

**NATIONAL ENVIRONMENTAL PROTECTION  
AUTHORITY FUND**

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

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

**YEAR ENDED SEPTEMBER 30, 2006**



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT 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, 2006, and have issued our report thereon dated July 11, 2008, which report disclaimed an opinion on the statements of revenues, expenses, and changes in net assets and of cash flows for the year ended September 30, 2006. Except for the matter discussed in the preceding sentence, 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion 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 11) as items 2006-1 through 2006-9.

A material weakness is a reportable 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 item 2006-7 to be a material weakness.

### 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 July 11, 2008.

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 Appendix B.

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 RepMar, is a matter of public record.

July 11, 2008



Anpita Jonathan  
Acting Auditor-General

# NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Schedule of Findings  
Year Ended September 30, 2006

## Travel Advances

### Finding No. 2006-1

#### Criteria:

EPA's accounting policies and procedures over travel expenses requires:

1. A traveler file timely travel claims with supporting documentation and trip reports at the completion of official travel.
2. Per diem rates, as established by Cabinet Minute 247(2000), at \$125.00 a day for Majuro and Kwajalein Atolls and \$50.00 a day for all other atolls and islands.

#### Condition:

1. Of sixty-two (62) transactions for travel expenses tested, two travel claims lack departure fee receipts to support these payments that were claimed.
2. Per diems paid for travel to Jaluit atoll was not consistent with established per diem rates.

Cause: The cause of the above condition is lack of established policies and procedures requiring that source documents be maintained and filed for future reference and also management overruling 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 established policies and procedures regarding travel claims are being followed at all times.
2. We recommend that management ensure authorized per diem for Jaluit atoll are consistent with approved rates per Cabinet Minute 247(2000).

Prior Year Status: Lack of adherence to establish travel policies and procedures were reported as a finding in the audits of EPA for fiscal years 2002 through 2005.

Auditee's Response and Corrective Action Plan: Unfortunately, too often the AMI agents do not provide departure fee receipts but instead only give out boarding pass which are then collected upon entering the plane for domestic flight. Same situation also occurs on flights from Jaluit and other outer islands that impose departure fee where the AMI agents usually lack receipt to issue to passengers after payment of fee. The fee is only \$1.00 in the outer islands, and \$2.00 in Majuro.

## NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Schedule of Findings, Continued  
Year Ended September 30, 2006

### Earthmoving Permits

#### Finding No. 2006-2

Criteria: Earthmoving permits should be filed and maintained to support revenues earned.

Condition: During our testing of earthmoving permits for the year ended September 30, 2006, we noted that not all earthmoving permits were maintained and filed.

Cause: The cause of the above condition is the lack of established policies and procedures requiring that all revenues be supported by relevant supporting documents.

Effect: The effect of the above condition is that revenues earned were not properly supported.

Recommendation: We recommend that management ensure that earthmoving permits are maintained and filed to support recorded revenue.

Prior Year Status: Lack of adequate internal control policies and procedures requiring that all revenues be supported by relevant supporting documents was reported as a finding in the audit of EPA for fiscal year 2005.

Auditee's Response and Corrective Action Plan: To address the missing supporting earthmoving documents, a new filing system of all development projects was established where payments receipts and copy of the earthmoving application and permits are being filed at both the Land and Coastal Management Unit and Fiscal Management Unit.

## NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Schedule of Findings, Continued  
Year Ended September 30, 2006

### Revenue/Receipts

#### Finding No. 2006-3

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

Condition: During the year ended September 30, 2006, EPA received grant awards totaling \$4,300 from various donors. 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 are 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 EPA for fiscal years 1998 through 2005.

Auditee's Response and Corrective Action Plan: This was an isolated case in which the fund received was a reimbursement from SOPAC for the amount we were told to advance to our staff before his trip to Fiji for his training and was to be reimbursed to us because of the delay on their part to make payment on time. This also includes the small grant we received from the Secretariat of Global Spatial Data Infrastructure in US. These funds were not partial disbursement of a grant fund, but rather total amount received per said intended small project.

## NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Schedule of Findings, Continued  
Year Ended September 30, 2006

### Revenues/Receipts

#### Finding No. 2006-4

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 prior year (FY 2005) cash receipts in the amount of \$1,805.90 that were not deposited until January 12, 2006. The time lag ranges between 7 to 12 months from the date of receipts. Additionally, cash receipts 2337, 2369, 2399, 2432, 2483, 2516, 2518, 2564, and 2586 were deposited five days after 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 EPA 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 established policies and procedures regarding cash receipts was reported as finding in the audits of EPA for fiscal years 2002 through 2005.

Auditee's Response and Corrective Action Plan: The reason for the delay in depositing the amount stated in the report is because the missing amount was later discovered few months later by management and the person responsible was asked to pay back the missing funds. This was paid back later and then was deposited.

## NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Schedule of Findings, Continued  
Year Ended September 30, 2006

### Expenditures

#### Finding No. 2006-5

Criteria: Annual budgets are usually adopted to ensure expenditures are properly approved prior to being incurred.

Condition: EPA does not have a mechanism within the accounting system to facilitate the monitoring of expense against budget; as a result, twenty (20) line items have exceeded the approved amounts.

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

Effect: The effect of the above condition is the possibility of unauthorized expenses.

Recommendation: We recommend that EPA incorporate annual budget within the accounting system to ensure effective budgetary control and proper accountability over available funds.

Prior Year Status: The lack of adequate internal control policies and procedures to monitor expenses against approved budgets was reported as a finding in the audit of EPA for fiscal years 2003 through 2005.

Auditee's Response and Corrective Action Plan: The over expenditure of the line items in the general fund is due to amount spent from the other grant funds which should have been reported separately and not reported as part of the agency's general fund. If these grant funds line items were reported separately, the over expenditure of the budgeted line items in the general fund would not be reported over the budget amount. We will ensure that this problem does not repeat, as we will not combine one report for all the funds received under the general fund expenditure.



**NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND**

Schedule of Findings, Continued  
Year Ended September 30, 2006

External Financial Reporting

Finding No. 2006-6

Criteria: Adequate segregation of duties should exist.

Condition: The Fiscal Officer also prepares payroll calculation, prepares payroll checks and records disbursements. As such, check #3836 issued for payment of retroactive salaries for one employee was erroneously calculated; no evidence of verification by other person, resulting in overpayment of \$750.00.

Cause: The cause of the above condition is inadequate segregation of duties exist.

Effect: The effect of the above condition is if one individual has responsibilities for more than one functions, that individual could misappropriate assets and conceal the misappropriation.

Recommendation: We recommend that management ensure segregation of duties or independent checks.

Auditee's Response and Corrective Action Plan: We had established separate duties and responsibilities among the agency's fiscal officers. This was an isolated case because at that time, the Deputy General Manager who is in charge of payroll, should have verify the documents before the General Manager signed. He did not do such that and the error was not deducted. Nevertheless, the over payment is being paid collected from the employee.

**NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND**

Schedule of Findings, Continued  
Year Ended September 30, 2006

General Journals

Finding No. 2006-7

Criteria: Journal entries should be properly supported by adequate supporting documentation.

Condition: During the year ended September 30, 2006, journal entries were recorded to the general ledger without adequate supporting documents.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring journal entries to be adequately supported.

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

Recommendation: We recommend that management ensure all journal entries are adequately supported.

Auditee's Response and Corrective Action Plan: The 2007 training conducted by the former Secretary of Finance with the agency's fiscal staff had greatly improved the skills of the fiscal officers in the preparation of the Agency's Annual Audit in ensuring that all relevant supporting documents need to be filed.

## NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Schedule of Findings, Continued  
Year Ended September 30, 2006

### External Financial Reporting

#### Finding No. 2006-8

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

Condition: The Board minutes for October 10, 2005, April 21, 2006 and September 4, 2006 were missing.

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.

Recommendation: We recommend that the Board of Directors ensure that all minutes of meetings are properly maintained and filed.

Auditee's Response and Corrective Action Plan: Sometimes we are asked by people from the Auditor-General or by Deloitte and Touche who carried out audit of our agency to provide such documents and most of the time these documents never returned back to our office. We recalled having to retrieve copies of our Boards minutes for our files when such documents were not returned from Deloitte and Touche. Also sometimes the Boards meeting were not always made on their approved schedule of meeting as there may be no quorum.

## NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Schedule of Findings, Continued  
Year Ended September 30, 2006

### External Financial Reporting

#### Finding No. 2006-9

Criteria: EPA should resolve old or disputed payable from their records.

Condition: As of September 30, 2006, EPA's old or disputed payables have not been removed or written-off.

Cause: The cause of the above condition is the lack of policies and procedures regarding write-off of old or disputed payables.

Effect: The effect of the above condition is the possibility of misstatement of payables.

Recommendation: We recommend that Management resolve the old or disputed payables from their records or make recommendation for write-off to the Board of Directors.

Auditee's Response and Corrective Action Plan: The 2007 training conducted by the former Secretary Of Finance with the Agency's fiscal staff had greatly improved the skills of the fiscal officers in identifying the old questionable non payable receipts from previous administrations in which there is need for written off or removal from the agency's financial reports.

**NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND**

Schedule of Findings, Continued  
Year Ended September 30, 2006