

**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, 2013 AND 2012

**NATIONAL ENVIRONMENTAL
PROTECTION AUTHORITY FUND**

Years Ended September 30, 2013 and 2012
Table of Contents

	<u>Page No.</u>
I. INDEPENDENT AUDITORS' REPORT	1
II. MANAGEMENT'S DISCUSSION AND ANALYSIS	3
III. BASIC FINANCIAL STATEMENTS:	
Statements of Net Position	10
Statements of Revenues, Expenses and Changes in Net Position	11
Statements of Cash Flows	12
Notes to Financial Statements	13
IV. INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS	
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 <i>Government Auditing Standards</i>	19
Schedule of Findings and Responses	21
Unresolved Prior Year Findings	38



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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 Fund (EPA), a component unit of the Republic of the Marshall Islands, which comprise the statement of net position as of September 30, 2013, 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.

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 audit. We conducted our audit 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 EPA as of September 30, 2013, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Predecessor Auditors' Opinion on 2012 Financial Statements

The financial statements of EPA as of and for the year ended September 30, 2012 were audited by other auditors whose report, dated May 21, 2013, expressed an unmodified opinion on those statements.

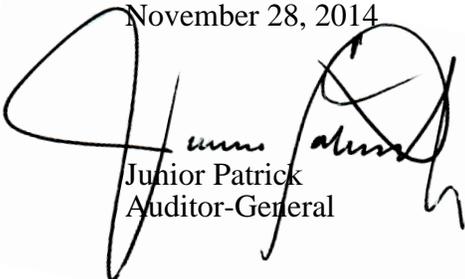
Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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 November 28, 2014, 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 financial 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.

November 28, 2014



Junior Patrick
Auditor-General

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Management's Discussion and Analysis
September 30, 2013 and 2012

This section of the Environmental Protection Authority annual financial report presents our discussion and analysis for RMIEPA's financial performance during the fiscal year that ended on September 30, 2013. 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 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 give us the authority to protect and police and these acts in some cases are 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:

- Environmental Health and Water Quality
- Land and Coastal Management
- Conservation
- Waste and Pollution
- Environmental Information Management; 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 EPAs ability to continue to take the lead on Food Safety in the RMI. This issue is currently being revisited with the Min. 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)*.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Management's Discussion and Analysis
September 30, 2013 and 2012

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 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.

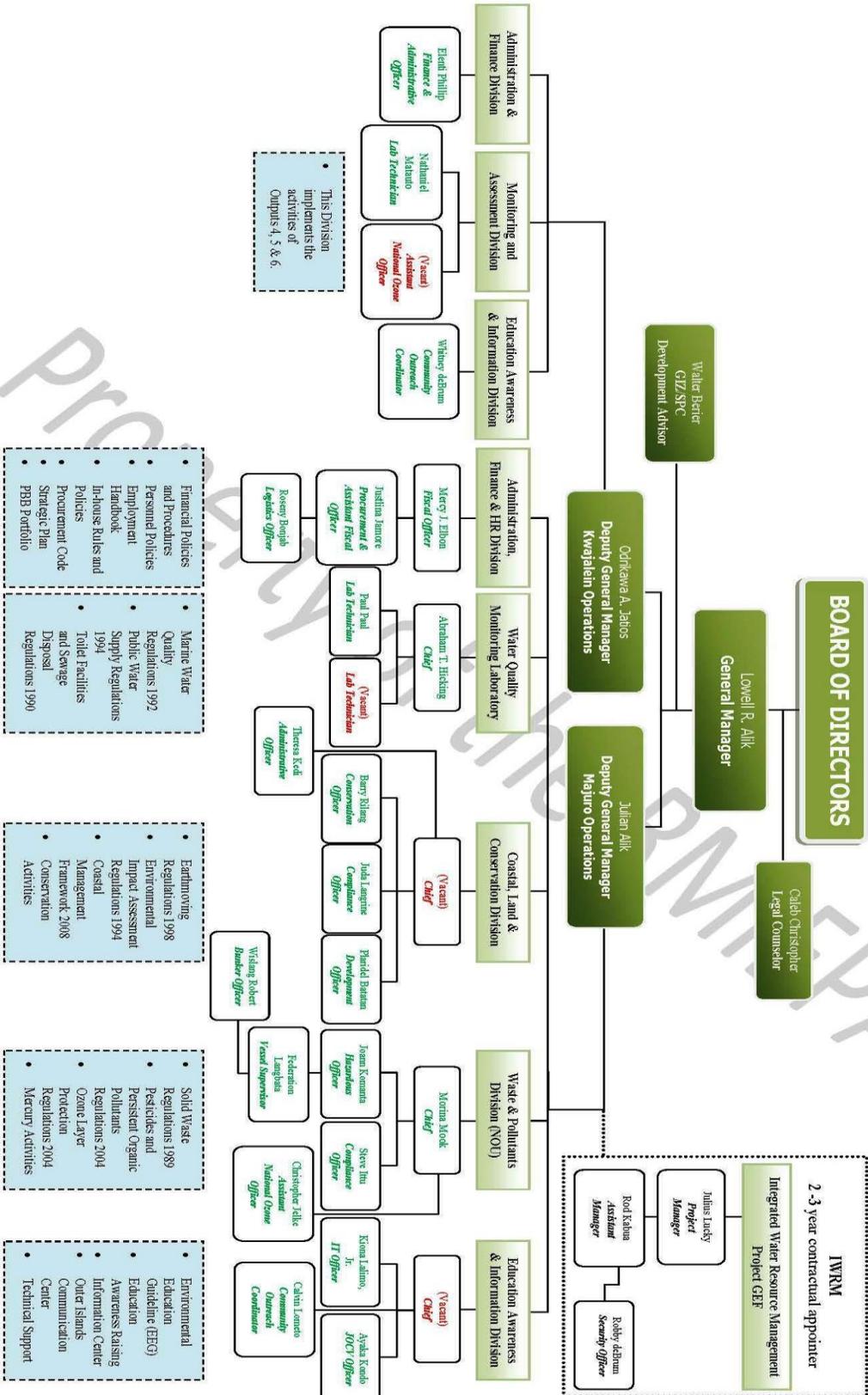
In line with the guiding principles of accountability, transparency and efficiency, the Authority's procurement systems will be reviewed in order to reflect compliance with the national procurement procedures. The Organizational Chart for FY13 has created a position for a Procurement Office to ensure 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. EPAs organizational chart shown below provides an overview of all the divisions and external programs currently administered by the organization.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Management's Discussion and Analysis
September 30, 2013 and 2012



Organizational Chart for the RMI Environmental Protection Authority (RMERP)



NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Management's Discussion and Analysis
September 30, 2013 and 2012

FINANCIAL HIGHLIGHTS

Management's Discussion and Analysis for the year ended September 30, 2013 is set forth in the report on the audit of RMIEPA's financial statements. The Discussion and Analysis explains the major factors impacting the 2013 financial statements.

RMIEPA's net position increased in 2013 by \$20,532 or 9% from \$217,163 in 2012 to \$237,695 in 2013 due to an increase in operating revenues of \$223,642 or 35% compared to 2012 offset by an increase in operating expenses of \$205,573 or 33% compared to 2012. In 2013, operating revenues were increased mainly as a result of grant from foreign sources, primarily ODS and IWRM-GEF and Monitoring fees of the RSA Project.

FINANCIAL ANALYSIS OF EPA

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

**NATIONAL ENVIRONMENTAL
PROTECTION AUTHORITY FUND**

Management's Discussion and Analysis
September 30, 2013 and 2012

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

<u>At September 30</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current assets	\$ 197,777	\$ 191,434	\$ 168,560
Capital assets	<u>74,502</u>	<u>36,695</u>	<u>52,609</u>
Total assets	<u>\$ 272,279</u>	<u>\$ 228,129</u>	<u>\$ 221,169</u>
Current liabilities	<u>\$ 34,584</u>	<u>\$ 10,966</u>	<u>\$ 6,469</u>
Net position:			
Net investment in capital assets	74,502	36,695	52,609
Unrestricted	76,235	111,296	73,569
Restricted	<u>86,958</u>	<u>69,172</u>	<u>88,522</u>
Total net position	<u>237,695</u>	<u>217,163</u>	<u>214,700</u>
Total liabilities and net position	<u>\$ 272,279</u>	<u>\$ 228,129</u>	<u>\$ 221,169</u>

As indicated above, total net position increased by \$20,532 or 9% from \$217,163 in 2012 to \$237,695 in 2013. This increase in total net position reflects an increase in grant awards received from foreign funding sources – IWRM and Monitoring fees-RSA Project, Fees & Charges in FY2013.

Current liabilities reflect an increase of \$23,618 or 69% from \$10,966 in 2012 to \$34,584 in 2013. The increase indicates improved in settlement of the outstanding bills from prior and current year.

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

<u>Years Ended September 30</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Revenues:			
Total Operating revenues*	\$ 857,432	\$ 633,790	\$ 757,807
Expenses:			
Total Operating expenses**	<u>836,900</u>	<u>631,327</u>	<u>674,586</u>
Change in net position	<u>\$ 20,532</u>	<u>\$ 2,463</u>	<u>\$ 83,221</u>

*Includes Nitijela Appropriations

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

The Statements of Revenues, Expenses and Changes in Net Position identify the various revenue and expense items that impact the change in net position. As indicated above, RMIEPA's total revenues increased by \$223,642 or 35% from \$633,790 in 2012 to \$857,432 in 2013. The increase reflects mostly an increase in funding received from international environmental project grants mainly as a result of grant from foreign sources, primarily ODS and IWRM-GEF and Monitoring fees of the RSA Project.

**NATIONAL ENVIRONMENTAL
PROTECTION AUTHORITY FUND**

Management's Discussion and Analysis
September 30, 2013 and 2012

Below is the summary of the major components of operating revenues for RMIEPA in 2013 compared to 2012 and 2011:

Operating revenues

<u>Years Ended September 30</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Nitijela appropriations	\$ 353,733	\$ 346,265	\$ 336,446
Grants	160,989	221,200	300,354
Monitoring fees – RSA project	153,468	-	-
Fees and Charges	91,512	44,650	57,555
Compact revenues	33,047	-	-
Fines	23,500	2,000	44,060
Other	<u>41,184</u>	<u>27,430</u>	<u>22,162</u>
	857,434	641,545	760,577
Less uncollectible accounts	<u>(2)</u>	<u>(7,755)</u>	<u>(2,770)</u>
Net Operating revenues	<u>\$ 857,432</u>	<u>\$ 633,790</u>	<u>\$ 757,807</u>

The data provided above portrays that the total operating revenues increased by \$223,642 or 35% from \$633,790 in 2012 to \$857,432 in 2013, which was primarily due to the Monitoring fees-RSA Project and Compact revenues. Furthermore, revenue from Permit fees and Fines increased extremely in 2013 compared to 2012 because of fees obtained from Earthmoving and Administration. However, figures for Grants reduced due to less activities for ODS and IWRM Projects.

Below is a summary of the major components of operating expenses for RMIEPA in 2013 compared to 2012 and 2011.

Operating expenses

<u>Year Ended September 30</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Salaries and Wages Marsh*	\$ 485,896	\$ 406,881	\$ 404,920
Travel	31,754	43,566	45,798
Supplies and Materials	67,173	50,765	28,441
Consultant services	3,149	6,000	3,350
Depreciation	36,503	21,290	31,333
Compact expenses	33,047	-	-
Other Expenses	<u>179,378</u>	<u>102,825</u>	<u>160,744</u>
Total Operating Expenses	<u>\$ 836,900</u>	<u>\$ 631,327</u>	<u>\$ 674,586</u>

*Includes Nitijela Appropriations

**NATIONAL ENVIRONMENTAL
PROTECTION AUTHORITY FUND**

Management's Discussion and Analysis
September 30, 2013 and 2012

According to the figures above, total operating expenses increased by \$205,573 or 33% from \$631,327 in 2012 to \$836,900 in 2013. The increase is mainly due to recruitment of personnel/contractual services and procurement of office supplies and materials. In addition, EPA renovated building and food stuffs.

CAPITAL ASSETS

Net capital assets increased by \$37,807 or 103% from \$36,695 in 2012 compared to \$74,502 in 2013 as a result of the acquisition of Office Equipment supplies and Motor vehicle and Boat of \$74,310 less current year depreciation expense of \$36,503.

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

<u>At September 30</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Motor vehicles	\$ 88,849	\$ 94,563	\$ 92,163
Office furniture and Equipment	42,066	58,492	55,516
Boat	<u>43,744</u>	<u>15,000</u>	<u>15,000</u>
	174,659	168,055	162,679
Less accumulated depreciation	<u>(100,157)</u>	<u>(131,360)</u>	<u>(110,070)</u>
Net Capital Assets	\$ <u>74,502</u>	\$ <u>36,695</u>	\$ <u>52,609</u>

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

ADDITIONAL FINANCIAL INFORMATION

This discussion and analysis is designed to provide RMIEPA's counterparts with an overview of RMEPA'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

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Notes to Financial Statements
September 30, 2013 and 2012

(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 basic 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.
- 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.

**NATIONAL ENVIRONMENTAL
PROTECTION AUTHORITY FUND**

Notes to Financial Statements
September 30, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

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 liabilities 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 liabilities 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 total 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.

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, 2013 and 2012, the carrying amount of cash was \$52,622 and \$110,042, respectively, and the corresponding bank balances were \$79,979 and \$112,716, respectively. Of the bank balance amounts, \$72,090 and \$107,788, respectively, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2013 and 2012, these deposits were fully FDIC insured with the remaining deposits 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.

**NATIONAL ENVIRONMENTAL
PROTECTION AUTHORITY FUND**

Notes to Financial Statements
September 30, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

Capital Assets

EPA does not have a capitalization policy for fixed assets; however, items with a cost that equals or exceeds \$100 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

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 resources represents a consumption of net position that applies to a future period and so will not 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, 2013, EPA implemented the following pronouncements:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addressed how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. 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, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which improved financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement No. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position.

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of EPA.

**NATIONAL ENVIRONMENTAL
PROTECTION AUTHORITY FUND**

Notes to Financial Statements
September 30, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and 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 provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of EPA.

In January 2013, GASB issued 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 transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of EPA.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 70 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of EPA.

(3) Capital Assets

Capital asset activity for the years ended September 30, 2013 and 2012 follows:

	October 1, <u>2012</u>	<u>Additions</u>	<u>Retirements</u>	September 30, <u>2013</u>
Boat	\$ 15,000	\$ 28,744	\$ -	\$ 43,744
Motor vehicles	94,563	36,206	(41,920)	88,849
Office furniture and equipment	<u>58,492</u>	<u>9,360</u>	<u>(25,786)</u>	<u>42,066</u>
	168,055	74,310	(67,706)	174,659
Less accumulated depreciation	<u>(131,360)</u>	<u>(36,503)</u>	<u>67,706</u>	<u>(100,157)</u>
	<u>\$ 36,695</u>	<u>\$ 37,807</u>	<u>\$ -</u>	<u>\$ 74,502</u>
	October 1, <u>2011</u>	<u>Additions</u>	<u>Retirements</u>	September 30, <u>2012</u>
Boat	\$ 15,000	\$ -	\$ -	\$ 15,000
Motor vehicles	92,163	2,400	-	94,563
Office furniture and equipment	<u>55,516</u>	<u>2,976</u>	-	<u>58,492</u>
	162,679	5,376	-	168,055
Less accumulated depreciation	<u>(110,070)</u>	<u>(21,290)</u>	-	<u>(131,360)</u>
	<u>\$ 52,609</u>	<u>\$ (15,914)</u>	<u>\$ -</u>	<u>\$ 36,695</u>

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Notes to Financial Statements
September 30, 2013 and 2012

(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, 2013 and 2012, RepMar recorded certain expenses of \$353,733 and \$346,265, respectively, which pertain to operational activities of EPA in accordance with Public Law 1984-31. Of these amounts, \$353,733 and \$346,265, respectively, 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 expense as contributions from RepMar.

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) Contingency

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.



**REPUBLIC OF THE MARSHALL ISLANDS
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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 the 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 Fund (EPA), which comprise the statement of net position as of September 30, 2013, 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 November 28, 2014.

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. However, as described in the accompanying Schedule of Findings and Responses, we identified certain 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. We consider that deficiencies described in the accompanying Schedule of Findings and Responses as items 2013-8, 2013-9 and 2013-10 to be material weaknesses.

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 2013-2 through 2013-7 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 items 2013-1 and 2013-11 through 2013-14.

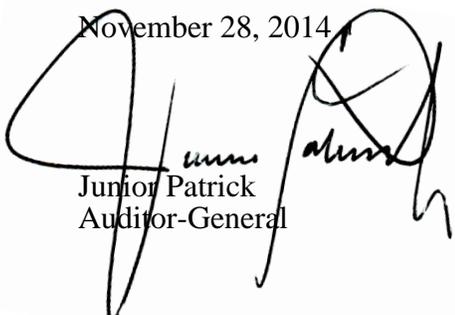
EPA's Responses to Findings

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.

November 28, 2014



Junior Patrick
Auditor-General

**NATIONAL ENVIRONMENTAL
PROTECTION AUTHORITY FUND**

Schedules of Findings and Responses
Year ended September 30, 2013

Finding No. 2013-1

Budget

Criteria: Annual budgets are usually adopted requiring expenditures to be properly approved prior to being incurred. In addition, EPA's Financial Accounting Policies require the fund can only be used as indicated by an approved budget, which will indicate the source of revenue and intended spending program. Funds may be drawn only for activities previously approved for each specific program unless otherwise approved by the Board.

Condition: During our examination, we noted that fifteen (15) items significantly exceeded their approved budgeted amount in the total amount of \$201,469 and four (4) line items were not budgeted as follows:

<u>Acct. No.</u>	<u>Description</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>
5002	Salaries & Wages – Marsh	\$47,998	\$60,038	(\$12,040)
5005	Personnel Benefits - Marsh	5,041	6,098	(1,057)
5011	Communications	7,190	13,665	(6,475)
5014	Consultant Fee	-	3,149	(3,149)
5015	Office/Computer Supplies	16,949	35,051	(18,102)
5016	POL-Fuel	17,317	23,336	(6,019)
5017	Food Stuff	9,265	18,093	(8,828)
5018	Other Supplies/Material	8,000	28,000	(20,000)
5020	Travel	16,750	31,754	(15,004)
5022	Equipment Not Capitalized	900	4,122	(3,222)
5025	Contractual services	20,000	25,000	(5,000)
5032	Workshops/meeting expense	-	4,163	(4,163)
5038	Services rendered	-	75,610	(75,610)
5041	Insurance	1,200	3,619	(2,419)
5055	Bunkering & Vessels expense	-	20381	(20,381)
		\$140,869	\$376,221	(\$201,469)

Cause: The cause of the above condition is the lack of adherence to established policies and procedures.

Effect: The effect of the above condition is the possibility that expenditures were unauthorized.

Recommendation: We recommend for management to comply with internal control policies and procedures as established under the Financial Accounting Policy manual. Additionally, we recommend that the Board of Directors provide regular oversight of operations, especially the financial transactions.

Auditee's Response and Corrective Action Plan: Every year EPA abides by the rules and regulations. However, only few items exceeded their approved budget amount in order to complete the tasks that are crucial to the organization.

**NATIONAL ENVIRONMENTAL
PROTECTION AUTHORITY FUND**

Schedules of Findings and Responses, Continued
Year ended September 30, 2013

Finding No. 2013-2

Overtime Payments

Criteria: Payment of salaries and wages should be based on actual hours worked and be supported by timesheets.

Condition: Based on our examination of payments to a certain employee, the following discrepancies were noted:

1. It appears that for the period from October to December of 2012, the employee was paid a total of 656 hours, which comes out to an average of 218.67 overtime hours worked per month. This means that on a given day, the employee works a total of 17 hours, leaving only 7 hours to rest.
2. We also noted that in February and March 2013, the employee was also paid overtime of 12 to 13 hours on a work week.
3. We noted that check #s 2727 and 2757, totaling \$2,496 were issued for 113 hours for October. There appears to be an overpayment of \$1,273. We proposed to record a receivable for this overpayment from the employee.
4. We noted that on 12/13/2012, the same employee claimed 18 overtime hours, and we have knowledge that he was also paid 8 regular hours that are processed through the government payroll at the Ministry of Finance. This means that he was paid a total of 26 hours in one day, which is not possible.
5. Other instances were noted where the hours claimed for overtime leaves no time for the employee to rest.
6. We also noted the employee claimed 12 to 13 hours per day, which leaves him only 3 to 4 hours of rest.

We also examined payment to another employee per check # 012 issued from the General Fund on 5/17/2013 totaling \$1,039. We noted that the payment was for overtime claimed by the employee for monitoring the RSA project at the airport. Our examination disclosed the payment was not supported by timesheets; instead, it was supported by a Quick Book generated timecard with inconsistent information recorded on it. The months indicated on the timecard were from October 2012 to February 2013; however, the weeks documented were from 4/22/2013 to 5/12/2013. Additionally, the approval sheet signed by the General Manager indicated that hours claimed are from December 2012 to April 2013. Furthermore, it was noted that RMI and MISSA taxes were not deducted. We have proposed an adjustment to record taxes payable and expense and also to record a receivable from the employee for these taxes.

Cause: The cause of the above conditions is the lack of a thorough review of the timesheet by management requiring that hours claimed be reasonable and that all payment of salaries and wages are deducted RMI and MISSA income taxes.

**NATIONAL ENVIRONMENTAL
PROTECTION AUTHORITY FUND**

Schedules of Findings and Responses, Continued
Year ended September 30, 2013

Finding No. 2013-2 (continued)

Overtime Payments

Effect: The effect of the above conditions is that the hours paid to the employees were not supported by a timecard and EPA overpaid one employee on one instance and may have also overpaid on other instances due to the lack of a timecard. Additionally, RMIEPA was noncompliant with RepMar and MISSA tax Acts.

Recommendation: We recommend that the EPA management require that hours paid to each employee be supported by actual timecard, especially payment of overtime hours. Overtime hours should be based on actual timecard and not based on estimates. Additionally, we recommend that all supporting documents be properly reviewed prior to approval. Furthermore, we recommend that payment for salaries and wages be included in the payroll system so that proper income taxes can be deducted.

Auditee's Response and Corrective Action Plan: Our Fiscal Officer is fully aware of requirements for deducting RMI and MISSA taxes and will collect from the staff. For future reference, timesheets will be more thoroughly reviewed and verified by management.

**NATIONAL ENVIRONMENTAL
PROTECTION AUTHORITY FUND**

Schedules of Findings and Responses, Continued
Year ended September 30, 2013

Finding No. 2013-3

Fixed Assets

Criteria: Subsidiary fixed assets register (FAR) should provide sufficient details to identify assets, including assignment of identification numbers to individual assets, and documentation of the location of such assets.

Condition: During our examination, the following matters were noted with respect to recording and management of fixed assets:

- a) A periodic physical verification of existing capital assets has not been performed.
- b) The fixed assets register does not contain sufficient information such as tag numbers, serial numbers, and location, to facilitate identification and monitoring. EPA's vehicles are not tagged with the yellow license plate to indicate government ownership.

Cause: The cause of the above condition is the lack of management review of the accounting functions on a regular basis requiring that accounting records be properly maintained.

Effect: The effect of the above condition is that property and equipment were misstated throughout the year. Additionally, monitoring of assets was made difficult with no tag numbers being documented in the register.

Recommendation: We recommend for management to comply with internal control policies and procedures regarding periodic physical inventory, and tagging fixed assets.

Auditee's Response and Corrective Action Plan: All EPA assets will have tag numbers with the necessary log in to match the register. The fixed asset register will contain tag numbers, serial numbers, and location to facilitate thorough identification and monitoring.

**NATIONAL ENVIRONMENTAL
PROTECTION AUTHORITY FUND**

Schedules of Findings and Responses, Continued
Year ended September 30, 2013

Finding No. 2013-4

Food Stuff

Criteria: Posting to the general ledger should reflect the true nature of the transactions. Additionally, for such items as foodstuff, which is not critical to the operation of EPA, such should be spent within the approved limit as stated in the annual budget.

Condition: During our examination of the general ledger, we noted that account # 5017 is for workshop/meeting expense, and account # 5032 is for foodstuff. Based on our examination of the detail transactions of both accounts, we noted that all of the payments are for food items and there was no budget approved for workshop/meeting expense. The combined total of both accounts amounted to \$22,256, which exceed budgeted total for food items by \$12,991.

Cause: The cause of the above condition is the lack of management oversight and monitoring of the budget to ensure that foodstuff expenditures be spent according to the approved budget. Additionally, EPA did not utilize their budget module in their accounting system to monitor expenses against the approved budget.

Effect: The effect of the above condition is that the financial statements were misstated throughout the year and food expenditures were spent in excess of the approved budget.

Recommendation: We recommend that the EPA management review the financial statements on a monthly basis and require that transactions be recorded properly. Additionally, we also recommend that the budget module within the QuickBooks accounting system be utilized to monitor expenses against the budget. Furthermore, we recommend that the Board of Directors also review the financial statements on a periodic basis to also monitor the budget and require that spending on items that are least critical to the operation of EPA be not in excess of their approved amounts.

Auditee's Response and Corrective Action Plan: The Board of Directors, as well as Management, will review financial statements on monthly and periodic basis' to spend more on relevant activities instead of items least significant to EPA operations.

**NATIONAL ENVIRONMENTAL
PROTECTION AUTHORITY FUND**

Schedules of Findings and Responses, Continued
Year ended September 30, 2013

Finding No. 2013-5

Journal Vouchers

Criteria: The EPA Financial Accounting Policies require that general journal entries clearly specify the nature of the transaction. Journal entries must be entered in the batch control log and entered in the Computerized General Ledger Module. All vouchers must be approved by the General Manager.

Condition: During our examination, we noted that journal vouchers were not prepared and reviewed by the General Manager prior to recording in the general ledger. A total of \$1,360,247 was recorded to the general ledger via journal vouchers, however, we were only provided copies of GJ13-028, GJ13-029, GJ13-030, GJ13-038, GJ13-39, GJ13-040 that totaled \$174,635.72 that were approved by the General Manager.

Cause: The cause of the above condition is the lack of adherence to established policies and procedures.

Effect: The effect of the above condition is the possibility that adjustments made to the general ledger may be unauthorized which may result in manipulation of the accounting transactions.

Recommendation: We recommend for management to comply with internal control policies and procedures as established under the Financial Accounting Policy manual to allow for the preparation of journal vouchers for management review prior to recording in the general ledger.

Auditee's Response and Corrective Action Plan: All General Journal are now properly filed with supporting documents and requires signatures from Management and other parties that expect approval.

**NATIONAL ENVIRONMENTAL
PROTECTION AUTHORITY FUND**

Schedules of Findings and Responses, Continued
Year ended September 30, 2013

Finding No. 2013-6

Significant Delay in the Accounting Records

Criteria: Day-to-day transactions should be posted timely. Reconciliations of key accounts, including bank reconciliations, and review of such reconciliations, should be performed monthly. Fixed assets registers should also be reconciled on a monthly basis.

Condition: During the year ended September 30, 2013, various accounting records do not appear to have been processed and timely updated as evidenced by the following:

- The financial statements were not provided to us until April 30, 2014.
- The fixed assets register provided for our review did not tie to numbers recorded in the general ledger.

Cause: The cause of the above condition is the lack of management oversight to ensure that accounting records are updated on a regular basis as required in the Financial Accounting Policy manual.

Effect: The effect of the above condition is the delayed identification and correction of errors and misstatements in the financial statements.

Recommend: Management should implement procedures that require timely posting of daily transactions and a checklist of accounts that should be reconciled and reviewed on a monthly basis. Prudence indicates that posting of daily transactions be performed within a week, and the reconciliation of key balance sheet accounts should be performed within a month.

Auditee's Response and Corrective Action Plan: Our Fiscal Officer is required to do the monthly reconciliations, and the General Manager will make sure the reconciliation of General Ledger will be performed monthly.

**NATIONAL ENVIRONMENTAL
PROTECTION AUTHORITY FUND**

Schedules of Findings and Responses, Continued
Year ended September 30, 2013

Finding No. 2013-7

Salaries and Wages

Criteria: Timecards should be utilized with time machine to show actual times clocked in and out.

Condition: During of our examination of 7 payroll expenditures, we noted that time in and out were penciled and the time documented were 8am to 5pm as noted in our testing of the following checks:

<u>Items</u>	<u>Check No.</u>	<u>Amount</u>
1	2105	\$ 496
2	2107	358
3	2118	314
4	2251	612
5	2269	358
6	2308	612
7	2453	612
Total		<u>\$ 3,362</u>

Cause: The cause of the above condition is that EPA may have overpaid salaries and wages.

Effect: The effect of the above condition is the lack of adequate internal control policies and the lack of management supervision requiring that salaries and wages be paid only for actual hours worked.

Recommendation: We recommend the EPA require utilization of a time machine so that hours paid are accurate. We further recommend that management provide a thorough review of each disbursement requiring that payment for salaries and wages be supported by actual hours recorded in the time card.

Auditee's Response and Corrective Action Plan: All timecards are now properly clocked in and out with required signatures in place.

**NATIONAL ENVIRONMENTAL
PROTECTION AUTHORITY FUND**

Schedules of Findings and Responses, Continued
Year ended September 30, 2013

Finding No. 2013-8

Property and Equipment

Criteria: EPA Financial Accounting Policies requires that all disposals of fixed assets be made with prior approval of the Board of Directors through the recommendation by the General Manager.

Condition: During our examination, we noted that EPA recorded disposals of furniture, fixtures and equipment (1511) in the amount of \$25,786 and disposals of vehicles (1531) in the amount of \$41,920 without prior approval of the Board.

Cause: The cause of the above condition is the lack of adherence with policies and procedures established by EPA, specifically the Financial Accounting Policies Manual.

Effect: The effect of the above condition is that disposal of fixed assets were potentially unauthorized.

Recommendation: We recommend for management to comply with internal control policies and procedures as established under the Financial Accounting Policy manual.

Auditee's Response and Corrective Action Plan: We will make sure all ours disposal assets are balanced with the register and have require signatures in place. Management will comply with internal control policies and procedures under the Financial Accounting Policy.

**NATIONAL ENVIRONMENTAL
PROTECTION AUTHORITY FUND**

Schedules of Findings and Responses, Continued
Year ended September 30, 2013

Finding No. 2013-9

Bank Account

Criteria: The Financial Accounting Policy manual requires that the fund must establish an account at any local banking institutions on Majuro that is a member of the Federal Deposits Insurance Corporation (FDIC). The account must be maintained at a minimum balance of two thousand five hundred dollars (\$2,500).

Condition: During our examination, we noted that EPA opened a TCD bank account at Bank of Marshall Islands (BOMI) which is a non-FDIC institution. Furthermore, the Bank of Guam (BOG) account #105-039828 had a balance of \$520 at year end.

Cause: The cause of the above condition is the lack of adherence with policies and procedures established by EPA, specifically the Financial Accounting Policies manual.

Effect: The effect of the above condition is noncompliance with established internal control policies and procedures as stated in the Financial Accounting Policy manual.

Recommendation: We recommend for management to comply with internal control policies and procedures as established under the Financial Accounting Policy manual.

Auditee's Response and Corrective Action Plan: Since there is no other bank available at Ebeye Kwajalein Atoll, the Management has no other choice but to go through BOMI to complete its transactions activities. Therefore, the Board as well as management will review this case and see to necessary actions to take place.

**NATIONAL ENVIRONMENTAL
PROTECTION AUTHORITY FUND**

Schedules of Findings and Responses, Continued
Year ended September 30, 2013

Finding No. 2013-10

Contractual Services

Criteria: Repair and renovation services should be supported by a contract agreement. Prior to signing, the service should be advertised so that EPA can find a contractor who can provide the service at the lowest cost. Additionally, such item should be included in the annual budget.

Condition: We noted that there was no contract agreement signed between EPA and the contractor for renovation of the EPA main office. Additionally, there was no price quotation obtained for the service provided totaling \$14,554 and the item was also not budgeted.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures related to office repairs and renovations.

Effect: The effect of the above condition is that in the case that disputes were to arise, there is no contract agreement to indicate the responsibilities of each party. Additionally, the expenditures were not budgeted, therefore, are unauthorized.

Recommendation: We recommend EPA require that a contract agreement be signed for renovation service. Additionally, price quotes should be obtained and any major renovations should be included in the annual budget.

Auditee's Response and Corrective Action Plan: The Internal Control Policies and Financial Policy Manual will be adhered to and ensure that contract agreements will be made next time.

**NATIONAL ENVIRONMENTAL
PROTECTION AUTHORITY FUND**

Schedules of Findings and Responses, Continued
Year ended September 30, 2013

Finding No. 2013-11

Local Non-compliance

Criteria: Per EPA Financial Policy, price quotations must be obtained for purchases over \$100.

Condition: During our examination of 67 expenditures, we noted the following checks were not supported by price quotations:

<u>Item</u>	<u>Check No</u>	<u>Amount</u>
1	1120	\$ 3,660
2	2397	2,400
3	3227	3,440
4	2441	2,496
5	3294	4,900
6	2100	424
7	2706	228
8	1138	884
9	2937	1,234
10	3070	2,138
11	3152	4,044
12	3059	1,049
13	3135	991
14	3152	4,184
15	2647	2,600
16	3273	1,003
Total		<u>\$35,675</u>

The following assets were purchased in the current year without evidence of the 3 required price quotes:

<u>Item</u>	<u>Description</u>	<u>Amount</u>
1	New Ford White pickup	27,950
2	Used Gray Car	10,000
3	New Dell XPS 8500	1,000
4	Dell XPS 8500 PC	1,725
		<u>\$ 40,675</u>

Cause: The cause of the above condition is the disregard for established internal control policies and procedure requiring that price quotes be obtained for purchases over \$100.

Effect: The effect of the above condition is noncompliance with internal control policies and procedure specifically, the financial accounting policy manual.

Recommendation: We recommend EPA require that price quotations be obtained as required to comply with the financial accounting policy manual.

**NATIONAL ENVIRONMENTAL
PROTECTION AUTHORITY FUND**

Schedules of Findings and Responses, Continued
Year ended September 30, 2013

Finding No. 2013-11, Continued

Local Non-compliance

Auditee's Response and Corrective Action Plan: Price quotations will be obtained for future purchases over \$100 and obey the terms of the financial accounting policy manual.

**NATIONAL ENVIRONMENTAL
PROTECTION AUTHORITY FUND**

Schedules of Findings and Responses, Continued
Year ended September 30, 2013

Finding No. 2013-12

Local Non-compliance

Criteria: According to EPA Financial Accounting Policies, any purchases in excess of \$10,000 and which are not included in the Budget should be approved by the Board of Directors.

Condition: During our examination, we noted 2 vehicles that were received by EPA in exchange for monies owed for fine and other amounts due to EPA; however, there were no Board minutes approving such transactions:

- The first vehicle was received from a local company for the Runway Safety Area Project. We noted that the amount due for the month of December was \$27,807. However, instead of cash payment, the customer bought a vehicle for EPA with the total cost of \$27,950 and EPA had to pay another \$143 to match the cost.
- The second vehicle was received from another local company as a payment for solid waste fine. During our examination, we noted that there was an agreement made so that the company will provide a vehicle to EPA in exchange for the fine of \$10,000. It appeared that there was no valuation report that showed actual value of the vehicle. The invoice to the customer indicated that the total value of the vehicle was less than \$10,000, therefore the company agreed to provide unlimited repairs.

Cause: The cause of the above conditions is the lack of established policies and procedures related to fines in exchange for vehicles or other assets.

Effect: The effect of the above conditions is that EPA's transactions were not approved in accordance with prescribed polices.

Recommendation: We recommend that EPA management require that all major transactions not included in the Budget be approved by the Board of Directors and documented in the Board minutes as to their approval.

Auditee's Response and Corrective Action Plan: Management will obtain approval from the Board of Directors for all the major transactions in the future and will be documented in their minutes.

**NATIONAL ENVIRONMENTAL
PROTECTION AUTHORITY FUND**

Schedules of Findings and Responses, Continued
Year ended September 30, 2013

Finding No. 2013-13

Local Non-compliance

Criteria: The Income Tax Act of 1989 states that income tax shall be collected by the employer by deducting and withholding the tax imposed on any wages and salaries as and when paid or credited to the employee. 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 a worker or a self-employed worker shall contribute to the Administration an amount equal to 7% of his/her salaries. The worker's contributions 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. Every employer who is required to deduct the worker's contributions is liable for their payment to the Administration and shall be indemnified by the Administration against any claim or demand by any worker for the amount of such payment.

Condition: During our review of the services rendered account totaling \$75,610, we noted a total of \$57,987 paid to employees of EPA for overtime payment, however, these were processed as regular operations check and therefore, no income taxes were deducted and withheld for payment to the proper authorities.

Cause: The cause of the above condition is the lack of management oversight to ensure that overtime payment to employees is processed through payroll or be properly processed to ensure that correct taxes have been withheld and paid. Audit adjustments were proposed to record receivable from the employees for these taxes.

Effect: The effect of the above condition is noncompliance with Income Tax Act of 1989 and the Social Security Tax Act of 1990 and overpayment to the employees.

Recommendation: We recommend that EPA ensure that payment of overtime is included in the payroll process so that income taxes can be properly withheld. Additionally, we recommend that EPA make payment arrangements with the employees to collect taxes that they owed.

Auditee's Response and Corrective Action Plan: We will ensure that future overtime payments will be included in the payroll process and collection of taxes from employees that are owed will be arranged.

**NATIONAL ENVIRONMENTAL
PROTECTION AUTHORITY FUND**

Schedules of Findings and Responses, Continued
Year ended September 30, 2013

Finding No. 2013-14

Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Grant Number: Compact Sector Grants
Area: Allowable Costs/Cost Principles
Questioned Costs: \$15,000

Criteria: Expenditures incurred under federal programs should be in accordance with allowable costs/cost principles requirements and should be directly related to, and in accordance with, program intent and objectives.

Additionally, Section 147, Checks on account of contracts of the Financial Management Act 1990 states that:

- **All checks** for bills on account of contracts entered into by the Republic of the Marshall Islands **shall be made payable** to the order of the person to whom the Republic of the Marshall Islands is directly indebted ... **only after the Secretary of Finance** [receives] **a certification** by the appropriate officer of the Republic of the Marshall Islands supervising the work performed ... [**stating**] **that the work has been faithfully performed.** [Emphasis added].

Condition: Of \$33,047 in non-payroll expenditures for the Compact Sector Grants, \$15,000 was paid for legal services that were not performed as noted by the following:

On or about September 29, 2012, the Ministry of Finance issued check 101112 in the amount of \$4,500 to the legal counsel. The \$4,500 is the quarterly payment of \$5,000 reduced by 10% tax. In accordance with government procedures, EPA was to forward the check to the payee. Instead, EPA deposited the check into its bank account at the Bank of Guam. At September 30, 2013 EPA recorded the \$4,500 as due from compact fund, a revenue fund.

On or about June 5, 2013, the Ministry of Finance issued check 107563 in the amount of \$9,000 to the legal counsel. The \$9,000 relates to the FY 2013 first and second quarterly payments of \$5,000 each reduced by 10% tax. In accordance with government procedures, EPA was to forward the check to the payee. Instead, EPA deposited the check into its own bank account at Bank of Guam. At September 30, 2013, EPA recorded the \$9,000 as other revenues.

Audit adjustments were proposed to record the above amounts as payable to RepMar.

Cause: The cause of the above is lack of adherence to the federal programs regarding allowable cost requirement and the Financial Management Act regarding checks on account of contracts.

Effect: The effect of the above is overstatement of revenues and questioned cost in the amount of \$15,000.

Recommendation: We recommend that EPA comply with allowable costs/cost principle requirements and the Financial Management Act. Furthermore, we recommend EPA repay the Ministry of Finance \$13,500.

**NATIONAL ENVIRONMENTAL
PROTECTION AUTHORITY FUND**

Schedules of Findings and Responses, Continued
Year ended September 30, 2013

Finding No. 2013-14, Continue

Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Grant Number: Compact Sector Grants
Area: Allowable Costs/Cost Principles
Questioned Costs: \$15,000

Auditee's Response and Corrective Action Plan: EPA will comply with cost principle requirements and Financial Management Act. We will also repay the Ministry of Finance the amount of \$13,500. In addition, we ensure that necessary procedures, rules and regulations will be adhered to in the upcoming future.

**NATIONAL ENVIRONMENTAL
PROTECTION AUTHORITY FUND**

Unresolved Prior Year Findings
Year Ended September 30, 2013

There are no unresolved audit findings from prior year audits of EPA.