

**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, 2008



REPUBLIC OF THE MARSHALL ISLANDS
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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, 2008, and have issued our report thereon dated March 23, 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.

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 8) as items 2008-1 through 2008-5 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

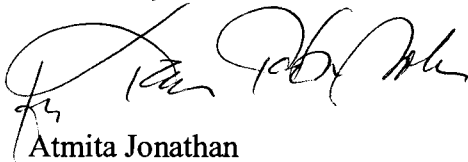
As part of obtaining reasonable assurance about whether EPA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on 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 March 23, 2010.

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.

March 23, 2010

A handwritten signature in black ink, appearing to read 'Atmita Jonathan', is written over a faint, illegible background.

Atmita Jonathan
Acting Auditor-General

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Schedule of Findings and Responses
Year Ended September 30, 2008

Revenue/Receipts

Finding No. 2008-1

Criteria:

Board minutes are a primary means by which regulatory agencies and independent auditors can evaluate the operation of an entity.

Condition:

During the year ended September 30, 2008, only two board minutes (September 18 and 22, 2008) were provided and available on file. We are aware of additional meetings of the Board of Directors that were held during the fiscal year for which no formal minutes of meetings were maintained and provided to us.

Cause:

The cause of the above condition is the 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 all minutes of meetings are properly maintained and filed.

Prior Year Status:

The lack of adherence to the established policies and procedures over documentation of board minutes was reported as a finding in the audits of EPA for fiscal years 2006 and 2007.

Auditee Response and Corrective Action Plan:

The recommendation by the Auditors, for EPA to ensure that all minutes are properly maintained and filed have been noted. Keeping records of RMI EPA Board minutes was assigned to the Deputy General Manager during this period. 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.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Schedule of Findings and Responses, Continued September 30, 2008

Grant expended / Grant terms

Finding No. 2008-2

Criteria:

In accordance with grant awards, grant funds are not to be used for any purpose other than that for which they are provided for without prior approval from the grantor and should be expended for the purposes intended as stipulated in the grant agreements.

Condition:

As of September 30, 2008, EPA recorded grant receivables of \$5,000 under a SOPAC grant; however, grant expenditures cannot be identified and determined whether the grant fund was accounted for as indicated in the grant agreement. Grant expenditures were not properly classified and recorded in the general ledger. Specifically, EPA reported grant expenditures under this grant of \$5,000 of which \$3,573 were reported as expended during the year ended September 30, 2008. Of this amount, \$630 pertained to another grant that was reimbursed by another entity but was included in the report to SOPAC as grant expenditures. EPA was unable to provide us with the transaction detail for the remaining balance of \$2,943.

Cause:

The cause of the above condition is lack of established policies and procedures to ensure that grant cash is expended on grant related activities.

Effect:

The effect of the above condition is noncompliance with cash management criteria as it appears that grant funds, which should be used to fund grant expenditures, was used to pay for other operating expenses. We were unable to determine the dollar amount of potential questioned costs that may be as a result of the condition.

Recommendation:

We recommend that EPA ensure that grant revenues are expended in accordance with grant terms and conditions.

Auditee Response and Corrective Action Plan:

EPA notes the recommendation of the Auditor, the RMIEPA is currently reviewing and revising its policies and procedures, to ensure that transactions are recorded in accordance with grant objectives and conditions.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Schedule of Findings and Responses, Continued
September 30, 2008

Adjustment Posted:

Finding No. 2008-3

Criteria:

Adjustments posted in the subsidiary ledger should be supported by valid documents.

Condition:

During our examination of grants receivable, we noted a \$35,000 transaction which was adjusted against grant receivable, but was not supported by valid documents. Per further verification, this adjustment was used to record agreement received from grantors.

Cause:

The cause of the above condition resulted from inadequate review of posted journal entries.

Effect:

The effect of the above condition is possibility of misstatement of financial statement balances that can arise from the condition.

Recommendation:

We recommend that all adjustments be posted through the subsidiary ledger. Furthermore, all adjustments should be recorded based on valid supporting documents.

Auditee Response and Corrective Action Plan:

EPA notes the recommendation and will work to improve communications between grant managers and finance division to ensure correct grant information is recorded.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Schedule of Findings and Responses, Continued September 30, 2008

Procurement and Suspension and Debarment

Finding No. 2008-4

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:

Of forty-four non-payroll expenses tested, totaling \$50,270, documentation supporting the procurement process for nine items was insufficient in that a minimum of three (3) price quotations were not on file. Furthermore, documentation supporting the procurement process for two items totaling \$10,088 was insufficient in that the purchase of laboratory supplies was sole-source procured from an off-island vendor.

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 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.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Schedule of Findings and Responses, Continued
September 30, 2008

Procurement and Suspension and Debarment

Finding No. 2008-4, Continued

Prior Year Status:

The lack of adherence to RepMar's Procurement Code was reported as finding in the audit of EPA for fiscal year 2007.

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. There are currently only 2 vendors for EPA Lab Supplies, both are off island vendors 1) International Hospital and 2) IDEXX. IDEXX is able to ship supplies upon receipt of approved Purchase Order; this service enables timely restocking of lab supplies. Such justifications will be included in future supporting documents. 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 and revised to ensure it is consistent with RepMar's Procurement Code.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Schedule of Findings and Responses, Continued September 30, 2008

Accounts Receivable and Travel Advances

Finding No. 2008-5

Criteria:

Allowance for doubtful accounts should be stated at an amount which management believes will be adequate to absorb losses on accounts receivable that may become uncollectible based on evaluation of the collectability of these accounts and prior collection experience.

Condition:

At September 30, 2008, EPA recorded certain accounts receivable of \$6,808, for which \$1,709 appears uncollectible due to the lack of payment. In addition, travel advances for FY 2005 and FY 2007, totaling \$422, have not been liquidated and reimbursed as at year end.

Cause:

The cause of the above condition is the lack of internal control policies and procedures to ensure that accounts receivables are collected and that travel advances are liquidated in a timely manner.

Effect:

The effect of the above condition is a possible misstatement of account balances and an understatement of related allowance for doubtful accounts.

Recommendation:

We recommend that EPA establish policies and procedures to ensure that the allowance for doubtful accounts is adequately maintained.

Auditee Response and Corrective Action Plan:

EPA notes the recommendation of the Auditor to establish policies and procedures to ensure that allowance for doubtful accounts is adequately maintained. The EPA is currently revising its Financial Accounting Policy for Board approval in FY 2010 to address and strengthen internal control procedures.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Un resolved Prior Year Findings
September 30, 2008

The status of unresolved prior year findings is disclosed within the Schedule of Findings and Responses section of this report (pages 3 through 8).

National Environmental Protection Authority
Independent Auditors' Report on Internal Control and on Compliance
September 30, 2008

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 September 31, 2010.

<u>Recommendation</u>	<u>Action to be taken</u>
No. 1	Provide copy of missing board minutes.
No. 2	Provide copy of revised Financial Accounting Policy.
No. 3	No further action is required.
No. 4	Provide copy of revised Financial Accounting Policy.
No. 5	Provide copy of revised Financial Accounting Policy.



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.net

June 8, 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 2008

RECEIVED
OFFICE OF THE AUDITOR-GENERAL
JUN 16, 2010
MAJURO, MARSHALL ISLANDS

In connection with your audit of our financial statements for FY08, we would like to submit the following responses and corrective action plan(s) for the unresolved prior year findings for year ended September 30, 2008.

Finding No. 2008-01

During the year ended September 30, 2008, only two board minutes (September 18 and 22 2008) were provided and available on file. We are aware of additional meetings of the Board of Directors that were held during the fiscal year for which no formal minutes of meetings were maintained and provided to us.

Auditee Response and Corrective Action Plan

The recommendations by the Auditors, for EPA to ensure that all minutes are properly maintained and filed have been noted. Keeping record of RMI EPA Board meeting minutes was assigned to the Deputy General Manager during this period. 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.

Finding No. 2008-2

As of September 30, 2008, EPA recorded grant receivables of \$5,000 under a SOPAC grant; however grant expenditures cannot be identified and determined whether the grant fund was accounted for as indicated in the grant agreement. Grant expenditures were not properly classified and recorded in the general ledger.

Auditee Response and Corrective Action Plan

EPA notes the recommendation of the Auditor, the RMIEPA is currently reviewing and revising its policies and procedures, to ensure that transactions are recorded in accordance with grant objectives and conditions.

Finding No. 2008-03

Adjustments posted in the subsidiary ledger should be supported by valid documents

Auditee Response and Corrective Action Plan:

EPA notes the recommendations and will work to improve communications between grant managers and finance division to ensure correct grant information is recorded.

Finding No. 2008-04

Of the forty-four non payroll expenses tested, totaling \$ 50,270, documentation supporting the procurement process for nine items was insufficient in that a minimum of three (3) price quotations were not on file. Furthermore, documentation supporting the procurement process for two items totaling \$10,088 was insufficient in that the purchase of laboratory supplies was sole-source procured from an off-island vendor.

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. There are currently only 2 vendors for EPA WQ Lab Supplies, both are off island vendors 1) International Hospital and 2) IDEXX. IDEXX is able to ship supplies upon receipt of approved Purchase Order; this service enables timely restocking of lab supplies. Such justifications will be included in future supporting documents. 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 and revised to ensure it is consistent with RepMar Procurement Code.

Finding No. 2008-05

At September 30, 2008, EPA recorded certain accounts receivable of \$6,808, for which \$1,709 appears uncollectible due to the lack of payment. In addition, travel advances for FY2005 and FY2007, totaling \$422, have not been liquidated and reimbursed as at year end.

Auditee Response and Corrective Action Plan:

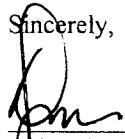
EPA notes the recommendation of the Auditor to establish policies and procedures to ensure that allowance for doubtful accounts is adequately maintained. The EPA is currently revising its Financial Accounting Policies for Board approval in FY10 to address and strengthen internal control procedures.

Finding No. 2008-06

This matter has been resolved verbally with the Auditor General's Office and therefore no response is necessary.

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

Sincerely,



Deborah Barker-Manase
General Manager



Ben Chutaro
Chairman of EPA

Cc: RMI EPA Board of Directors
Administration/File