

**NATIONAL ENVIRONMENTAL PROTECTION
AUTHORITY FUND**

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

YEAR ENDED SEPTEMBER 30, 2004



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

Board of Directors
National Environmental Protection Authority:

We were engaged to audit the financial statements of the National Environmental Protection Authority (EPA) as of and for the year ended September 30, 2004. Our report dated November 8, 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 assets, liabilities, revenues and expenditures were fairly stated.

Internal Control Over Financial Reporting:

In planning the 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 12) as items 2004-1 through 2004-9.

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 caused by error or fraud 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 2004-3, 2004-4, 2004-5, and 2004-7 to be material weaknesses.

Compliance and Other Matters

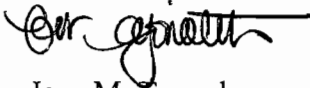
As part of obtaining reasonable assurance about whether EPA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our engagement to audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain additional matters that we reported to management of EPA in a separate letter dated November 8, 2005.

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 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 (REPMAR) 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 REPMAR, is a matter of public record.

November 8, 2005



Jean M. Tonyokwe
Auditor-General

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY

Schedule of Findings
Year Ended September 30, 2004

Cash

Finding No. 2004-1

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

Condition: During our review, we noted cash receipts in the amount of \$1,322.97 (CR # 1676, 1687, 1745, 1766, and 1903) that were not deposited in a timely manner. The time lag ranges between 3 to 15 days from the date of receipt.

Cause: The cause of the above condition is that management overrode established accounting policies and procedures.

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 established policies and procedures regarding cash receipts to ensure that 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 audits of EPA for fiscal years 2002 and 2003.

Auditee Response and Corrective Action Plan:

We were aware of this problem and have made changes of appointing different personnel responsible for deposit of collected revenues daily.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY

Schedule of Findings, Continued
Year Ended September 30, 2004

Travel Advances

Finding No. 2004-2

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 require that a traveler file timely travel claims and trip reports at the 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 thirty five (35) transactions for travel expenses tested, one traveler was advanced 100% of approved per diem.
2. We noted that not all travelers file 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 management overrode 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 diem paid.

Recommendation:

1. We recommend that management ensure 80% of travel expense is advanced to a traveller 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 times.
3. We recommend that management ensure authorized per diem for Jaluit atoll are consistent with approved rates per Cabinet Minute 247(2000).

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY

Schedule of Findings, Continued
Year Ended September 30, 2004

Finding No. 2004-2, Continued

Prior Year Status: Lack of adherence to establish travel policies and procedures was reported as a finding in the audits of EPA for fiscal years 2002 and 2003.

Auditee Response and Corrective Action Plan:

1) The reason that this one travel was advanced 100% of approved per diem was because of the emergency nature of the trip (Oil spill). The traveler needed to depart prior to TA approval, and we had agreed that the person would use his own personal money to travel to the site, to be fully reimbursed after completion of his trip. 2) We agree to this finding and will ensure that travel reports and travel claims accompany all future travel. 3) We have been operating under revised outer island per diem rates established after Cabinet Minute 247(2000). Other government ministries use these revised outer island rates as well.

Auditor-General's Response:

EPA is unable to provide copy of the revised per diem rates established after Cabinet Minute 247(2000). Rates used by EPA for outer islands were approved under Cabinet Minute 149(99), dated June 25, 1999, which was subsequently repealed by Cabinet Minute 247(2000), dated December 14, 2000. As such, our recommendation no. 3 remained the same. We consider that it is the responsibility of EPA to actively pursue resolution to our recommendations.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY

Schedule of Findings, Continued
Year Ended September 30, 2004

Travel Claims

Finding No. 2004-3

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

Condition: EPA is recording travel liquidation as travel advances rather than travel expenses and as a result, the travel advances account has a remaining balance at September 30, 2004 of \$58,236, which included trips already completed.

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

Effect: The effect of the above condition is an overstatement of the travel advances account and an understatement of the travel expense account in the general ledger.

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

Prior Year Status: Lack of adequate internal control policies and procedures to record travel liquidation was reported as a finding in the audit of EPA for fiscal year 2003.

Auditee Response and Corrective Action Plan:

We have taken steps to correct this problem by hiring a consultant to train our staff responsible for travel to ensure that travel funds are liquidated after completion of travel and submission of travel report. Additionally, although this same condition is identified in a recent internal audit for FY05, the amount is only a fraction of that in FY04, signifying ongoing effort to satisfactorily address this issue.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY

Schedule of Findings, Continued
Year Ended September 30, 2004

Revenue/Receipts

Finding No. 2004-4

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

Condition: During the year ended September 30, 2004, EPA received grant awards totaling \$171,229 from various donors, including the South Pacific Regional Environment Program (SPREP). Grant revenues were recorded based on cash receipts rather than grant awards. Supporting grant awards were not made available to support grant receipts recorded as grant revenues. Furthermore, 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 2003.

Auditee Response and Corrective Action Plan:

We have take corrective steps to address this issue by hiring a consultant trainer to train our staff.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY

Schedule of Findings, Continued
Year Ended September 30, 2004

General Journals

Finding No. 2004-5

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

Condition: During the year ended September 30, 2004, journal entries were directly recorded to the general ledger without independent review and prior approval.

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

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

Prior Year Status: Lack of adequate internal control policies and procedures requiring independent review and prior approval of journal entries was reported as a finding in the audits of EPA for fiscal years 2002 and 2003.

Auditee Response and Corrective Action Plan:

EPA has taken corrective steps to address this problem by having General Manager authorize such entries into the journal.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY

Schedule of Findings, Continued
Year Ended September 30, 2004

Fixed Assets

Finding No. 2004-6

Criteria: General fixed assets do not represent financial resources available for expenditures 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 General Fixed Assets Account Group containing certain fixed asset acquisitions for fiscal year 2004 and previous years. However, assets acquired over the years are not tagged with government identification number and the fixed assets register is not reconciled to the general ledger.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring assets to be tagged and the fixed assets register to be reconciled to the general ledger.

Effect: The effect of the above condition is the potential for losses of properties to occur and remain undetected and possibility of incorrect balances in the general ledger.

Recommendation: We recommend that EPA ensure all assets, whether donated or purchased with government funds, are tagged with identification number to indicate ownership and ensure the fixed assets register is reconciled to the general ledger.

Auditee Response and Corrective Action Plan:

Although EPA Fixed Assets Registered is now current, we will ensure that all our assets are tagged accordingly.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY

Schedule of Findings, Continued
Year Ended September 30, 2004

Accounting System

Finding No. 2004-7

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

Condition: During the audit, we noted that data were changed, deleted and added after financial statements were provided for audit, resulting in thirteen (13) original account balances in the general ledger at September 30, 2004 being changed without proper authorization.

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

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

Recommendation: We recommend that EPA establish 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.

Prior Year Status: Lack of segregation of duties and lack of management control over accounting system was reported as a finding in the audit of EPA for fiscal year 2003.

Auditee Response And Corrective Action Plan:

We have established such recommended procedure for General Manager to take more control over the accounting system of the agency, to ensure that any changes prior to date through which books are closed are authorized.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY

Schedule of Findings, Continued
Year Ended September 30, 2004

External Financial Reporting

Finding No. 2004-8

Criteria: Proper internal control procedures include annual budgets to be adopted to ensure expenditures are properly approved prior to being incurred. Furthermore, fund accounting system should report budgeted expenditures based on grant awards prescribed by donors.

Condition: During the period under review, the Persistent Organic (POPS) project incurred expenditures in excess of the approved amount by \$2,231 without prior approval from grantor agency and the general fund incurred expenditures for other charges/expenses in excess of the approved amount by \$5,763 without proper authorization. Furthermore, there is no mechanism within the accounting system to facilitate the monitoring of expenditures against budgets and supporting grant budgets for two of the grants were not made available to support payments recorded as grant expenditures.

Cause: The cause of the above condition is lack of adequate internal control policies and procedures to monitor expenditures against the approved budgets.

Effect: The effect of the above condition is the possibility of expenditures being incurred that are not in accordance with grant awards prescribed by donors and the possibility of unauthorized expenditures, which EPA may become liable for reimbursement.

Recommendation: We recommend that EPA incorporate annual budget within the accounting system to ensure effective budgetary control and proper accountability over available funds. It is also recommended that EPA comply with provisions of grant agreements to avoid being liable for unauthorized amounts. Furthermore, EPA should ensure grant awards related documents are kept on file for reference.

Auditee Response and Corrective Action Plan:

The practice of exceeding itemized budgeted amount for external funded projects is acceptable by the grantor to ensure smooth implementation of the project. Documentation to this effect is being secured from the grantor.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY

Schedule of Findings, Continue
Year Ended September 30, 2004

External Financial Reporting

Finding No. 2004-9

Criteria: Board minutes are a primary means by which regulatory agencies and independent auditors can evaluate the administration of EPA's operations.

Condition: The Board of Directors' minutes for November 30, 2004 and January 27, 2005 were not signed by the Chairman.

Cause: The cause of the above condition is lack of policies and procedures over documentation of Board minutes.

Effect: The effect of the above condition is the possibility that directives of the Board are not properly disclosed or recorded in the financial statements of EPA.

Recommendation: We recommend that the Board of Directors ensure all minutes of meetings are approved by the Chairman.

Auditee Response and Corrective Action Plan:

The care in which Board of Directors' Meeting Minutes are recorded and archived is a recurrent issue noted at Board of Directors meetings. Actions are underway to address these issues and to ensure that all meeting minutes are properly managed.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY

Unresolved Prior Year Findings
Year Ended September 30, 2004

The status of unresolved prior year findings is disclosed within the Schedule of Findings section of this report (pages 3 through 12).

National Environmental Protection Authority
Independent Auditor's Report on Internal Control and on Compliance
September 30, 2004

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	Considered closed.
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.
No. 8	Provide copy of documentation from grantor.
No. 9	Provide copy of policies and procedures to ensure board minute are properly managed.



REPUBLIC OF THE MARSHALL ISLANDS
ENVIRONMENTAL PROTECTION AUTHORITY

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OFFICE OF THE
AUDITOR - GENERAL
RECEIVED
AUG '06
REPUBLIC OF THE
MARSHALL ISLANDS

August 8, 2006

Ms. Atmita Jonathan
Acting Auditor General
Office of the Auditor General
Majuro, MH 96960

Dear Madam,

Here are our written responses to your recommendations contained in your Audit Report on Internal Control at EPA.

1. Finding No. 2004-1: Cash: We were aware of this problem and have made changes of appointing different personnel responsible for deposit of collected revenues daily.
2. Finding No. 2004-2: Travel Advances: (1) The reason that this one traveler was advanced 100% of approved per diem was because of the emergency nature of the trip (Oil spill). The traveler needed to depart prior to TA approval, and we had agreed that the person would use his own personal money to travel to the site, to be fully reimbursed after completion of his trip. (2) We agree to this finding and will ensure that travel reports and travel claims accompany all future travel. (3) We have been operating under revised outer island per diem rates established after Cabinet Minute 247(2000). Other government ministries use these revised outer island rates as well.
3. Finding No. 2004-3: Travel Claims: We have taken steps to correct this problem by hiring a consultant to train our staff responsible for travel to ensure that travel funds are liquidated after completion of travel and submission of travel report. Additionally, although this same condition is identified in a recent internal audit for FY05, the amount is only a fraction of that in FY04, signifying ongoing effort to satisfactorily address this issue.
4. Finding No. 2004-4: Grant Award: We have take corrective steps to address this issue by hiring a consultant trainer to train our staff.
5. Finding No. 2004-5: General Journals: EPA has taken corrective steps to address this problem by having General Manager authorize such entries into the journal.
6. Finding No. 2004-6: Fixed Assets: Although EPA Fixed Assets Registered is now current, we will ensure that all our assets are tagged accordingly.

7. Finding No. 2004-7: Accounting System: We have established such recommended procedure for General Manager to take more control over the accounting system of the agency, to ensure that any changes prior to date through which books are closed are authorized.
8. Finding No. 2004-8: External Financial Reporting: The practice of exceeding itemized budgeted amounts for external funded projects is acceptable by the grantor to ensure smooth implementation of the project. Documentation to this effect is being secured from the grantor.
9. Finding No. 2005-9: Board Minutes: The care in which Board of Directors' Meeting Minutes are recorded and archived is a recurrent issue noted at Board of Directors meetings. Actions are underway to address these issues and to ensure that all meeting minutes are properly managed.

Sincerely,



Yumi Crisostomo, Chairperson
RMIEPA Board of Directors