

**NATIONAL ENVIRONMENTAL PROTECTION  
AUTHORITY FUND**

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

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**INDEPENDENT AUDITORS' REPORT ON  
INTERNAL CONTROL AND ON COMPLIANCE**

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**YEAR ENDED SEPTEMBER 30, 2009**

**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  
National Environmental Protection Authority Fund

We have audited the financial statements of the National Environmental Protection Authority Fund (EPA) as of and for the year ended September 30, 2009, and have issued our report thereon dated September 9, 2010. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered EPA's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of EPA's internal control over financial reporting.

A *control 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

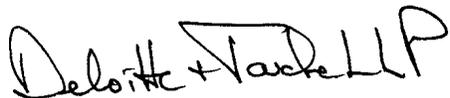
## Compliance and Other Matters

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 are instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2009-1.

We also noted certain matters that we reported to management of EPA in a separate letter dated September 9, 2010.

EPA's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit EPA's response and, accordingly, we express no opinion on it.

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

A handwritten signature in black ink that reads "Deloitte + Tuckers LLP". The signature is written in a cursive, flowing style.

September 9, 2010

# NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

## Schedule of Findings and Responses Year Ended September 30, 2009

### Local Noncompliance

#### Finding No. 2009-1

Criteria: RepMar's Procurement Code states the following:

- a) Section 124 – unless otherwise authorized by law, all Government Contracts shall be awarded by competitive sealed bidding.
- b) Section 127 – procurement of goods and services not exceeding \$25,000 may be in accordance with small purchase procedures promulgated by RepMar's Policy Office. Small purchases procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than \$25,000. RepMar's Ministry of Finance has previously declared that if small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.
- c) Section 128 – a contract may be awarded for a supply, service or construction item without competition when it is determined in writing that there is only one source for the required supply, services, or construction item.

Condition: The purchase of two boats, totaling \$28,744, for the Micronesian Conservation Trust project (for the Establishment of Woja & Jaluit MPAs - Local Efforts to Build Resiliency Towards Climate Change Impacts) did not undergo competitive bidding processes.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring the documentation of procurement procedures to ensure compliance with RepMar's Procurement Code.

Effect: The effect of the above condition is noncompliance with RepMar's Procurement Code.

Recommendation: We recommend that management ensure supporting documentation is adequate to document compliance with RepMar's Procurement Code. Specifically, supporting documentation should indicate the history of the procurement, including the rationale for and method of procurement, the contractor selection or rejection, and the basis for the contract price.

Prior Year Status: The lack of adherence with RepMar's Procurement Code was reported as finding in the audits of EPA for fiscal years 2007 and 2008.

#### Auditee Response and Corrective Action Plan:

EPA notes the recommendation of the Auditor to ensure that supporting documentation is adequate and in compliance with RepMar's Procurement Code. EPA acquired quotations from vendors on island and purchased two separate boats for Jaluit and Woja Conservation Areas each purchase under \$25,000. However, the recommendations has been noted and will be adhered to for future purchases from same grant over \$25,000. The EPA Financial Accounting Policy will be revised to clarify this requirement and ensure that it is consistent with RepMar Procurement Code.

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Unresolved Prior Year Findings  
Year Ended September 30, 2009

The status of unresolved prior year findings is discussed within the Schedule of Findings and Responses section of this report (page 3).