



REPUBLIC OF THE MARSHALL ISLANDS  
OFFICE OF THE AUDITOR-GENERAL

P.O. Box 245

Majuro, Republic of the Marshall Islands 96960

Email Address: [patrjun@ntamar.net](mailto:patrjun@ntamar.net) Web: [www.rmioag.com](http://www.rmioag.com)

Telephone:  
Auditor-General: (692) 625-3192  
Staff: (692) 625-3390  
Facsimile: (692) 625-5135  
Fraud Hotline:  
Telephone: (692) 625-1155  
Facsimile: (692) 625-1156

November 28, 2014

Mr. Lowell R. Alik  
General Manager  
National Environmental Protection Authority

Dear Mr. Alik:

In planning and performing our audit of the financial statements of the National Environmental Protection Authority Fund (EPA) as of and for the year ended September 30, 2013, (on which we have issued our report dated November 28, 2014) in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, we considered EPA's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of EPA's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to EPA's internal control over financial reporting and other matters as of September 30, 2013 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also 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 agreement and other matters.

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

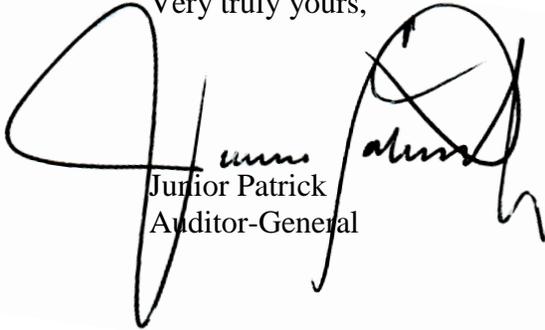
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with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

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

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

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

Very truly yours,



Junior Patrick  
Auditor-General

## **SECTION I – CONTROL DEFICIENCIES**

We identified, and have included below, control deficiencies involving EPA's internal control over financial reporting as of September 30, 2013 that we wish to bring to your attention:

### **(1) Payroll**

EPA personnel policies Part III, Regulation No. 18 does not indicate the exact time the employee is required to report to work. During our audit fieldwork, we noted that when we try to contact the Accountant in the morning, the Accountant usually come in after 10:30am. Additionally, we also experience the Accountant going away on trips when the audit is still going making it difficult for us to complete the audit on time. We have reviewed the payroll reports at the Ministry of Finance and noted that the Accountant has been paid 80 hours throughout the year, the Accountant even received approximately \$2,126 more than the approved annual salary. Based on our review of timecards, we noted that for 26 pay periods during the year, only 15 timecards were made available for review. Of the fifteen, three timecards did not show evidence that the Accountant used the timecard to clock in, however, we noted the Accountant was paid 80 hours. One of the timecards indicated that the Accountant had a total of 110.29 total hours for the pay period and the remaining 11 timecards did not show that the time clock was utilize completely, however, we noted that the Accountant received 80 regular hours for those pay periods. We inquired with the Accountant why she did not clock in yet continued to receive 80 hours each pay period. The Accountant asserted that the General Manager approves 80 regular hours for everyone whether they clocked in or not. We recommend that the EPA management amend the Personnel Policy manual of 2013 to specify the time of attendance to coincide with PSC regulations. Additionally, we recommend that management monitor the attendance and performance of the Accountant to ensure that the financial transactions of EPA are recorded and reconciled on a regular basis to avoid delays in the audit. Furthermore, we recommend that EPA management ensure that the time clock is utilized to show actual hours employees report to work.

### **(2) Progress Reports**

EPA accounting/finance office does not maintain copies of progress reports. Progress reports signed by an appropriate officer are required to be submitted by EPA in accordance with grant requirements. The reports include financial statements and narrative accounts of what has been accomplished by the expenditure of funds, including a description of progress made towards achieving project goals. During our review, we were unable to review Progress Reports as they were not available. We were informed that such had to be requested from the grantor. We recommend management to ensure that copies of progress reports are maintained on file to ensure that such copies will be available for management use and for use during audit. We also recommend that management ensure that items that have been raised by Auditors be resolved in a timely manner.

**(3) Travel Expense**

The EPA accounting policies indicate that EPA will adopt RMI Travel policies which states that the government will advance 80% of all travel expenses excluding airfare which is paid directly to the travel agency. The payment to the traveler should be recorded as a travel advance until he comes back within 15 days after the date of travel and submit a Travel Voucher Claim along with all required documents as evidence that the trip has been completed. We noted during our review per check #s 3028, 3029, 3030 and 3031 that per diem payment to two employees were directly expensed, however, they never went on the trip and one of them did not return the money back to EPA totaling \$540. Both of the employees paid \$360 each to a management staff for cost of room, however, since the trip never took place, the money has yet to be returned to EPA and there is dispute as to who should return the total of \$720. We recommend for EPA to adhere to RMI travel policies that require that travel expenses be paid as advances until the traveler file a Travel Voucher Claim with all travel documents evidencing completion of the trip. Additionally, we recommend that management investigate the nature of the above payments and request for repayment from the appropriate parties.

**SECTION II – DEFINITIONS**

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

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

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

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

### **Management's Responsibility**

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

### **Objectives of Internal Control over Financial Reporting**

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

### **Inherent Limitations of Internal Control over Financial Reporting**

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