, being maintained in a non-FDIC insured financial institution. EPA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized.

Receivables

All receivables are due from businesses and individuals located within the Republic of the Marshall Islands and are interest free and uncollateralized. The allowance for uncollectible accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense.

At September 30, 2015, EPA recorded a total of \$600,000 in accounts receivable related to a fine for a ship that ran aground in an outer atoll in the Marshall Islands. A related payable was also recorded amounting to \$540,000 for the landowners' share of this fine and \$60,000 was recorded as revenue for EPA's share for remediation and rehabilitation. (See Note 7)

Capital Assets

EPA have a capitalization policy for fixed assets; however, items with a cost that equals or exceeds \$300 are generally capitalized at the time of acquisition. Depreciation is calculated using the straight-line method based on the estimated useful lives of the respective assets. The estimated useful lives of these assets are as follows:

Motor vehicles	3 years
Other furniture and equipment	5 years

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Notes to Financial Statements
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(2) Summary of Significant Accounting Policies, Continued

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of be recognized as an outflow of resources (deduction of net position) until then. EPA has no items that qualify for reporting in this category.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. EPA has no items that qualify for reporting in this category.

Taxes

Corporate profits are not subject to income tax in the Republic of the Marshall Islands. The Government of the Republic of the Marshall Islands imposes a gross receipts tax of 3% on revenues. EPA is specifically exempt from this tax.

New Accounting Standards

During the year ended September 30, 2015, EPA implemented the following pronouncements:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfer of operations. A disposal of government operations can occur through a transfer to another government or a sale. The implementation of this statement did not have a material effect on the accompanying financial statements.

**NATIONAL ENVIRONMENTAL
PROTECTION AUTHORITY FUND**

Notes to Financial Statements
September 30, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement date – an Amendment of GASB Statement No. 68*, which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The implementation of this statement did not have a material effect on the accompanying financial statements.

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value hierarchy on the basis of the nature and risk of the investment. The provisions in Statement 72 are effective for fiscal years beginning after June 15, 2015. Management believes that the implementation of this statement only requires additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques and will not have a material effect on the financial statements of EPA.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pension and pensions plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, with the exception of the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements of EPA.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements of EPA.

**NATIONAL ENVIRONMENTAL
PROTECTION AUTHORITY FUND**

Notes to Financial Statements
September 30, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements of EPA.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The provisions in Statement No. 76 are effective for fiscal years beginning after June 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements of EPA.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosure*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements of EPA.

**NATIONAL ENVIRONMENTAL
PROTECTION AUTHORITY FUND**

Notes to Financial Statements
September 30, 2015 and 2014

(3) Capital Assets

Capital asset activity for the years ended September 30, 2015 and 2014 follows:

	October 1, <u>2014</u>	<u>Additions</u>	<u>Retirements</u>	September 30, <u>2015</u>
Boat	\$ 28,744	\$ -	-	\$ 28,744
Motor vehicles	116,799	-	-	116,799
Office furniture and equipment	<u>59,691</u>	<u>8,455</u>	<u>-</u>	<u>68,146</u>
	205,234	8,455	-	213,689
Less accumulated depreciation	<u>(127,966)</u>	<u>(39,702)</u>	<u>-</u>	<u>(167,668)</u>
	<u>\$ 77,268</u>	<u>\$ (32,227)</u>	<u>\$ -</u>	<u>\$ 46,021</u>

	October 1, <u>2013</u>	<u>Additions</u>	<u>Retirements</u>	September 30, <u>2014</u>
Boat	\$ 43,744	\$ -	\$ (15,000)	\$ 28,744
Motor vehicles	88,849	27,950	-	116,799
Office furniture and equipment	<u>42,066</u>	<u>17,625</u>	<u>-</u>	<u>59,691</u>
	174,659	45,575	(15,000)	205,234
Less accumulated depreciation	<u>(100,157)</u>	<u>(42,593)</u>	<u>14,784</u>	<u>(127,966)</u>
	<u>\$ 74,502</u>	<u>\$ 2,982</u>	<u>\$ (216)</u>	<u>\$ 77,268</u>

(4) Related Party Transactions

EPA was created by the Nitijela of RepMar under Public Law No. 1984-31. As EPA is governed by a Chairman and four other members who are appointed by the President of RepMar, EPA is thus considered a component unit of RepMar. Accordingly, EPA is affiliated with all RepMar-owned and affiliated entities and utilizes services from affiliated entities, including communications and utility services, at substantially the same terms and conditions as those incurred from third parties.

During the years ended September 30, 2015 and 2014, RepMar recorded certain expenses of \$316,494 and \$313,996, respectively, which pertain to operational activities of EPA in accordance with Public Law 1984-31. These amounts represented on-behalf payments relating to salaries and wages of employees of EPA. Accordingly, EPA has recognized these on-behalf payments pertaining to salaries and wages as contributions from RepMar.

As of September 30, 2015 and 2014, EPA recorded a total of \$15,579 and \$14,449, respectively, from certain of its employees for unliquidated travel advances and taxes owed for RMI Income Tax and Social Security. These amounts are recorded as other receivables within the accompanying financial statements.

**NATIONAL ENVIRONMENTAL
PROTECTION AUTHORITY FUND**

Notes to Financial Statements
September 30, 2015 and 2014

(4) Related Party Transactions, Continued

EPA occupies certain office space belonging to RepMar at no cost. No lease agreement has been executed to formalize this arrangement. However, management is of the opinion that no rental payments for the use of the office space are anticipated. The fair value of this contribution is presently not determinable. Accordingly, the contributed use of facilities has not been recognized as revenue and expense in the accompanying financial statements.

(5) Risk Management

EPA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. EPA has elected to purchase commercial automobile insurance from independent third parties for the risks of loss to which it is exposed with respect to the use of motor vehicles. Settled claims have not exceeded this commercial coverage in any of the past three years. For other risks of loss to which it is exposed, EPA has elected not to purchase commercial insurance. Instead, EPA believes it is more economical to manage its risks internally. Claims expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. No material losses have resulted from EPA's risk management activities in the past three years.

(6) Contingencies

EPA does not maintain general liability insurance coverage on its operations. In the event of a loss, EPA may be self-insured to a material extent.

EPA participates in certain federally assisted grant programs. These programs are subject to financial and compliance audits to ascertain if federal laws and guidelines have been followed. EPA is considered to have responsibility for any questioned costs that may result from audits of these programs. The ultimate disposition of these questioned costs can be determined only by final action of the grantor. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

(7) Subsequent Event

On October 21, 2015, EPA received payment of fine in the amount of \$600,000 from a certain fishing company. On October 22, 2015, EPA distributed a total of \$540,000 representing \$405,000 to a certain individual for Iroj, Iroj Erik and Ri Jerbal share. The alab share of \$135,000 was paid to the Clerk of Courts to be put in escrow for Alab share that was still in dispute.



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Republic of the Marshall Islands
National Environmental Protection Authority Fund:

We have audited, 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, the financial statements of the National Environmental Protection Authority (EPA) Fund, which comprise the statement of net position as of September 30, 2015, and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 19, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered EPA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of EPA's internal control. Accordingly, we do not express an opinion on the effectiveness of EPA's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. As described in the accompanying Schedule of Findings and Responses, we did not identify any deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* 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 *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and

corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2015-01 through 2015-07 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether EPA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as item 2015-07.

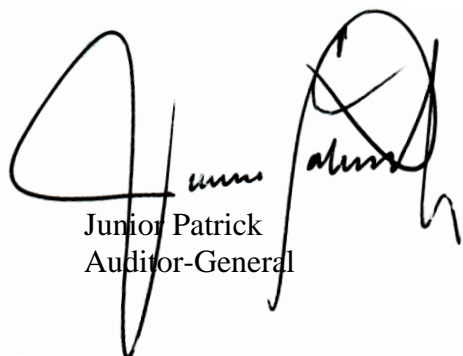
EPA's Responses to Findings

EPA's responses to the findings identified in our audit are described in the accompanying schedule of Findings and Responses. EPA's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

December 19, 2016



Junior Patrick
Auditor-General

**NATIONAL ENVIRONMENTAL
PROTECTION AUTHORITY FUND**

Schedule of Findings and Responses
Year Ended September 30, 2015

Finding No. 2015-1

Purchase of Food Stuff

Criteria: The EPA Financial Accounting Policy Manual states “Before any goods or services are ordered a Purchase Order must be raised. All purchases must be based on the EPA approved budget.” Additionally, the EPA Personnel Policy states that “Every employee shall exercise strict care in the handling of money held by the employee on behalf of the Authority, and shall observe all instructions relating to accounts and to the collection, custody, or payment of public money, or money held in trust for which the employee is accountable”.

Condition: Food stuff purchases appeared excessive and unnecessary for the operation of EPA and also did not follow established internal control procedures outlined in the EPA Financial Accounting Policy Manual. We noted purchase of coolers of fish as gift for counterparts, coconut crabs, fish and other delicacies for employee Christmas party:

Check No.	Date	Amount	Description
4011	11/12/2014	\$ 280	140 lbs of reef fish cooler for Ebeye counterparts
4084	1/9/2015	150	Cooler of coconut crabs for Christmas and New Year's party
4085	1/12/2015	870	Cooler of reef fish, Marshallese delicacy (breadfruit, yam, taro), and medium size roasted pig (including ingredients, trays, and labor.) All items were for the Christmas and New Year's party.
Total		\$ 1,300	

Supporting documents such as vendor invoices for check no. 4011 above were not made available for examination.

Discrepancies noted in the purchase of food stuff included purchase orders that are approved after the items have been purchased as we noted that invoice dates come before purchase order dates. Additionally, we also noted that all of the food expenditures that we selected for testing below that purchase order was prepared and approved after items have already been purchased. In all of the cases below, purchase order is approved when payment is being processed. We also noted in almost all of the food expenditures that we selected for testing that apparent falsified price quotations were used. In the following selections, we noted one price quotation form that was used over and over again with the same vendor name, same items on the form, however, only the date is hand-written and changed every time.

Check No.	Date	Amount	Description
3964	10/10/2014	\$ 110.00	Monitoring and replanting of Lojemwa site.
3984	11/7/2014	95.39	Payment per PR-Amin.
3988	11/7/2014	265.52	Monitoring of land and coastal work for Lojemwa site
3997	11/11/2014	104.85	Management meeting with landowner regarding security post and other related matters.
4062	12/17/2014	98.35	Food stuff needed for EPA activities.
4176	3/20/2015	177.90	Providing Food Stuffs for Board Meeting
2715	3/20/2015	140.75	Food stuff for ODS workshop.
Total		\$ 992.76	

**NATIONAL ENVIRONMENTAL
PROTECTION AUTHORITY FUND**

Schedules of Findings and Responses, Continued
Year Ended September 30, 2015

Finding No. 2015-1, (Continued)

Purchase of Food Stuff

Cause: Management's lack of exercise of strict care in handling public money attributes to unnecessary purchase of food items. Additionally, override of internal control policies and procedures to speed up the payment process is the reason why food items were purchased without approved purchase order and providing apparent falsified price quotations on file.

Effect: The effect of the above condition is noncompliance with established policies and procedures and possibility of misappropriation of public funds.

Recommendation: We recommend that EPA Board of Directors perform a review of the financial statements on a regular basis to require that there is no purchase of unnecessary food items or other expenses and that established internal control procedures are followed.

Auditee's Response and Corrective Action Plan: The Board of Directors and Management have taken steps to address the finding. All necessary purchase required for the operation of the Authority must comply with the RMIEPA Financial Policy and the Administrative Procurement Act. RMIEPA will not be responsible or held accountable for any goods obtained and services rendered by any RMIEPA employee without proper documentation, i.e., PRs, POs etc. in order as required. RMIEPA Board of Directors and management will perform regular review of financial statements to ensure compliance.

Prior Year Status: Unnecessary purchase of food items, lack of adherence with established policies and procedures, and providing fabricated price quotes were reported as findings in the audit of EPA for the fiscal years ended September 30, 2014 and 2013.

**NATIONAL ENVIRONMENTAL
PROTECTION AUTHORITY FUND**

Schedule of Findings and Responses, Continued
Year Ended September 30, 2015

Finding No. 2015-2

EPA Internal Investigation

Criteria: The EPA Financial Accounting Policy Manual indicates that all procurement must be accompanied by an approved purchase order to ensure budgetary control particularly for consistency with the approval spending plan and approved budget.

Condition: On March 1, 2015, the EPA performed an internal investigation into all its expenditures for the fiscal year ended September 30, 2015. In their report, they questioned a total of \$1,201.05 that were reimbursed to employees for food items, supplies, cell cards and other items. A total of \$2,046.99 was paid directly to vendors that were also questioned in the report for not complying with the Financial Accounting Policy manual.

Check #	Date	Amount	Description
3958	10/3/2014	\$ 75.00	Salary payment, no contract attached
3959	10/9/2014	60.00	Cell cards
4052	12/12/2014	76.99	Drill and AA Batteries.
4053	12/12/2014	107.31	Hand Towels, 5 gallon water bottles, Light Bulbs and Leaf Rake.
4057	12/15/2014	46.30	Pizza and drinks with a certain individual as a token of appreciation and 3 boxes of goods.
4071	12/22/2014	204.09	\$10 wifi card, UA in-flight purchase - Chocolate bars \$71, \$45 for gas purchased, McDonald Meals \$16.10 and Chocolate bars at Manor Market - \$37.50 (note: supporting documents were missing)
4073	12/23/2014	61.99	Gift items for - \$10 cell cards and candy items
4089	1/15/2015	162.52	Farwell lunch with a certain individual, multiple receipts of different items.
4090	1/15/2015	54.70	Cell cards and drinks
4114	1/26/2015	122.13	Items purchase for trip to Apia, Samoa.
4115	1/26/2015	230.02	Items bought for the x-mas party.
3987	11/7/2014	736.80	Fuel (Ace's One Stop) License Plates # 2618, #6486 and #6800.
3988	11/7/2014	265.22	RSA airport monitoring project lunches, no supporting documents attached
3997	11/11/2014	104.85	Lunch meeting with landowners regarding security post, no supporting documents attached
4006	11/12/2014	69.50	EPA staff and management token of condolences for Ebeye staff Elenti's mother - no valid justification attached, no quotes
4007	11/12/2014	236.49	Farewell party items needed for Ebeye Interns
4009	11/12/2014	141.50	Lunch meeting with a government employee on cabinet minutes and other matters
4016	11/14/2014	95.00	Provide lunch meeting with Management (No minutes attached) MAMA Store - Ebeye
4029	11/27/2014	175.00	Tinting Service for management pickup License plate#6800, vehicle was tinted in prior year
4049	12/12/2014	38.00	Refreshments with a certain individual - Pizzas and drinks
4054	12/15/2014	50.00	Christmas party prize
4110	1/23/2015	134.63	End of year Lunch with staff and management- No attached documents for justification for this luncheon.
Total		<u>\$ 3,248.04</u>	

**NATIONAL ENVIRONMENTAL
PROTECTION AUTHORITY FUND**

Schedule of Findings and Responses, Continued
Year Ended September 30, 2015

Finding No. 2015-2, (Continued)

EPA Internal Investigation

Cause: Management's lack of exercise of strict care in handling public funds attributes to purchasing practices that do not adhere to established internal control procedures coupled with lack of oversight by the Board of Directors.

Effect: There is a possibility of the issuance of unauthorized payments and the misappropriation of assets.

Recommendation: Management should exercise strict care in handling public funds and follow established internal control procedures. Additionally, the Board of Directors should provide regular oversight over the financial transaction of EPA to require all are in compliance with established internal control procedures.

Auditee's Response and Corrective Action Plan: The Board of Directors and Management are aware of the finding and have made the necessary steps towards ensuring that proper internal control of funds are in accordance with the RMIEPA Financial Policy – all items required for the operation of the Authority are budgeted and must comply with the RMIEPA Financial Policy and the Administrative Procurement Act. To date, no reimbursement has been made since FY15.

Prior Year Status: Possible misappropriation of assets was reported as a finding in the audits of EPA for the fiscal years ended September 30, 2014 and 2013.

**NATIONAL ENVIRONMENTAL
PROTECTION AUTHORITY FUND**

Schedule of Findings and Responses, Continued
Year Ended September 30, 2015

Finding No. 2015-3

Payroll Expenditure

Criteria: The EPA Personnel Policies manual states “attendance books, time cards or other records of attendance shall be kept.”

Condition: Payroll expenditures were not properly supported by approved timesheets. During our testing of the salaries and wages expense paid by EPA, we noted various differences in the processing of the payments:

- Check no. 4150 issued for \$850 on 3/6/2015 for salary payment for which time card was not available to support hours paid.
- Check no. 4096 for \$432 dated 1/22/2015, the employee time card did not match timesheet; we noted that employee did not clock in and out during lunch break but timesheet showed that he was clocking in and out during lunch.
- Check no. 2704 for \$220 was paid to one employee for 40 regular hours, 16 sick hours, and 16 annual leave hours making a total of 72 hours. We found an annual leave slip for 16 hours without approval from the authorized officer.

Cause: The cause of the above condition is the lack of proper review by management to require that salaries and wages paid are supported by approved timesheets.

Effect: The effect of the above condition is noncompliance with the Personnel Policies manual and the possibility that EPA may have paid for hours not worked.

Recommendation: We recommend that the EPA management requires that payment for salaries and wages of staff be supported by timecards and approved timesheets.

Auditee’s Response and Corrective Action Plan: The Board of Directors and Management are aware of the finding and have taken necessary steps to enforce the Personnel Policy. Any payment for salaries and wages of staff must be supported by timecards and approved timesheets.

Prior Year Status: The payment of salaries and wages with no valid timecard and timesheet was reported as a finding in the audit of EPA for fiscal years ended September 30, 2014 and 2013.

**NATIONAL ENVIRONMENTAL
PROTECTION AUTHORITY FUND**

Schedule of Findings and Responses, Continued
Year Ended September 30, 2015

Finding No. 2015-4

Accrued Payroll

Criteria: Proper accounting procedures over accrued payroll require that the account be reconciled on a regular basis.

Condition: Accrued payroll account was not properly reconciled during the year. At September 30, 2015, the accrued payroll account had a balance of \$4,247, which relates to entries made to accrue salaries in prior years that were not reconciled. An audit adjustment was proposed to reverse these entries.

Cause: The lack of management review of the accounting transactions on a regular basis is the reason why accrued payroll account was not properly reconciled.

Effect: The lack of management oversight resulted in overstatement of accrued payroll throughout the year.

Recommendation: Management should review accounting transactions to require that accrued payroll is properly reconciled.

Auditee's Response and Corrective Action Plan: Currently all accrued payrolls are reconciled on a regular basis and prior end of fiscal years.

**NATIONAL ENVIRONMENTAL
PROTECTION AUTHORITY FUND**

Schedule of Findings and Responses, Continued
Year Ended September 30, 2015

Finding No. 2015-5

Bank Account

Criteria: The Financial Accounting Policy Manual requires EPA must establish an account at any local banking institution on Majuro that is a member of the Federal Deposits Insurance Corporation (FDIC).

Condition: EPA has a Time Certificate of Deposit (TCD) account at Bank of Marshall Islands, which is not subject to FDIC coverage.

Cause: Delayed action by the Board and Management to implement audit recommendation.

Effect: Noncompliance with established policies and procedures and also EPA did not comply with its own action plan to address audit recommendation.

Recommendation: EPA should prioritize decision made by the Board to transfer the remaining balance of the above TCD account to a new saving account or amend EPA's financial Policy to accommodate its operational needs.

Auditee's Response and Corrective Action Plan: The Board of Directors and Management addressed this finding through resolution that amends the RMIEPA Financial Policy to accommodate its operational need in Ebeye.

Prior Year Status: Noncompliance with EPA Accounting Policy by holding a TCD account at a non FDIC insured bank was reported as a finding in the audit of EPA for fiscal year ended September 30, 2014 and 2013.

**NATIONAL ENVIRONMENTAL
PROTECTION AUTHORITY FUND**

Schedule of Findings and Responses, Continued
Year Ended September 30, 2015

Finding No. 2015-6

Bunkering Services Expense

Criteria: Payment for bunkering services to EPA staff should be regulated by the EPA Board. Additionally, RMI withholding income taxes as well as MISSA and Health Fund contributions should be properly calculated and withheld to be paid to the proper authorities.

Condition: Payment for bunkering services were not properly calculated. We examined check no. 3960 for \$528 for one employee for bunkering activities and inquired about how this payment was made. The payment is based on the employee's annual salary as follows $(\$12,400/26/80 \times 8) = \48 per hour. The correct calculation should have been $(\$12,400/26/80) = \5.96 . Therefore, the employee should have been paid a total of \$65.56, an overpayment of \$462.44. It appears that out of the \$75 that is paid to EPA for bunkering services, \$48 or 64% goes to the employee and only 36% goes to EPA.

Additionally, there were no RMI income taxes withheld as well as MISSA and Health Fund contributions.

Cause: Lack of established policies and procedures over the payment of bunkering services. Additionally, management does not perform proper review of payroll checks to ensure that income taxes are withheld and paid.

Effect: There is a possibility for overpayment of bunkering services. Additionally, EPA did not comply with RMI, MISSA and Health Fund tax laws.

Recommendation: The EPA Board should regulate payments for bunkering services to require that employees are paid only for hours they spent on the job. Additionally, management should review the disbursements to ensure they were properly processed and that required taxes have been withheld.

Auditee's Response and Corrective Action Plan: The Board of Directors and management have addressed this by developing a contract with clear terms of reference for a bunkering officer as a full time post. To date, management strictly enforce requirement that tax and other required withholds are met prior to release of any/all salary/check.

Prior Year Status: Bunkering service payment to EPA staff not being regulated by the Board was reported as a finding in the audit of EPA for the fiscal year ended September 30, 2014.

**NATIONAL ENVIRONMENTAL
PROTECTION AUTHORITY FUND**

Schedule of Findings and Responses, Continued
Year Ended September 30, 2015

Finding No. 2015-7

Local Non-Compliance

Criteria: The Income Tax Act of 1989 section 103 states there shall be assessed, levied, collected and paid a tax of eight percent (8%) upon the first \$10,400, to be prorated at \$200 per week, or \$866.67 per month, and twelve percent (12%) upon the amount over \$10,400, as prorated by pay period, of all wages and salaries received by every employee, except as provided in subsections (2) and (3) of this Section. Every employer required to deduct and withhold the tax imposed shall be liable for the payment and shall pay such tax to the Secretary of Finance.

The Social Security Tax Act of 1990 states that “ The worker’s contribution to the Fund shall be collected by the employer of the worker, by deducting the amount of the contributions due from the worker’s earnings, and the employer shall remit the same to the Administration along with the employer’s contributions”.

Condition: RMI income taxes, Social Security taxes, and basic health taxes owed from prior years were not paid to the respective authorities. As of September 30, 2015, balances owed were \$6,247, \$7,352, and \$3,684, respectively. These balances relate to audit adjustments that were proposed in prior year to record taxes owed by EPA for employee salaries that were paid with no taxes withheld.

Additionally, during our testing of the salaries and wages expense, we noted check no. 2685 and 3680 with gross pay of \$319 and \$528, respectively, with no RMI income tax and MISSA tax deductions being withheld.

Cause: There is lack of regular review of the accounting functions by management as well as the Board of Directors to require that income taxes be withheld from employees and paid to the proper authorities when due.

Additionally, we were informed by one employee in charge of payroll that the deductions were not withheld because the employees’ net pay was not enough and voluntary deductions to the banks or creditors would have been compromised.

Effect: Noncompliance with the Income Tax Act of 1989 and the Social Security Tax Act of 1990.

Recommendation: EPA should comply with the Income Tax Act of 1989 and the Social Security Tax Act of 1990 by withholding the proper taxes from employees. Additionally, EPA should prioritize paying mandatory RMI and MISSA income taxes over the employee’s personal obligations.

Auditee’s Response and Corrective Action Plan: To date, the Board of Directors and management strictly enforces the timely payment of all/any national and local tax and any other required withholds as required by the Income Tax Act of 1989 and the Social Security Tax Act of 1990.

**NATIONAL ENVIRONMENTAL
PROTECTION AUTHORITY FUND**

Schedule of Findings and Responses, Continued
Year Ended September 30, 2015

Finding No. 2015-7, Continued

Local Non-Compliance

Prior Year Status: Wages paid to employees for whom proper taxes were never withheld was reported as finding in the audits of EPA for fiscal years ended September 30, 2014 and 2013.

**NATIONAL ENVIRONMENTAL
PROTECTION AUTHORITY FUND**

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2014

Question Costs

The prior year report on compliance with laws and regulations noted the following questioned costs and comments that were unresolved at September 30, 2015.

Questioned costs previously reported	\$ 15,000
Questioned costs of fiscal year 2015	<u>-</u>
Unresolved questioned costs at September 30, 2015	<u>\$ 15,000</u>

Unresolved Findings

The status of unresolved prior year findings is disclosed within the Schedule of Findings and Responses section of this report.

Prevent Fraud, Waste and Abuse in the collection and expenditure of all public funds

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