

**NATIONAL ENVIRONMENTAL PROTECTION
AUTHORITY FUND**

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

YEAR ENDED SEPTEMBER 30, 2003



REPUBLIC OF THE MARSHALL ISLANDS
OFFICE OF THE AUDITOR GENERAL
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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN ENGAGEMENT TO AUDIT IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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

We were engaged to audit the financial statements of the National Environmental Protection Authority Fund (EPA) as of and for the year ended September 30, 2003. Our report dated July 21, 2005, stated that the scope of our work was not sufficient to enable us to express, and we did not express, an opinion on the financial statements due to our inability to determine that advances, net assets and grant revenues were fairly stated.

Internal Control Over Financial Reporting:

In planning our engagement to audit, we considered EPA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect EPA's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings (pages 3 through 10) as items 2003-1 through 2003-7.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2003-3, 2003-4, 2003-5 and 2003-7 to be material weaknesses.

We also noted other matters involving the internal control over financial reporting, which we have reported to management of EPA in a separate letter dated July 21, 2005.

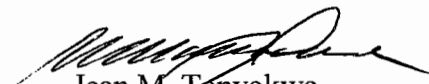
Compliance and Other Matters

As part of obtaining reasonable assurance about whether EPA's basic 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 engagement to audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Pursuant to the Auditor-General Act of 1986, we provided EPA with a draft of this report so that EPA could respond to our findings in writing. We appreciated EPA's prompt response and have included it in the body of this report as Attachment A.

This report is intended solely for the information and use of the Board of Directors, management, and the Republic of the Marshall Islands and is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the Republic of the Marshall Islands, is a matter of public record.

July 21, 2005



Jean M. Tonyokwe
Auditor-General

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Schedule of Findings
Year Ended September 30, 2003

Cash

Finding No. 2003-1

Criteria: EPA's established accounting policies and procedures over cash receipts require that cash receipts be deposited intact and in a timely manner.

Condition: During the year-end cut-off testing, we noted cash receipts in the amount of \$660.00 (CR # 1641 to 1652) that were not deposited in a timely manner with time lag ranges between 3 to 16 days from date of receipt.

Cause: The cause of the above condition is the override by management of established policies and procedures over cash receipts.

Effect: The effect of the above condition is the possibility of funds being misused and non-compliance with established policies and procedures.

Recommendation: We recommend that management adhere to the established policies and procedures regarding cash receipts to ensure cash receipts are deposited in a timely manner.

Prior Year Status: The lack of adherence to the establish policies and procedures regarding cash receipts was reported as a finding in the audit of EPA for fiscal year 2002.

Auditee Response and Corrective Action Plan:

It seems that when the GM is off-island on business trips, this practice of not depositing collected revenues in a timely manner occurs. Therefore, we had agreed that the GM or when GM travels, the Deputy GM receives copy of every deposits on the Monday of the following week.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Schedule of Findings, Continued
Year Ended September 30, 2003

Travel Advances

Finding No. 2003-2

Criteria:

1. EPA's accounting policies and procedures require travel advances to be authorized and issued in accordance with RepMar prescribed policies.
2. EPA's accounting policies and procedures regarding travel requires traveler to file timely travel claims and trip reports at completion of official travel.
3. Cabinet Minute 247(2000) sets per diem rates for official government travel to all locations in the Republic of the Marshall Islands at \$125.00 a day for Majuro and Kwajalein Atolls and \$50.00 a day for all other atolls and islands.

Condition:

1. Of eight (8) transactions for travel expenses tested, one traveler was advanced 100% of approved per diem. No travel claim and trip report were filed.
2. During our review, we noted that not all travelers filed travel claims and trip reports at completion of official travel.
3. Per diems paid for travel to Jaluit atoll was not consistent with established per diem rates.

Cause: The cause of the above condition is the override by management of established policies and procedures regarding travel advances.

Effect: The effect of the above condition is noncompliance with established policies and procedures and the possibility of unauthorized per diems paid.

Recommendation:

1. We recommend that management ensure 80% of the travel expenses are advanced to a traveler on the basis of the approved travel authorization.
2. We recommend that management ensure established policies and procedures regarding travel claims are being followed at all time.
3. We recommend that management ensure authorized per diems for Jaluit atoll are consistent with the approved rates per Cabinet Minute 247(2000).

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Schedule of Findings, Continued
Year Ended September 30, 2003

Travel Advances

Finding No. 2003-2, Continued

Prior Year Status: Lack of adherence to establish travel policies and procedures was reported as a finding in the audit of EPA for fiscal year 2002.

Auditee Response and Corrective Action Plan:

To be able to follow the audit recommendations on Travel, it was agreed that only our administrative assistant be assigned to be the only personnel responsible for office travels to ensure our travel policy is consistently followed.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Schedule of Findings, Continued
Year Ended September 30, 2003

Travel Claims

Finding No. 2003-3

Criteria: Travel claims should be recorded as travel expenses when liquidating a travel authorization.

Condition: As of September 30, 2003, EPA recorded travel advances of \$25,790, which included trips already complete representing liquidated travel expenses.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures to record travel liquidation.

Effect: The effect of the above condition is the overstatement of travel advances and the understatement of travel expenses.

Recommendation: We recommend that management ensure travel liquidations are recorded as travel expenses when travel claims are filed and amounts advanced be offset in the travel advances general ledger account.

Auditee Response and Corrective Action Plan:

Management will ensure travel liquidations are recorded as travel expenses when travel claims are filed and amounts advanced be offset in the travel advances general ledger account.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Schedule of Findings, Continued
Year Ended September 30, 2003

Revenue/Receipts

Finding No. 2003-4

Criteria: Grant revenues should be recorded based on grant awards received from donors.

Condition: During the year ended September 30, 2003, EPA received grant awards totaling \$304,960 from various donors, including the South Pacific Regional Environment Program (SPREP), United Nations Development Program (UNDP), and United Nations Environment Program (UNEP). Grant revenues were recorded based on cash receipts rather than grant awards. Furthermore, at September 30, 2003, EPA has not reflected net assets subject to restrictions externally imposed by grantors within their financial statement.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring the recording of grant revenues based on grant awards received from donors, and the lack of designation of net assets for externally imposed restrictions.

Effect: The effect of the above condition is the possibility of unrecorded grant revenues and misappropriation of cash receipts, and noncompliance with GASB Statement No. 34 requiring the designation of net assets for externally imposed restrictions.

Recommendation: We recommend that grant revenues be recorded as receivables based on grant awards and that cash receipts pertaining to grant awards be recorded as a reduction in the grants receivable. Furthermore, we recommend that net assets reflect restrictions that are externally imposed by grantors.

Prior Year Status: Lack of adequate internal control policies and procedures requiring the recording of grant revenues based on grant awards was reported as a finding in the audits of fiscal years 1998 through 2002.

Auditee Response and Corrective Action Plan:

Management will ensure adequate internal control policies and procedures requiring the record of grant revenues will be based on grant awards.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Schedule of Findings, Continued
Year Ended September 30, 2003

General Journals

Finding No. 2003-5

Criteria: Journal entries should be properly authorized and supported by appropriate documentation.

Condition: During the year ended September 30, 2003, journal entries were directly recorded to the general ledger without independent review and approval of journal entries.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring the independent review and approval of journal entries.

Effect: The effect of above condition is the possibility of unauthorized and unsupported transactions being recorded to the general ledger.

Recommendation: We recommend that management ensure that all journal entries be independently reviewed and approved prior to being recorded to the general ledger. Furthermore, we recommend that management ensure that all journal entries are adequately supported.

Prior Year Status: Lack of adherence to established journal entries policies and procedures to ensure that all journal entries are independently reviewed, approved, and supported was reported as a finding in the audit of EPA for fiscal year 2002.

Auditee Response and Corrective Action Plan:

Management will adhere to the recommendation to establish journal entries policies and procedures.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Schedule of Findings, Continued
Year Ended September 30, 2003

Fixed Assets

Finding No. 2003-6

Criteria: General fixed assets do not represent financial resources available for expenditure but are items for which financial resources have been used and for which accountability should be maintained through the use of unique asset identification numbers.

Condition: EPA has established a fixed asset register containing certain fixed asset acquisitions from previous fiscal years. No inventory of fixed assets has been performed to ensure that all capital assets are correctly recorded in the fixed asset register.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring the update of the fixed asset register.

Effect: The effect of the condition is the possibility that EPA is not presenting financial statements that account for all items for which resources have been used.

Recommendation: We recommend that EPA perform an inventory of fixed assets as basis for recording all fixed assets in the fixed asset register.

Prior Year Status: Lack of established policies and procedures to ensure proper control of and accountability for fixed assets was reported as a finding in the audit of EPA for fiscal year 2002.

Auditee Response and Corrective Action Plan:

Our Agency will conduct annual fixed asset inventory as recommended as well as establishing policies and procedures to ensure adequate control of and accountability of said assets is maintained.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Schedule of Findings, Continued
Year Ended September 30, 2003

Accounting System

Finding No. 2003-7

Criteria: Sufficient control over the accounting system should be in place to ensure reliability of the accounting records.

Condition: During the year ended September 30, 2003, we noted that financial data were changed, deleted and added after financial statements were provided for audit, resulting in ten (10) original account balances in the general ledger at September 30, 2003 being changed without proper authorization.

Cause: The cause of the above condition is the lack of segregation of duties and lack of management control over the accounting system.

Effect: The effect of the above condition is that financial data may be changed without proper authorization.

Recommendation: We recommend that EPA establish proper segregation of duties by having the General Manager as an administrator of the accounting system and the Finance Officer under another user name in order to utilize the set of controls that are in EPA's accounting software to ensure transactions are authorized before being deleted or changed and also to ensure that there is sufficient controls of the accounting system.

Auditee Response And Corrective Action Plan:

GM will now ensure authorization is granted before any changes in financial data were made to the accounting system. To do this, the GM will utilize the set of controls that are at the Office's accounting software.

National Environmental Protection Authority
Independent Auditor's Report on Internal Control and on Compliance
September 30, 2003

Responses Required To Clear Audit
From OAG Follow-Up System

<u>Recommendation</u>	<u>Action to be taken</u>
No. 1	Provide copy of written directive for staff to ensure cash receipts are deposited in a timely manner.
No. 2	Provide copy of written directive for staff to follow.
No. 3	Provide written confirmation that management has taken action to implement recommendation.
No. 4	Provide copy of policies and procedures requiring grant revenues to be recorded based on grant awards.
No. 5	Provide a sample copy of a general journal form.
No. 6	Provide copy of a complete fixed assets register.
No. 7	Provide copy of policies and procedures to ensure sufficient control over the accounting system are in place.



REPUBLIC OF THE MARSHALL ISLANDS
ENVIRONMENTAL PROTECTION AUTHORITY
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December 7, 2005

OFFICE OF THE
AUDITOR - GENERAL
RECEIVED
DEC 7, 2005 *4:00 PM*
REPUBLIC OF THE
MARSHALL ISLANDS

Ms. Jean M. Tonyokwe
Auditor General
Office of the Auditor General
Republic of the Marshall Islands
Majuro, MH 96960

Dear Auditor General,

Please find attached herewith our responses to your recommendations contained in the Report on Internal Control pertaining to the FY2003 Audit Reports.

Should you have any queries, please do not hesitate to contact the RMIEPA at the above numbers.

Sincere Regards,

Ms. Yumi Crisostomo, Chairperson
Board of Directors/RMIEPA

Cc: Mr. John Bungitak, General Manager/RMIEPA

OFFICE OF THE
AUDITOR - GENERALRECEIVED
DEC 7, 2005REPUBLIC OF THE
MARSHALL ISLANDS**Auditee Responses and Corrective Action Plan
2003 Audit Report**

1. Finding No. 2003-1: CASH It seems that when the GM is off-island on business trips, this practice of not depositing collected revenues in a timely manner occurs. Therefore, we had agreed that the GM or when GM travels, the Deputy GM receives copy of every deposits on the Monday of the following week.
2. Finding No. 2003-2: Travel Advances: To be able to follow the audit recommendations on Travel, it was agreed that only our administrative assistant be assigned to be the only personnel responsible for office travels to ensure our travel policy is consistently followed..
3. Finding No. 2003-3 Travel Claims: Management will ensure travel liquidations are recorded as travel expenses when travel claims are filed and amounts advanced be offset in the travel advances general ledger account.
4. Finding No. 2003-4: Revenue/Receipts: Management will ensure adequate internal control policies and procedures requiring the record of grant revenues will be based on grant awards.
5. Finding No. 2003-5: General Journals: Management will adhere to the recommendation to establish journal entries policies and procedures.
6. Finding No. 2003-6 Fixed Assets: Our Agency will conduct annual fixed asset inventory as recommended as well as establishing policies and procedures to ensure control of and accountability of said assets.
7. Finding No. 2003-7: Accounting System: GM will now ensure authorization is granted before any changes in financial data were made to the accounting system. To do this, the GM will utilize the set of controls that are at the office's accounting software.