

**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, 2007



REPUBLIC OF THE MARSHALL ISLANDS
Office of the Auditor General
Post Office Box 245
Majuro, Republic of the Marshall Islands 96960

Telephone:
Auditor General 625-3192
Staff 625-3390
Facsimile 625-5135

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, 2007 and have issued our report thereon dated December 15, 2009. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses (pages 3 through 5) as items 2007-1 through 2007-3 to be significant deficiencies in internal control over financial reporting.

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 the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described above are 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 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 noted certain matters that we reported to management of EPA in a separate letter dated December 15, 2009.

EPA's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit EPA's responses and, accordingly, we express no opinion on them.

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 appreciate 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, the Republic of the Marshall Islands (RepMar), and others within the entity 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.

December 15, 2009



Atmita Jonathan
Acting Auditor-General

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Schedule of Findings and Responses Year Ended September 30, 2007

Revenue/Receipts

Finding No. 2007-1

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 examination, we noted cash receipts in the amount of \$455 (CR #2876-2881), which were receipted on 9/2/07 through 9/4/07, that were not deposited until 10/15/07.

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 polices and procedure.

Recommendation:

We recommend that EPA adhere to established policies and procedures regarding cash receipts to ensure that cash receipts are deposited intact and 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 2006.

Auditee Response and Corrective Action Plan:

The recommendation by the Auditors, for EPA to adhere to establish policies and procedures regarding cash receipts to ensure that cash receipts are deposited intact in a timely manner, has been noted. Personnel employed during this period are no longer working under contract with EPA. EPA daily deposit policy is currently being implemented. Daily deposits are the responsibility of the Fiscal Officer and Administration and Accounting Assistant. The Deputy GM signs off on deposit slips and cash counted on a daily basis. In the absence of the Deputy GM, the GM assumes this role.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Schedule of Findings and Responses, Continued
Year Ended September 30, 2007

Procurement and suspension and Debarment

Finding No. 2007-2

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. Small purchases procedures are those relatively simple and informal methods for securing services, supplies, or others property that do not cost more than \$25,000. If small purchase procedures are used, price or rate quotations shall be obtained from and 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:

Of fifty-two non-payroll expenses tested, totaling \$54,012, we noted documentation supporting the procurement process for twenty items was insufficient in that a minimum of three (3) price quotations were not on file.

Cause:

The cause of the above condition is 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 comply with RepMar's Procurement Code. Specifically, supporting documentation should indicate the history of procurement, including the rationale for and method of procurement, the contractor selection or rejection, and the basis for the contract price.

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. Specifically, supporting documentation should indicate the history of procurement, including the rationale for and method of procurement, the contractor rejection or selection and the basis for the contract price. The EPA Financial Accounting Policy currently does not specify the minimum of (3) price quotations, but does indicate that purchases over \$100 need adequate number of qualified sources. The EPA Financial Accounting Policy is currently being reviewed to ensure it is consistent with RepMar Procurement Code.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Schedule of Findings and Responses, Continued Year Ended September 30, 2007

Board Minutes

Finding No. 2007-3

Criteria:

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

Condition:

The subsequent board minutes for October – December 2007 and January – August 2008 were not available.

Cause:

The cause of the above condition is lack of policies and procedure 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.

Prior Year Status:

The lack of adherence to establish policies and procedures over documentation of board minutes was reported as a finding in the audit of EPA for fiscal year 2006.

Auditee Response and Corrective Action Plan:

Keeping record of RMI EPA Board meeting minutes was assigned to the Deputy General Manager during this period; this was identified by the former General Manager an area that needed to be addressed. The Deputy General Manager during this period was not renewed. This responsibility was assumed by the former General Manager until a new Deputy General Manager was recruited in 2008.

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Unresolved Prior Year Finding
Year Ended September 30, 2007

The status of unresolved prior year findings is disclosed within the Schedule of Findings Section of this Report (pages 3 through 5).

National Environmental Protection Authority
Independent Auditors' Report on Internal Control and on Compliance
September 30, 2007

Responses Required to Clear Audit
From OAG Follow-Up System

In order for this audit to be cleared from the OAG follow-up system, written confirmation and/or documentation indicating action has been taken, as detailed below should be submitted no later than March 31, 2009.

Recommendation

Action to be taken

No. 1

No further action required.

No. 2

Provide copy of revised
Financial and Accounting Policies.

No. 3

Provide copy of missing board
Minutes.



REPUBLIC OF THE MARSHALL ISLANDS
ENVIRONMENTAL PROTECTION AUTHORITY

P.O. BOX 1322 Majuro, Marshall Islands 96960

Phone: (692) 625-3035/5203 Fax: (692) 625-5202 email:eparmi@ntamar.com

OFFICE OF THE
 AUDITOR - GENERAL
 RECEIVED
 JAN 22, 2010
 at 4:11
 REPUBLIC OF THE
 MARSHALL ISLANDS

January 18, 2010

TO: Acting Auditor-General
 Office of the Auditor-General
 P.O Box 245
 Majuro, MH 96960

FROM: Deborah B. Manase
 RMI EPA General Manager

Subject: Management response to unresolved prior year findings for audit of financial statements for period ending 30 September 2007

In connection with your audit of our financial statements for FY07, we would like to submit the following responses and corrective action plan(s) for the unresolved prior year findings for year ended September 30, 2007.

Finding No. 2007-01

Cash receipts in the amount of \$455 received on 9/2/07 through 9/4/07 were not deposited until 10/15/07

Auditee Response and Corrective Action Plan

The recommendations by the Auditors, for EPA to adhere to established policies and procedures regarding cash receipts to ensure that cash receipts are deposited intact in a timely manner, has been noted. Personnel employed during this period are no longer working under contract with EPA. EPA daily deposit policy is currently being implemented. Daily deposits are the responsibility of the Fiscal Officer and Administration and Accounting Assistant. The Deputy GM signs off on deposit slips and cash count on a daily basis. In the absence of the Deputy GM, the GM assumes this role.

Finding No. 2007-2

Of fifty-two non-payroll expenses tested, totaling \$54,012, we noted documentation supporting the procurement process for twenty items were insufficient in that a minimum of three (3) price quotations were not on file.



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Phone: (692) 625-3035/5203 Fax: (692) 625-5202 email: eparmi@ntamar.com

Appendix B OF THE
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MARSHALL ISLANDS

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. Specifically, supporting documentation should indicate the history of procurement, including the rationale for and method of procurement, the contractor rejection or selection and the basis for the contract price. The EPA Financial Accounting Policy currently does not specify the minimum of (3) price quotations, but does indicate that purchases over \$100 need adequate number of qualified sources. The EPA Financial Accounting Policy is currently being reviewed to ensure it is consistent with RepMar Procurement Code.

Finding No. 2007-03

The subsequent board minutes for October-December 2007 and January-August 2008 were not available

Auditee Response and Corrective Action Plan:

Keeping record of RMI EPA Board meeting minutes was assigned to the Deputy General Manager during this period; this was identified by the former General Manager as an area that needed to be addressed. The Deputy General Manager during this period was not renewed. This responsibility was assumed by the former General Manager until a new Deputy General Manager was recruited in 2008.

Please contact our office if you require further information regarding the above responses.

Sincerely,

Deborah Barker-Manase
General Manager

Ben Chutaro
Acting Chairman of EPA

Cc: RMI EPA Board of Directors
Finance and Administration
File