

**NATIONAL ENVIRONMENTAL  
PROTECTION AUTHORITY FUND**  
**(A COMPONENT UNIT OF THE REPUBLIC  
OF THE MARSHALL ISLANDS)**

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**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

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**YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

**NATIONAL ENVIRONMENTAL  
PROTECTION AUTHORITY FUND**

Years Ended September 30, 2014 and 2013  
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REPUBLIC OF THE MARSHALL ISLANDS  
**OFFICE OF THE AUDITOR-GENERAL**

P.O. Box 245

Majuro, Republic of the Marshall Islands 96960

Email Address: [patrjun@gmail.com](mailto:patrjun@gmail.com) Web: [www.rmioag.com](http://www.rmioag.com)

Telephone:  
Auditor-General: (692) 625-3192  
Staff: (692) 625-3390  
Facsimile: (692) 625-5135  
Fraud Hotline:  
Telephone: (692) 625-1155  
Facsimile: (692) 625-1156

**INDEPENDENT AUDITORS' REPORT**

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the National Environmental Protection Authority Fund (EPA), a component unit of the Republic of the Marshall Islands, which comprise the statements of net position as of September 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Environmental Protection Authority Fund as of September 30, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

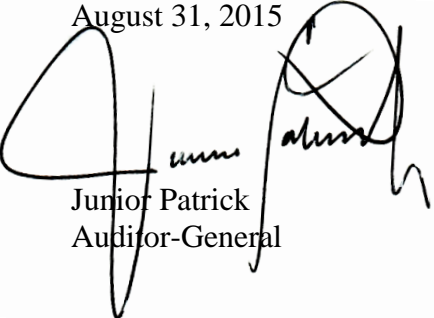
***Other Matters***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 9 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2015, on our consideration of EPA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering EPA's internal control over financial reporting and compliance.

August 31, 2015



Junior Patrick  
Auditor-General

# NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Management's Discussion and Analysis  
September 30, 2014 and 2013

This section of the Environmental Protection Authority (EPA) annual financial report presents our discussion and analysis for RMIEPA's financial performance during the fiscal year that ended on September 30, 2014. Please read it in conjunction with the financial statements, which follow this section.

## EPA PURPOSE AND MANDATE

The EPA was first established in 1984 while the RMI was in its last years as a UN Trust Territory administered by the USA. The *Environmental Protection Act* and the activities encompassed by the EPA were largely set up at that time. A global shift in focus towards environmental issues, increased rate of development and issues such as waste management on small islands has left the EPA in a rapidly changing environment with a need to reassess its role and mandate. As a result of the foregoing, EPA is looked upon by the general public and government for the total management of the environment although our Act only gives us the authority to protect and police and this Act in some cases, is so general in nature we do not have a clear authority to act to protect in some cases.

The purpose of EPA in the RMI is to study and monitor the human and natural impacts in the following major areas:

- Environmental Health and Water Quality
- Land and Coastal Management
- Conservation
- Waste and Pollution
- Environmental Information Management; and
- Education and Awareness

The functions and duties of the EPA, are mandated under the following Acts and Legislation:

- An Act to provide for the establishment of a National Environmental Protection Authority for the protection and management of the environment National Environment Protection Act 1984 [P.L. 1984-31][P.L. 1987-2]
- The EPA is responsible for the administration, control, custody and management of the Coastal Zone, and for the implementation of the provisions of the *Coastal Conservation Act (1988)*, with respect to the obligations and mandates described above in the *Environment Protection Act (1984)*[P.L. 1988-13].
- *Public Health, Safety and Welfare Act, Chapter 1 Public Health and Sanitation*, EPA in the past conducted food inspections to improve safety of foods sold by grocery stores, restaurants and cooked food. EPA continues to do public awareness on the importance of having sanitary toilet facilities and septic systems; however budgetary constraints and limited human resources have limited EPAs ability to continue to take the lead on Food Safety in the RMI. This issue is currently being revisited with the Min. of Health which has the mandate to undertake these functions.
- EPA is also mandated to administer and enforce the *Ozone Layer Protection Regulations (2004)* and the *Pesticides and Persistent Organic Pollutants (POPs) Regulations (2004)*.

# **NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND**

Management's Discussion and Analysis  
September 30, 2014 and 2013

## **ORGANIZATIONAL STRUCTURE**

The Authority's executive function is headed by the General Manager who provides overall leadership in administering the affairs of the Authority. The General Manager facilitates cooperative efforts with other Ministries/Agencies and supplies the Board of Directors with policy advice and assistance with Cabinet-level concerns. The General Manager is assisted by a Deputy General Manager in directing the areas of Policy and Planning, in order to improve the delivery of services nationally and within communities. The Authority strives to be innovative in strengthening its capacity to provide more effective leadership. Systems effective management principles will be observed in executing the Authority's mandate to provide quality services to the people of the Marshall Islands. This approach is based on the principles of efficiency, effectiveness, transparency and accountability in the Authority's expenditures and performance through the Authority's Strategic Action Plan.

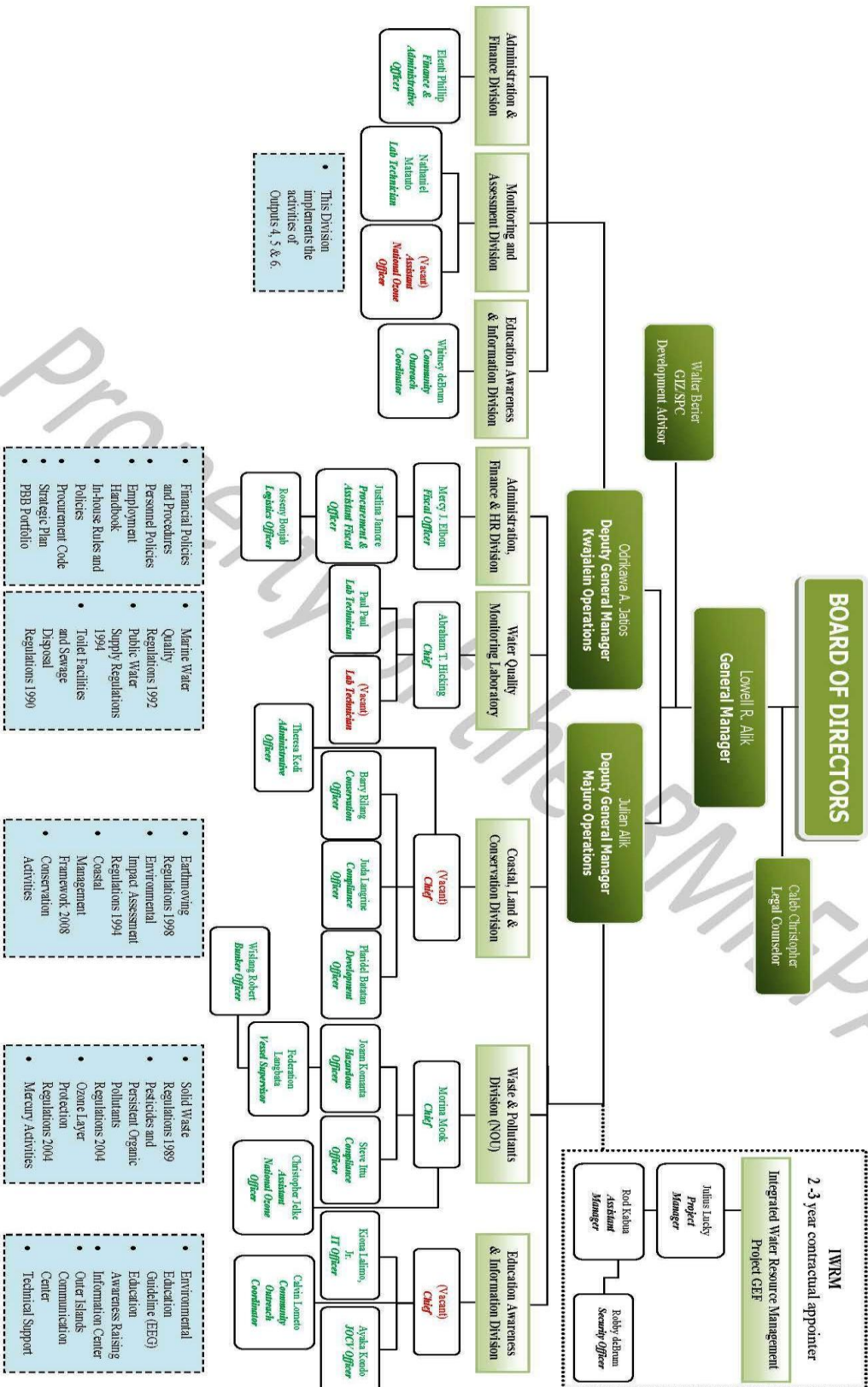
In line with the guiding principles of accountability, transparency and efficiency, the Authority's procurement systems will be reviewed in order to reflect compliance with the national procurement procedures. The Organizational Chart for FY13 has created a position for a Procurement Officer to ensure the better management of assets acquired for the Authority. The Division heads will be accountable for annual expenditure reports to be included in the EPA Annual Report. EPA's organizational chart shown below provides an overview of all the divisions and external programs currently administered by the organization.

# NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Management's Discussion and Analysis  
September 30, 2014 and 2013



Organizational Chart for the RMI Environmental Protection Authority (RMERP)



**NATIONAL ENVIRONMENTAL  
PROTECTION AUTHORITY FUND**

Management's Discussion and Analysis  
September 30, 2014 and 2013

**FINANCIAL HIGHLIGHTS**

Management's Discussion and Analysis for the year ended September 30, 2014 is set forth in the report on the audit of RMIEPA's financial statements. The Discussion and Analysis explains the major factors impacting the 2014 financial statements.

RMIEPA's net position decreased in 2014 by \$53,579 or 23% from \$237,695 in 2013 to \$184,060 in 2014 due to a decrease in operating revenues of \$203,406 or 24% compared to 2013 matched by a decrease in operating expenses of \$129,238 or 15% compared to 2013. In 2014, operating revenues decreased mainly as a result of a reduction in grants from foreign sources, primarily ODS and IWRM-GEF, and monitoring fees of the RSA Project.

**FINANCIAL ANALYSIS OF EPA**

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position provides an indication of RMIEPA's financial condition. RMIEPA's net position reflects the difference between assets and liabilities. An increase in net position over time typically indicates an improvement in RMIEPA's financial condition.

A summary of RMIEPA's Statement of Net Position is presented below:

<b><u>At September 30</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>	<b><u>2012</u></b>
Current assets	\$ 162,651	\$ 197,777	\$ 191,434
Capital assets	<u>77,268</u>	<u>74,502</u>	<u>36,695</u>
Total assets	\$ <u>239,919</u>	\$ <u>272,279</u>	\$ <u>228,129</u>
Current liabilities	\$ <u>55,859</u>	\$ <u>34,584</u>	\$ <u>10,966</u>
Investment in capital assets	77,268	74,502	36,695
Unrestricted	58,115	76,235	111,296
Restricted	48,677	86,958	69,172
Total net assets	<u>184,060</u>	<u>237,695</u>	<u>217,163</u>
Total liabilities & net assets	\$ <u>239,919</u>	\$ <u>272,279</u>	\$ <u>228,129</u>

As indicated above, the total assets decreased by \$32,304 or 12% from \$272,279 in 2013 to \$239,919 in 2014. This decrease in total assets reflects a decrease in grant awards receivable from foreign funding sources - IWRM and Monitoring fees-RSA Project in FY14.

Current liabilities reflect an increase of \$21,275 or 62% from \$34,584 in 2013 to \$55,859 in 2014. The increase in liabilities is due to checks that were issued in August 2014 that were not delivered to the vendors at September 30, 2014. A total of \$17,629 was reverted back to cash and accounts payable during the audit.



**NATIONAL ENVIRONMENTAL  
PROTECTION AUTHORITY FUND**

Management's Discussion and Analysis  
September 30, 2014 and 2013

A Summary of RMIEPA's Statement of Revenues, Expenses and Change in Net Position is presented below:

<b>Year ended September 30</b>	<u><b>2014</b></u>	<u><b>2013</b></u>	<u><b>2012</b></u>
Revenues:			
Total Operating revenues*	\$ 654,026	\$ 857,432	\$ 633,790
Expenses:			
Total Operating expenses**	<u>707,661</u>	<u>836,900</u>	<u>631,327</u>
Change in net position	\$ <u>(53,635)</u>	\$ <u>20,532</u>	\$ <u>2,463</u>

\*Includes Nitijela Appropriations

\*\*Includes EPA recording payments made by RepMar relating to salaries, wages and benefits of EPA employees

The Statement of Revenues, Expenses and Changes in Net Position identifies the various revenue and expense items that impact the change in net position. As indicated above, RMIEPA's total revenues decreased by \$203,406 or 24% from \$857,432 in 2013 to \$654,026 in 2014. The decrease reflects mostly a decrease in revenues received from the RSA Project, funding received from international environmental project grants mainly as a result of grant from foreign sources, primarily ODS and IWRM-GEF. The operating expenses decreased by \$129,238 or 15% from prior year, however, they were still greater than operating revenues resulting in the net loss of \$53,635.

Below is the summary of the major components of operating revenues for RMIEPA in 2014 compared to 2013 and 2012:

**Operating revenues**

<b>Year ended September 30</b>	<u><b>2014</b></u>	<u><b>2013</b></u>	<u><b>2012</b></u>
Nitijela appropriations	\$ 313,996	\$ 353,733	\$ 346,265
Grants	70,482	160,989	221,200
Monitoring fees-RSA Project	29,134	153,468	-
Fines	30,000	23,500	2,000
Fees and Charges	140,809	91,512	44,650
Compact revenues	55,061	33,047	-
Other	<u>38,266</u>	<u>41,185</u>	<u>27,430</u>
	677,748	857,434	641,545
Less uncollectible accounts	<u>(23,722)</u>	<u>(2)</u>	<u>(7,755)</u>
Net Operating revenues	\$ <u>654,026</u>	\$ <u>857,432</u>	\$ <u>633,790</u>

The data provided above portrays that the total operating revenues decreased by \$203,406 or 24% from \$857,432 in 2013 to \$654,026 in 2014, which was primarily due to the decrease in Nitijela appropriation, monitoring fees-RSA Project, and grants. Furthermore, revenue from permit fees and fines increased slightly in 2014 compared to 2013 because of fees obtained from Earthmoving and Administration.

**NATIONAL ENVIRONMENTAL  
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Management's Discussion and Analysis  
September 30, 2014 and 2013

Below is a summary of the major components of operating expenses for RMIEPA in 2014 compared to 2013 and 2012.

<b>Year ended September 30</b>	<b><u>2014</u></b>	<b><u>2013</u></b>	<b><u>2012</u></b>
Salaries and Wages Marsh*	\$ 377,516	\$ 485,896	\$ 406,881
Travel	57,055	31,754	43,566
Supplies and materials	43,205	67,173	50,765
Consultant services	-	3,149	6,000
Depreciation	42,593	36,503	21,290
Compact expense	55,061	33,047	-
Other expenses	<u>132,231</u>	<u>179,378</u>	<u>102,825</u>
Total operating expenses	<u>\$ 707,661</u>	<u>\$ 836,900</u>	<u>\$ 631,327</u>

\*Includes Nitijela Appropriations

According to the figures above, total operating expenses decreased by \$129,238 or 15% from \$836,900 in 2013 to \$707,661 in 2014. As stated in the figures, 2014 had decreased in personnel. Procurement of office supplies, materials, and Compact expense also decreased because renovation for the EPA building was completed.

Managements' Discussion and Analysis for the year ended September 30, 2013 is set forth in the report on the audit of EPA's financial statements dated November 28, 2014. That Discussion and Analysis explains the major factors impacting the 2013 financial statements.

**CAPITAL ASSETS**

Net capital assets increased by \$2,766 or 4% from \$74,502 in 2013 compared to \$77,268 in 2014 as a result of the acquisition of office equipment and motor vehicle less current year depreciation expense of \$42,593.

A summary of RMIEPA's capital assets is presented below:

<b>Year ended September 30</b>	<b><u>2014</u></b>	<b><u>2013</u></b>	<b><u>2012</u></b>
Motor vehicles	\$ 116,799	\$ 88,849	\$ 94,563
Office furniture and equipment	59,691	42,066	58,492
Boat	<u>28,744</u>	<u>43,744</u>	<u>15,000</u>
	<u>205,234</u>	<u>174,659</u>	<u>168,055</u>
Less accumulated depreciation	<u>(127,966)</u>	<u>(100,157)</u>	<u>(131,360)</u>
	<u>\$ 77,268</u>	<u>\$ 74,502</u>	<u>\$ 36,695</u>

Additional information on RMIEPA's capital assets is disclosed within note 3 to the accompanying financial statements.

**NATIONAL ENVIRONMENTAL  
PROTECTION AUTHORITY FUND**

Management's Discussion and Analysis  
September 30, 2014 and 2013

**ADDITIONAL FINANCIAL INFORMATION**

This discussion and analysis is designed to provide RMIEPA's counterparts with an overview of RMEPA's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request for additional information, please contact the National Environmental Protection Authority, General Manager, at P.O Box 1322, Majuro, MH, 96960

# NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Notes to Financial Statements  
September 30, 2014 and 2013

## (1) Organization

The National Environmental Protection Authority Fund (EPA), a component unit of the Republic of the Marshall Islands (RepMar), was created by the National Environmental Protection Authority Act of 1984 (Public Law No. 1984-31, the Act). EPA began operations as a statutory corporation on December 19, 1984, in accordance with the Act. The objectives of EPA are to preserve and improve the quality of the environment of the Republic of the Marshall Islands.

The operations of EPA were accounted for as a separate fund within RepMar's Ministry of Finance. In April 1997, EPA established a separate bank account outside of RepMar's Treasury for the purpose of receiving and disbursing funds in accordance with Public Law No. 1984-31. Accordingly, the accompanying financial statements relate solely to those accounting records maintained by EPA and do not incorporate any accounts related to EPA's operations that may be accounted for by RepMar's Treasury or any of RepMar's other branches, departmental units or component units.

EPA is governed by a Chairman and four other members, all of whom are appointed by the President of RepMar.

EPA's financial statements are incorporated into the financial statements of RepMar as a component unit.

## (2) Summary of Significant Accounting Policies

The accounting policies of EPA conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities, specifically proprietary funds.

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and modified by Statement No. 38, *Certain Financial Statement Note Disclosures*, establish financial reporting standards for governmental entities which require that management's discussion and analysis of the financial activities be included with the financial statements and notes and modify certain other financial statement disclosure requirements.

To conform to the requirements of GASB Statement 34, equity is presented in the following net position categories:

- Net investment in capital assets; capital assets, net of accumulated depreciation, plus construction or improvement of those assets.
- Restricted; resources which EPA is legally or contractually obligated to spend in accordance with restrictions either externally imposed by creditors, grantors, contributors, and the like, or imposed by law. All of EPA's restricted net position is expendable.

**NATIONAL ENVIRONMENTAL  
PROTECTION AUTHORITY FUND**

Notes to Financial Statements  
September 30, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

- Unrestricted; net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of the fund are included in the statements of net position. Proprietary fund operating statements present increases and decreases in net position. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. EPA considers revenues and costs that are directly related to operations to be operating revenues and expenses. Revenues and expenses related to financing and other activities are reflected as nonoperating.

Cash

Custodial credit risk is the risk that in the event of a bank failure, EPA's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. EPA does not have a deposit policy for custodial credit risk.

For purposes of the statements of net position and cash flows, cash is defined as cash on hand and cash held in demand accounts. As of September 30, 2014 and 2013, the carrying amount of cash was \$124,657 and \$52,622, respectively, and the corresponding bank balances were \$125,985 and \$79,979, respectively. Of the bank balance amounts, \$116,648 and \$72,090, respectively, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2014 and 2013, these deposits were fully FDIC insured with the remaining deposits of \$9,337 and \$7,889, respectively, being maintained in a non-FDIC insured financial institution. EPA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized.

**NATIONAL ENVIRONMENTAL  
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Notes to Financial Statements  
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(2) Summary of Significant Accounting Policies, Continued

Receivables

All receivables are due from businesses and individuals located within the Republic of the Marshall Islands and are interest free and uncollateralized. The allowance for uncollectible accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense.

Capital Assets

EPA does not have a capitalization policy for fixed assets; however, items with a cost that equals or exceeds \$100 are generally capitalized at the time of acquisition. Depreciation is calculated using the straight-line method based on the estimated useful lives of the respective assets. The estimated useful lives of these assets are as follows:

Motor vehicles	3 years
Other furniture and equipment	5 years

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. EPA has no items that qualify for reporting in this category.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. EPA has no items that qualify for reporting in this category.

Taxes

Corporate profits are not subject to income tax in the Republic of the Marshall Islands. The Government of the Republic of the Marshall Islands imposes a gross receipts tax of 3% on revenues. EPA is specifically exempt from this tax.

**NATIONAL ENVIRONMENTAL  
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Notes to Financial Statements  
September 30, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During the year ended September 30, 2014, EPA implemented the following pronouncements:

- GASB Statement No. 66, *Accounting and Financial Reporting for Service Concession Arrangements*, which addressed how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The financial statements of EPA will not be affected by the implementations of this statement.
- GASB Statement No. 67, *The Financial Reporting Entity: Omnibus*, which improved financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 70, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement No. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The implementation of this statement did not have a material effect on the accompanying financial statements.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of this statement on the financial statements of EPA.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of EPA.

**NATIONAL ENVIRONMENTAL  
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Notes to Financial Statements  
September 30, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*-an amendment of GASB Statement No. 68. This provision Addresses an issue regarding application of the transition provisions of Statement No. 68; the issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions in Statement 71 are effective simultaneous with the provisions of Statement No. 68 for periods beginning after June 15, 2014. Management has not yet determined the effect of implementation of this statement on the financial statements of EPA.

Reclassifications

Certain balances in the 2013 presentation have been reclassified to conform to the 2014 presentation

(3) Capital Assets

Capital asset activity for the years ended September 30, 2014 and 2013 follows:

	October 1, <u>2013</u>	<u>Additions</u>	<u>Retirements</u>	September 30, <u>2014</u>
Boat	\$ 43,744	\$ -	\$ (15,000)	\$ 28,744
Motor vehicles	88,849	27,950	-	116,799
Office furniture and equipment	<u>42,066</u>	<u>18,920</u>	<u>(1,295)</u>	<u>59,691</u>
	174,659	46,870	(16,295)	205,234
Less accumulated depreciation	(100,157)	(42,593)	<u>15,000</u>	(127,966)
	\$ <u>74,502</u>	\$ <u>4,277</u>	\$ <u>1,295</u>	\$ <u>77,268</u>

	October 1, <u>2012</u>	<u>Additions</u>	<u>Retirements</u>	September 30, <u>2013</u>
Boat	\$ 15,000	\$ 28,744	\$ -	\$ 43,744
Motor vehicles	94,563	36,206	(41,920)	88,849
Office furniture and equipment	<u>58,492</u>	<u>9,360</u>	<u>(25,786)</u>	<u>42,066</u>
	168,055	74,310	(67,706)	174,659
Less accumulated depreciation	(131,360)	(36,503)	<u>67,706</u>	(100,157)
	\$ <u>36,695</u>	\$ <u>37,807</u>	\$ <u>-</u>	\$ <u>74,502</u>

(4) Related Party Transactions

EPA was created by the Nitijela of RepMar under Public Law No. 1984-31. As EPA is governed by a Chairman and four other members who are appointed by the President of RepMar, EPA is thus considered a component unit of RepMar. Accordingly, EPA is affiliated with all RepMar-



# NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Notes to Financial Statements  
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owned and affiliated entities and utilizes services from affiliated entities, including communications and utility services, at substantially the same terms and conditions as those incurred from third parties.

## (4) Related Party Transactions, Continued

During the years ended September 30, 2014 and 2013, RepMar recorded certain expenses of \$313,996 and \$353,733, respectively, which pertain to operational activities of EPA in accordance with Public Law 1984-31. These amounts represented on-behalf payments relating to salaries and wages of employees of EPA. Accordingly, EPA has recognized these on-behalf payments pertaining to salaries and wages as contributions from RepMar.

As of September 30, 2014, EPA recorded a total of \$14,449 from certain of its employees for unliquidated travel advances and taxes owed for RMI Income Tax and Social Security Taxes.

EPA occupies certain office space belonging to RepMar at no cost. No lease agreement has been executed to formalize this arrangement. However, management is of the opinion that no rental payments for the use of the office space are anticipated. The fair value of this contribution is presently not determinable. Accordingly, the contributed use of facilities has not been recognized as revenue and expense in the accompanying financial statements.

## (5) Risk Management

EPA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. EPA has elected to purchase commercial automobile insurance from independent third parties for the risks of loss to which it is exposed with respect to the use of motor vehicles. Settled claims have not exceeded this commercial coverage in any of the past three years. For other risks of loss to which it is exposed, EPA has elected not to purchase commercial insurance. Instead, EPA believes it is more economical to manage its risks internally. Claims expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. No material losses have resulted from EPA's risk management activities in the past three years.

## (6) Contingency

EPA does not maintain general liability insurance coverage on its operations. In the event of a loss, EPA may be self-insured to a material extent.

EPA participates in certain federally assisted grant programs. These programs are subject to financial and compliance audits to ascertain if federal laws and guidelines have been followed. EPA is considered to have responsibility for any questioned costs that may result from audits of these programs. The ultimate disposition of these questioned costs can be determined only by final action of the grantor. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.



REPUBLIC OF THE MARSHALL ISLANDS  
**OFFICE OF THE AUDITOR-GENERAL**

P.O. Box 245

Majuro, Republic of the Marshall Islands 96960

Email Address: [patrjun@gmail.com](mailto:patrjun@gmail.com) Web: [www.rmioag.com](http://www.rmioag.com)

Telephone:  
Auditor-General: (692) 625-3192  
Staff: (692) 625-3390  
Facsimile: (692) 625-5135  
Fraud Hotline:  
Telephone: (692) 625-1155  
Facsimile: (692) 625-1156

**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  
Republic of the Marshall Islands  
National Environmental Protection Authority Fund:

We have audited, 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, the financial statements of the National Environmental Protection Authority Fund (EPA), which comprise the statement of net position as of September 30, 2014, and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 31, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered EPA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of EPA's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider that deficiencies described in the accompanying Schedule of Findings and Responses as items 2014-1 through 2014-4 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2014-5 through 2014-14 and 2014-16 to be significant deficiencies.

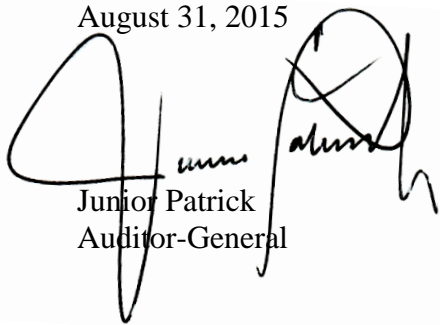
### **Compliance and Other Matters**

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2014-15 and 2014-17.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

August 31, 2015



Junior Patrick  
Auditor-General

**NATIONAL ENVIRONMENTAL  
PROTECTION AUTHORITY FUND**

Schedule of Findings and Responses  
Year ended September 30, 2014

Finding No. 2014-1

Misappropriation of Public Assets

Criteria: Policies and procedures should be established that would guard against theft and misuse of public assets.

Condition: Throughout the course of our audit, the following discrepancies were noted:

1. During our testing of the fixed assets register, we selected one laptop costing \$600, purchased in FY13. We inquired about the location of this asset and were informed that the asset was in the possession of a former employee. We also examined supporting documentation for the purchase and noted that check no. 2370 was issued to the employee to purchase a laptop while on a trip to Guam. There was no invoice on file to substantiate the disbursement, thus we are unable to determine the description of the laptop to be able to physically verify its existence.
2. We also noted a laptop costing \$290 that the same employee sold to EPA and subsequently use it for official work and was in the former employee's possession until March 2015 when it was returned to EPA broken. Upon further inspection of the check and invoice supporting this payment, we noted an invoice and price quote from the employee for \$290 and two other price quotes from two other vendors that appeared fictitious as they used the same form but different vendor information. We inquired with one of the vendor's owner if in fact the price quote came from them. The vendor asserted that the price quote was fake as they never quoted used laptop because they do not sell them. The same vendor examined the other price quote and pointed out that their form was used to make the other price quote from the other company.
3. During our testing of accounts receivable, we noted a receivable from the same employee for a trip taken to the Philippines to attend a workshop sponsored by the International Atomic Energy Agency. Based on communications between the employee and the agency that took place on 5/26/14, the trip is 100% paid for. The trip took place from 6/21/2014 to 6/30/2014 and \$1,972 was confirmed by the agency to have been wired to the employee's personal bank account to cover costs of daily allowances and other expenses. We noted on 6/20/2014 that EPA cut a check for \$1,450 per check no. 3726 for the same trip. Per discussion with the Accountant, the Accountant asserted that the money came in late so EPA had to process a travel advance. We noted that the employee came back to file a claim for the remaining 20% of TA#771-14 and \$270 was issued. As of the date of fieldwork on 5/27/2015, no payment had been received, therefore, we have proposed to record an additional receivable from the former employee for the \$270 as indicated above.

**NATIONAL ENVIRONMENTAL  
PROTECTION AUTHORITY FUND**

Schedule of Findings and Responses, Continued  
Year ended September 30, 2014

Finding No. 2014-1, Continued

Misappropriation of Public Assets

4. Check no. 3458 dated 1/2/2014 was issued to the same employee as indicated above for \$300 for which supporting documents were just provided on 6/2/2015 indicating invoice for office décor for \$255 and payment for a T-Moblie plan of \$52.83.
5. Check no. 3769 was issued for \$60 on 7/14/2014 to the same employee for payment of cash power, however, we did not note an invoice for this payment.
6. During our testing of fixed assets, we noted two a/c units purchased per check no. 3430 on 12/11/2013 from a local vendor for 1 gree a/c 9,000 btu and 1 gree a/c 18,000 btu for \$795, and \$1,295, respectively. The fixed asset registers indicated that the assets were located in Ebeye. However, we inquired with employees who were involved in the purchase and installation of the units and were notified that the two a/c units purchased in December 2013 were installed in Majuro and not on Ebeye as indicated in the fixed asset register. The 9,000 btu is in the EPA main office while the 18,000 btu was installed in a former employee's residence. Further, the former employee confirmed to us that the a/c unit was purchased by EPA and the Accountant is supposed to have recorded the item as a receivable from employee and not a fixed asset of EPA. We reviewed the general ledger for payments from the former employee towards the equipment, however, none were noted during FY 2014 and up to the date of this report, August 31, 2015. An adjustment was proposed to remove this item from fixed asset to employee receivable for the full cost of \$1,295.

The above matters have been referred to our investigation unit for further review.

Cause: The cause of the above condition is the lack of established internal control procedures over the safeguarding of assets. Additionally, there appears to be weakness in internal control whereby any checks \$300 and under do not require signature of a Board member, only the General Manager and Fiscal Officers are required to sign. Furthermore, there is a lack of monitoring by the EPA Board to require that EPA does not pay for trips that are fully funded.

Effect: The effect of the above condition is possible misappropriation of public assets totaling \$3,675.

Recommendation: We recommend that the Board of Directors revisit the Accounting Policy Manual and make changes where necessary to strengthen internal control procedures that would safeguard the assets of EPA against theft and misuse. The policy should also be changed to require that a member of the Board and the General Manager sign on all checks regardless of amount. Furthermore, we recommend that the EPA Board enforce collection of the above receivables from the former employee.

**NATIONAL ENVIRONMENTAL  
PROTECTION AUTHORITY FUND**

Schedule of Findings and Responses, Continued  
Year ended September 30, 2014

Finding No. 2014-1, Continued

Misappropriation of Public Assets

Auditee's Response and Corrective Action Plan: The Board of Directors with the current management are aware of this finding and has taken the recommendation into consideration by applying the required signatures of both the Board of Directors and Management for any transaction. The employee in debt to this finding has been put into receivable for collection of the total amount mentioned.

**NATIONAL ENVIRONMENTAL  
PROTECTION AUTHORITY FUND**

Schedule of Findings and Responses, Continued  
Year ended September 30, 2014

Finding No. 2014-2

Budget

Criteria: Annual budgets are usually adopted requiring expenditures to be properly approved prior to being incurred. In addition, EPA's Financial Accounting Policies require the fund can only be used as indicated by an approved budget, which will indicate the source of revenue and intended spending program. Funds may be drawn only for activities previously approved for each specific program unless otherwise approved by the Board.

Condition: During our examination, we noted that ten (10) items significantly exceeded their approved budgeted amount in the total amount of \$57,049, including five (5) line items that were not budgeted as follows:

<u>Acct. No.</u>	<u>Description</u>	<u>Amount</u>	<u>Actual</u>	<u>Variance</u>
5009	Rentals/Charter	\$ 1,100	\$ 12,600	(\$ 11,500)
5016	POL-Fuel	21,200	24,645	(3,445)
5020	Travel	50,275	57,325	(7,050)
5022	Equipment not capitalize	900	4,851	(3,951)
5038	Service rendered	-0-	7,758	(7,758)
5039	Bank charge	-0-	183	(183)
5055	Bunkering vessel expense	-0-	16,675	(16,675)
5057	SS & Health fund tax	-0-	1,678	(1,678)
5058	Employer MISSA tax	-0-	1,846	(1,846)
5999	Other charges/expenses	<u>20,000</u>	<u>22,963</u>	<u>(2,963)</u>
Total		<u>\$ 93,475</u>	<u>\$150,524</u>	<u>(\$ 57,049)</u>

We also noted no approval by the Board of Directors to close and transfer \$5,043 to Namdrik Atoll Development Authority (NADA) from the RAMSAR grant project fund.

Cause: The cause of the above condition is the lack of adherence to established policies and procedures. Additionally, EPA did not monitor their budget throughout the year as they did not utilize the budget module in the Quick Books accounting software.

Effect: The effect of the above condition is the possibility that expenditures were unauthorized.

Recommendation: We recommend for management to comply with internal control policies and procedures as established under the Financial Accounting Policy manual. Additionally, we recommend that the Board of Directors provide regular oversight of operations, especially the financial transactions.

Prior Year Status: Budgeted items significantly exceeding their approved amounts and items incurred that were not budgeted was reported as a finding in the audit of EPA for September 30, 2013.

**NATIONAL ENVIRONMENTAL  
PROTECTION AUTHORITY FUND**

Schedule of Findings and Responses, Continued  
Year ended September 30, 2014

Finding No. 2014-2, Continued

Budget

Auditee's Response and Corrective Action Plan: The Board of Directors are aware of the finding and have made the necessary steps towards ensuring that proper internal control of funds are in accordance with the financial policy – all budgeted line items are being controlled with periodic review of the Board of Directors.



**NATIONAL ENVIRONMENTAL  
PROTECTION AUTHORITY FUND**

Schedule of Findings and Responses, Continued  
Year ended September 30, 2014

Finding No. 2014-3

Food Stuff

Criteria: EPA could realize major savings on food stuff if it could cut down on having meetings with staff in the restaurants and utilize their newly renovated conference room. Additionally, food expenditures should follow established policies and procedures requiring a purchase order be approved prior to procurement of goods or services. Furthermore, EPA could also realize some savings if it did not purchase fish for its counterparts as such is rarely ever done in the history of EPA. The EPA Personnel Policy states that “Every employee shall exercise strict care in the handling of money held by the employee on behalf of the Authority, and shall observe all instructions relating to accounts and to the collection, custody, or payment of public money, or money held in trust for which the employee is accountable.”

Condition: EPA spent a total of \$18,846 in food stuff expenditures and many of these expenditures were incurred at various restaurants on Majuro and Ebeye. Based on our examination of the general ledger detail, we noted expenditures for food catering, daily charges at a local gas station by various EPA personnel, many payments to various restaurants on island where we noted justification indicating management meeting with staff and purchase of fish on various occasions throughout the year and the subsequent year. The following specific issues were noted during our testing of the food stuff expenditure account:

1. \$1,001 paid for lunch for carpenters to a caterer who is apparently the spouse of one EPA employee and \$3,125 paid to a local gas station for food charges also for carpenters:
  - Check no. 3362 for \$209 is payment for foods for carpenters. Total charges for 126 plates is \$189 and there is an additional miscellaneous payment of \$20 that is not documented what kind of food item it is. There is no signature on the invoice indicating who received the plates and could confirm the quantities of plates billed to EPA and the price quote noted on file is from a local restaurant with description indicating "ALL ITEMS NOT AVAILABLE ON STORE" which appeared fictitious based on inquiry with company owner.
  - Check no. 3382 for \$140 is payment for foods for carpenters as also noted above. Total charges for 70 plates is \$105 and there is an additional miscellaneous payment of \$35 that is not documented what kind of food item it is. There is no signature on the invoice indicating who received the plates at EPA and would confirm that invoice is correct, and the price quote noted on file is from a local restaurant for very different items. We also noted that plates now cost \$2 but they used to cost \$1.50.

**NATIONAL ENVIRONMENTAL  
PROTECTION AUTHORITY FUND**

Schedule of Findings and Responses, Continued  
Year ended September 30, 2014

Finding No. 2014-3, Continued

Food Stuff

- Check nos. 3391, 3415, 3416, 3453 for \$140 each are payments for lunch plates provided to EPA carpenters on a weekly basis for the months of November 2013 to March 2014. We noted on the invoice that 70 plates were provided on a weekly basis which equals to 14 plates provided for 7 carpenters a day. A total of \$105 is billed for the plates and an additional \$35 is for unidentified miscellaneous item. We also noted no signature of any EPA representative to certify the validity of the invoice and charges. We also noted that there was no price quotation obtained from the cateror, however, a price quote from one local restaurant is noted on file where they quoted "ALL ITEMS NOT AVAILABLE ON STORE" with a \$0 as the amount of the price quote. We inquired with the owner from the certain restaurant if in fact the price quote came from them. The owner indicated to us that the price quote did not come from them. They provided a copy of their price quote form and it appears to be really different from what we noted on file. It appears that the price quote on file was fictitious.
- Check no. 3580 for \$160 is payment for foods for carpenters to the same cateror noted above. There is no signature on the invoice indicating who received the plates at EPA and would confirm that invoice is correct, and the price quote noted on file appeared fictitious as noted above. We also noted that plates now cost \$2 but they used to cost \$1.50.
- Check no. 3608 for \$72 is payment for foods for carpenters from the same cateror above. There is no signature on the invoice indicating who received the plates at EPA, and the price quote noted on file appeared fictitious when compared to the form that we obtained from the local restaurant.
- Check no. 3708 for \$145.94 is payment for food items for a funeral of one individual who performed repairs on EPA main office not as an employee but independent contractor.
- A total of \$3,125 was paid to a local gas station for daily charges that employees of EPA just go in and obtain food items. Justification on the purchase orders include JIRCAS daily monitoring in Laura, food for staff meeting and food for carpenters. It appears that EPA is buying food for many of its employees as noted by the daily charges made by employees and also payment to the above cateror for food for carpenters. All of the POs for these charges were approved after the purchases were made-which is not in compliance with EPA policy.
- We noted that fish was also purchased from a certain company for \$75 and another purchased by one employee of fish worth \$200 per check no. 3804 and 3805, respectively, from the same vendor and per the Accountant, this is fish for a retirement party in Ebeye for one employee.

**NATIONAL ENVIRONMENTAL  
PROTECTION AUTHORITY FUND**

Schedule of Findings and Responses, Continued  
Year ended September 30, 2014

Finding No. 2014-3, Continued

Food Stuff

- We also noted other instances where fish was purchased per check no. 3878 of \$100 from a certain individual to be taken to counterparts in Guam. We noted that the date of the invoice is 7/15/2014, however, PO is dated 8/18/2014 which is not in compliance with EPA Accounting Policy Manual. During our further examination, we noted that check was picked up and cashed by someone else other than the payee.
- Check no. 3902 dated 9/2/2014 was issued to a local company for \$75 for fish to be taken to counterparts in Ebeye as per justification on the PO, we did not note an invoice on file.
- The following disbursements were incurred prior to approval of the purchase order which is not consistent with EPA policies:
  1. Check no. 3595 was issued for \$52.50 on 3/25/2014 to a restaurant on island for a lunch meeting with legal counsel, we noted that PO was approved after expenses were incurred and paid.
  2. Check no. 3597 issued for \$109 on 3/25/2014 is payment for food items with no documentation as to what the meeting is for. Purchase order appears to be done after purchases were made which is not in compliance with EPA policy. One price quote was noted on file that appeared to be fictitious based on our inquiry with the restaurant owner.
  3. Check no. 3599 issued to a local restaurant for \$119.35 on 3/25/2014 and purchase order was approved after food had been charged. Additionally, the justification on the PO indicated that lunch meeting was for GM and EPA staff regarding daily works and environmental issues.

Cause: The cause of the above condition is weakness in internal control whereby checks up to \$300 do not require a signature of one of the Board members, only management and the fiscal officer are required to sign. Additionally, management did not adhere to established internal control procedures outlined in the Accounting Policy Manual and the Personnel Policy.

Effect: The effect of the above condition is that many of the purchases indicated above were not processed in accordance with established policies and procedures outlined in the EPA Accounting Policy Manual which resulted in possible misappropriation of public funds. Additionally, EPA is not obligated to buy lunch for the temporary workers since no formal contract agreement was signed obligating EPA to provide free lunch for carpenters.

**NATIONAL ENVIRONMENTAL  
PROTECTION AUTHORITY FUND**

Schedule of Findings and Responses, Continued  
Year ended September 30, 2014

Finding No. 2014-3, Continued

Food Stuff

Recommendation: We recommend that the EPA Board of Directors review the Accounting Policy Manual and make changes that would allow members of the Board to authorize disbursements regardless of amount. We further recommend that the Board of Directors communicate to management the need to save money on food items for employees and utilize funds for more critical areas of operations.

Prior Year Status: Excessive spending on food stuff expenditure was reported as a finding in the audit of EPA for fiscal year ended September 30, 2013.

Auditee's Response and Corrective Action Plan: This was an reoccurrence finding from previous year, however, the Board of Directors are aware of this finding and have noted that it mostly refer to the previous management and have agreed to the recommendations by ensuring all transactions are endorsed by both the Board of Directors and Management – this will be amended in the financial policy.

**NATIONAL ENVIRONMENTAL  
PROTECTION AUTHORITY FUND**

Schedule of Findings and Responses, Continued  
Year ended September 30, 2014

Finding No. 2014-4

Payment to Employees

**Criteria:** The EPA Financial Accounting Policy state that a purchase order must be approved before any goods or services are ordered. PO over \$100 must have price quote from alternative suppliers if possible. Additionally, the EPA Personnel Policy states that every employee shall exercise strict care and economy in the use of supplies, stationery, and other property or properties of the Authority.

**Condition:** During our examination of the general ledger, we noted a total of \$3,465 issued for reimbursement for three EPA employees in the amount of \$1,052, \$1,813, and \$600, respectively, for employee #1, #2, and #3. The details of the reimbursements are presented in the table below.

<b>Date</b>	<b>Check No.</b>	<b>Payee</b>	<b>Items Purchased</b>	<b>Amount</b>
12/16/2013	3439	Emp. #1	NTA cell cards	\$ 50.00
01/21/2014	3475	Emp. #1	Sugars, foam cups, foam plate & NTA cell cards	166.51
02/14/2014	3535	Emp. #1	Western union fee, alum foil, Straw, Water, tea, spoon, forks, laddle, rice scoop, ctlery PRack, toothpick, glass Mug, tongs, plate, table clothing & cell cards	171.14
02/27/2014	3549	Emp. #1	Paint roller, chip, brush, padlock, safety hasp, venetian hinge, wood knob, nail, Gal cove, paint, water bottle/cap & cell cards	291.87
02/27/2014	3550	Emp. #1	Paint W 5 Gal, Paint W 1 Gal & Cell cards	291.39
04/29/2014	3647	Emp. #1	NTA cell cards, lunch plate, freight, 5 cases of water & leaf bags	185.31
05/09/2014	3654	Emp. #1	Names plate for Table and Logo Sign	170.00
07/17/2014	3798	Emp. #1	Foods/drinks from K&K, western union fee, wifi cards, cell cards & Gloves	137.00
07/18/2014	3805	Emp. #1	Food stuff	200.00
07/25/2014	3836	Emp. #1	Video card 1GB, memory SD 4GB, NTA cell cards	79.50
09/25/2014	3941	Emp. #1	Door key, water & NTA cell cards	70.60
11/29/2013	3394	Emp. #2	Laptop	290.00
01/02/2014	3458	Emp. #2	none items noted	300.00
02/11/2014	3528	Emp. #2	Foods & drinks from K&K and diesel	58.67
04/24/2014	3641	Emp. #2	Business card and plague for EPA employee being retired.	230.00
05/12/2014	3656	Emp. #2	Foods & drinks from Long Island restaurant and 2 pieces safari	44.96

**NATIONAL ENVIRONMENTAL  
PROTECTION AUTHORITY FUND**

Schedule of Findings and Responses, Continued  
Year ended September 30, 2014

Finding No. 2014-4, Continued

Payment to Employees

08/08/2014	3856	Emp. #2	Foods and drinks from Mama store, Burger Kings & Anthony Piz	128.53
06/17/2014	3721	Emp. #3	HP and EPSON Ink for Camera	300.00
06/18/2014	3722	Emp. #3	Vest Lime MESH and Helmets	300.00
<b>Total</b>				<b>\$ 3,465.48</b>

Based on our testing, a total of \$1,480 out of the above total were supported by purchase orders that were approved after date and time of actual purchases, and were not supported by price quotes. Employee #3 was issued a total of \$600 in two equal checks of \$300 dated 6/17/2014 and 6/18/2014 per check nos. 3721 and 3722 to purchase tools and supplies. There was also no price quote obtained for these purchases and check no. 3722 had an invoice that totaled \$288.80, a shortage of \$11.20.

Cause: The cause of the above condition is management override of established internal control procedures over the procurement of goods and services.

Effect: The effect of the above condition is noncompliance with established internal control procedures over the procurement process. Additionally, EPA may not have gotten the most value out of its funds by not obtaining price quotes.

Recommendation: We recommend that the EPA management comply with established internal control procedures over the procurement process by requiring that purchase orders are approved prior to purchase of goods and services and that price quotes are obtained for amounts over \$100. We also recommend that reimbursements to employees and direct payment to employees to buy supplies be discontinued.

Auditee's Response and Corrective Action Plan: The Board of Directors are aware of the finding and the recommended action has already been placed with reimbursement to employees discontinued.

**NATIONAL ENVIRONMENTAL  
PROTECTION AUTHORITY FUND**

Schedule of Findings and Responses, Continued  
Year ended September 30, 2014

Finding No. 2014-5

Identification and Recording of Fixed Assets

Criteria: Identification of assets and documentation in the fixed asset register should be performed immediately after each asset has been acquired. The fixed assets register should also document accurately the physical location of the assets.

Condition: While we were conducting our physical inspection of assets, we were asked to wait until tags have been put on them. We also noted that vehicles were tagged, however, tag numbers were not documented in the fixed asset register. We also noted items that were indicated to be in a certain location when in fact they were obtained for personal use as noted in Finding No. 2014-1.

Cause: The cause of the above condition is the lack of established internal control procedures over the identification and recording of fixed assets.

Effect: The effect of the above condition is that fixed assets were not properly identified and recorded during the year. There appears to be possible misappropriation of public assets.

Recommendation: We recommend that EPA establish internal control policies over the identification and recording of fixed assets. These policies should also address how the entity could guard against theft and misuse.

Auditee's Response and Corrective Action Plan: Current Management has obtained control in ensuring proper recording of fixed assets are in accordance with the procurement procedures and policies.

**NATIONAL ENVIRONMENTAL  
PROTECTION AUTHORITY FUND**

Schedule of Findings and Responses, Continued  
Year ended September 30, 2014

Finding No. 2014-6

Fuel Expense

Criteria: The RMI EPA should prohibit fueling of vehicles that do not belong to EPA.

Condition: Out of the nine (9) checks we tested that were issued for payment of fuel totaling \$5,811.35, we noted a total of \$562.60 that was used to fuel vehicles that did not appear to belong to EPA. We also noted 32 fuel slips totaling \$1,286.70 that did not document the license plate no. of the vehicle.

Cause: The cause of the above condition is the lack of proper review of the fueling slips to require that only vehicles that belong to EPA are paid for.

Effect: The effect of the above condition is possible misappropriation of public funds. Additionally, we could not determine the propriety of the fuel slips that were undocumented.

Recommendation: We recommend that the EPA management require only EPA vehicles are fueled and that fuel slips are properly documented with license plate no. of the vehicle being fueled.

Auditee's Response and Corrective Action Plan: Current Management has discontinued fueling of unauthorized vehicles and ensured proper supporting documents are in place with any fuel transactions.



**NATIONAL ENVIRONMENTAL  
PROTECTION AUTHORITY FUND**

Schedule of Findings and Responses, Continued  
Year ended September 30, 2014

Finding No. 2014-7

Travel Expense

Criteria: Travel expense should be supported by copy of airline ticket, boarding pass and other relevant documents that provide evidence that trip has been completed according to the travel authorization.

Condition: During our examination of check No.3548 which was issued on 3/18/14 in the amount of \$540.72, we noted that check was issued for 20% claim for TA #748-14 & A1. We did not note copy of airline ticket, departure fee receipt, car rental receipt, taxi fare and communication receipts on file as claimed. A trip report was also not noted on file.

Cause: The cause of the above condition is management override of internal control procedures which require that travel expense be supported by the relevant documents as noted above.

Effect: The effect of the above condition is that travel expense was unsupported.

Recommendation: We recommend for EPA to require that travel expense is supported by a copy of airline ticket, departure fee receipt, car rental receipt, and a trip report.

Auditee's Response and Corrective Action Plan: The Board of Directors and the current Management have agreed to terminate travel advances from EPA operations.

**NATIONAL ENVIRONMENTAL  
PROTECTION AUTHORITY FUND**

Schedule of Findings and Responses, Continued  
Year ended September 30, 2014

Finding No. 2014-8

Payroll Expenditure

Criteria: Payment for salaries and wages of EPA staff should be processed through the payroll module in order for proper taxes to be calculated and withheld. Additionally, all payment of wages should be supported by an approved timesheet.

Condition: During our testing of the salaries and wages expense, we noted various discrepancies in the processing of the payments:

- We noted a journal entry (GJ14-034) to record salaries and wages out of the services rendered account totaling \$16,968 for employees of EPA for payment of overtime for the RSA Project at the airport, and payment for other services by temporary workers. These payments were processed and paid from the operations account and therefore proper income taxes were not withheld to be paid to the proper authorities. We also noted that the timesheets on file do not appear to indicate what time the employee started and finished work each day and timesheet is not signed by a supervisor to certify hours claimed.
- We also examined check no. 3947 with gross pay of \$960 noting that no income tax deductions were withheld.
- Check no 3413 dated 12/5/2013 was issued to one employee for \$292.40 for payment of overtime hours; however, we did not note a timesheet on file to support 32 overtime hours claimed for the period from September to December 2013. Additionally, this payment was recorded as other expense and no income tax deductions were withheld.
- We also noted that check numbers 3340, 3410, and 3581 were issued for \$1,008, \$1,188, and \$1,764 and are dated 11/1/2013, 12/5/2013, and 3/14/2014, respectively, which were issued for payment of overtime to a certain employee for which we did not note a supporting timesheet or timecard certified by a supervisor confirming the hours claimed.
- We examined check no. 2471, 2486, and 2487 for \$769.60, \$200, and \$576.80 for employees who worked under the IWRM at Laura noting that there is no time card on file. We were informed that the employees use a timesheet that they pencil in and out their times, however, such was not provided for our examination.

Cause: The cause of the above condition is lack of monitoring of the accounting functions by management to ensure that accounting transactions are processed and recorded correctly and appropriate taxes are withheld and remitted to the proper authorities. Additionally, there are no internal control procedures in place requiring that payment of wages be supported by certified timesheets or timecards.

**NATIONAL ENVIRONMENTAL  
PROTECTION AUTHORITY FUND**

Schedule of Findings and Responses, Continued  
Year ended September 30, 2014

Finding No. 2014-8, Continued

Payroll Expenditure

Effect: The effect of the above condition is that payment for salaries and wages was not processed and recorded correctly and income taxes were not withheld and remitted to the proper authorities. Additionally, employees were paid for overtime hours that were unsubstantiated.

Recommendation: We recommend that the management of EPA require that payment for salaries and wages of EPA staff be processed through the payroll module of the quickbooks accounting system in order for income taxes to be calculated properly and be withheld to be remitted to the proper authorities.

Additionally, we recommend that internal control procedures be established over the payment of salaries and wages to require that all payments be supported by an approved timesheet.

Prior Year Status: The payment of salaries and wages outside of the quickbooks payroll module and none withholding of income taxes, and the lack of properly documented and approved timesheets or timecards, were reported as a finding in the audit of EPA for fiscal year ended September 30, 2013.

Auditee's Response and Corrective Action Plan: The current Management has taken control in ensuring that any/all salaries are properly calculated ensuring that tax and other required withholds are met.

**NATIONAL ENVIRONMENTAL  
PROTECTION AUTHORITY FUND**

Schedule of Findings and Responses, Continued  
Year ended September 30, 2014

Finding No. 2014-9

Bunkering Services Expense

Criteria: Payment for bunkering services to EPA staff should be regulated by the EPA Board.

Condition: During our testing of check no. 3947 dated 9/30/02014, we noted that check was issued for bunkering activities. Based on our examination of the payment and supporting documents, we noted that check was issued for \$960 for bunkering activities. It appears that for each time the employee bunkers a ship, he is paid a total of 8 hours and there are no evidence on file to confirm that he actually spent 8 hours a day to bunker one ship. The actual formula is as follows: (hourly rate x 8 hours x total ships bunker or \$6 x 8hrs x 20ships = \$960). Per the Accountant, there is no internal control procedures approved by the Board on this payment scheme. Thus, out of the \$75 that is paid to EPA for bunkering services, \$48 or 64% goes to the employee and only 36% goes to the Authority.

Cause: The cause of the above condition is lack of established procedures over the payment of bunkering services.

Effect: The effect of the above condition is possible overpayment to the employee for bunkering service.

Recommendation: We recommend that the EPA Board require that payment for bunkering services is regulated to ensure that the employee is paid only for hours that he spent on the job.

Auditee's Response and Corrective Action Plan: The Board of Directors is aware of this finding and have made recommendation for Management to regulate this type of service – currently, management have discontinued the payment of bunkering services because the officer have been given regular employee status.

**NATIONAL ENVIRONMENTAL  
PROTECTION AUTHORITY FUND**

Schedule of Findings and Responses, Continued  
Year ended September 30, 2014

Finding No. 2014-10

Cleaning Service Contract

Criteria: Payment for cleaning services should not be duplicated.

Condition: During our testing of contract expenditures and payroll expenditures, we noted that EPA signed a contract with a service provider to provide cleaning services to the Majuro Office, meanwhile, there is one employee on EPA payroll whose responsibility is also to provide janitorial services. Total paid to the employee during the year was \$8,240 and total paid to the cleaning services is \$3,400.

Cause: The cause of the above condition appears to be utilizing the employee to perform other duties other than what he was hired to do, thus, the need for cleaning service.

Effect: The effect of the above condition is that EPA made duplicate payments for the same service.

Recommendation: We recommend that the EPA Board of Directors carefully review contracts prior to approval to require that the service requested is not already being provided by an employee of EPA.

Auditee's Response and Corrective Action Plan: The cleaning contract has been terminated.

**NATIONAL ENVIRONMENTAL  
PROTECTION AUTHORITY FUND**

Schedule of Findings and Responses, Continued  
Year ended September 30, 2014

Finding No. 2014-11

Cell Cards

Criteria: The RMI EPA should control the use of cell cards by adopting a cell card policy or adopt the government policy whereby only Directors are allowed \$50 worth of cell cards per month or a total of \$600 annually. The Personnel Policy of EPA also dictates that every employee shall exercise strict care and economy in the use of supplies, stationery, and other properties of the Authority.

Condition: During our examination of the communications expense account, we noted a total of \$3,180 issued for purchase of cell cards and also payments to employees to reimburse them for cell card purchases. A total of \$345 was issued to reimburse one employee for which we could not find evidence of actual cash paid out by the employee for the cell cards. The only evidence on file was the used cell cards, which one can easily find anywhere around Majuro.

Cause: The cause of the above condition is lack of internal control policy regulating the use of cell cards.

Effect: The effect of the above condition is that EPA potentially lost \$2,580 that it could have used to fund more critical areas of its operation.

Recommendation: We recommend that the EPA management establish internal control procedures over the use of cell cards or adopt the RMI Government's policy for cell card usage.

Auditee's Response and Corrective Action Plan: The Board of Directors has agreed to control the usages of cell cards.

**NATIONAL ENVIRONMENTAL  
PROTECTION AUTHORITY FUND**

Schedule of Findings and Responses, Continued  
Year ended September 30, 2014

Finding No. 2014-12

Purchases for Employees

Criteria: Cash disbursements should only be for expenses of EPA. The EPA Personnel Policy also states that employees shall exercise strict care in the payment of public money.

Condition: During our audit, we noted check no. 3819 dated 7/25/2014 issued to purchase one gree a/c unit for \$795 as per justification on the purchase order. We traced to the general ledger noting that item was recorded as a receivable from one employee. We also noted payments made by the employee during the year against the receivable balance noting that ending balance as of September 30, 2014 was \$191.

Cause: The cause of the above condition is lack of policies and procedures over the disbursement of funds to buy equipment for employees.

Effect: The effect of the above condition is possible mismanagement of public funds.

Recommendation: We recommend that EPA establish policies and procedures requiring that purchases of equipment for employees be discontinued.

Auditee's Response and Corrective Action Plan: The Board of Directors are aware of this and agreed to ensure no purchased equipment will be used for personal use.

**NATIONAL ENVIRONMENTAL  
PROTECTION AUTHORITY FUND**

Schedule of Findings and Responses, Continued  
Year ended September 30, 2014

Finding No. 2014-13

Recording of Accumulated Depreciation

Criteria: The accumulated depreciation account is a contra account that is credited when depreciation expense is recorded each period; the amount credited should match a corresponding debit to depreciation expense.

Condition: During our testing of the Other Expense account, we noted that journal vouchers GJ14-022 and GJ14-033 were posted to the account to tie out the accumulated depreciation for furniture and fixture and vehicle of \$2,522 and \$5,858, respectively.

Cause: The cause of the above condition is the lack of reconciliation of fixed assets on a periodic basis.

Effect: The effect of the above condition is that fixed assets and depreciation expense were misstated throughout the year.

Recommendation: We recommend that management review the financial statements on a regular basis to require that periodic reconciliations of fixed asset accounts are performed.

Auditee's Response and Corrective Action Plan: The current Management has taken responsibility of over-sighting the financial statements with periodic reports provided to the Board of Directors.



**NATIONAL ENVIRONMENTAL  
PROTECTION AUTHORITY FUND**

Schedule of Findings and Responses, Continued  
Year ended September 30, 2014

Finding No. 2014-14

Segregation of Duties

Criteria: Segregation of duties is an internal control designed to prevent error and fraud by requiring that at least two individuals are responsible for the separate parts of any task. Segregation of duties involves breaking down tasks that might reasonably be completed by a single individual into multiple tasks so that no one person is solely in control. Segregation of duties is critical to effective internal control; it reduces the risk of both erroneous and inappropriate actions.

Condition: The Accountant is solely responsible for all accounting functions of EPA.

Cause: The cause of the above condition is lack of established internal control procedures requiring there is segregation of duties in the accounting functions of EPA.

Effect: The effect of the above condition is the possibility for both erroneous and inappropriate actions to be perpetrated, which may not be detected and corrected in a timely manner.

Recommendation: We recommend that the EPA management require there is segregation of duties of the accounting functions.

Auditee's Response and Corrective Action Plan: The Board of Directors and the current Management have agreed that there should be a type of segregation of duties established – they are in the process of developing a standard operating procedure (SOP) that will specify segregation of duties.

**NATIONAL ENVIRONMENTAL  
PROTECTION AUTHORITY FUND**

Schedule of Findings and Responses, Continued  
Year ended September 30, 2014

Finding No. 2014-15

Local Non-Compliance

Criteria: The Income Tax Act of 1989 states that income tax shall be collected by the employer by deducting and withholding the tax imposed on any wages and salaries as and when paid or credited to the employee. Every employer required to deduct and withhold the tax imposed shall be liable for the payment and shall pay such tax to the Secretary of Finance. The Social Security Tax Act of 1990, states that a worker or a self-employed worker shall contribute to the Administration an amount equal to 7% of his/her salaries. The worker's contributions to the Fund shall be collected by the employer of the worker, by deducting the amount of the contributions due from the worker's earnings, and the employer shall remit the same to the Administration along with the employer's contributions. Every employer who is required to deduct the worker's contributions is liable for their payment to the Administration and shall be indemnified by the Administration against any claim or demand by any worker for the amount of such payment.

Condition: During our testing of the withholding tax payable, social security taxes payable, and basic health taxes payable we noted a balance of \$5,424, \$6,742, and \$3,372, respectively, for taxes withheld that have not been remitted to the proper authorities. Based on our testing and inquiry with the Accountant, most of the above balances relate to prior year audit adjustment to record taxes receivable from employees that were not withheld. An audit adjustment was proposed to record receivable from employee and payable to the respective authorities, however, such taxes have not been paid to date.

In the current year, we also noted wages paid to employees for which proper taxes were never withheld. Based on our calculation, the following amounts should have been recorded in the financial statements of EPA at September 30, 2014:

Employee Accounts Receivable	3,247
MISSA Taxes Payable - Employee	(1,188)
Health Fund Taxes Payable - Employee	(594)
MISSA Taxes Payable - Employer	(1,188)
Health Fund Taxes Payable - Employer	(594)
RMI Taxes Payable	(1,465)
Employer Tax Expense	1,782

Cause: The cause of the above condition is lack of regular review of the accounting function by management as well as the Board of Directors of EPA to require that taxes withheld from employees are paid to the proper authorities in a timely manner.

**NATIONAL ENVIRONMENTAL  
PROTECTION AUTHORITY FUND**

Schedule of Findings and Responses, Continued  
Year ended September 30, 2014

Finding No. 2014-15, Continued

Local Non-Compliance

Effect: The effect of the above condition is lack of adherence to the Income Tax Act of 1989 and the Social Security Tax Act of 1990.

Recommendation: We recommend that EPA comply with the Income Tax Act of 1989 and the Social Security Tax Act of 1990. We also recommend that management review prior year and current year tax liabilities that were not properly withheld from employees and ensure such are collected and paid to the respective authorities.

Prior Year Status: Wages paid to employees for whom proper taxes were never withheld was reported as a finding in the audit of EPA for September 30, 2013.

Auditee's Response and Corrective Action Plan: The Board of Directors and the current Management are monitoring the financial system ensuring proper transaction are made in accordance to the Income Tax Act of 1989 and the Social Security Tax act of 1990.

**NATIONAL ENVIRONMENTAL  
PROTECTION AUTHORITY FUND**

Schedule of Findings and Responses, Continued  
Year ended September 30, 2014

Finding No. 2014-16

Employee Contracts

Criteria: Employee contracts should be maintained on file to support salaries and wages paid.

Condition: During our testing of salaries and wages expenses, one employee contracts could not be provided for our examination.

Cause: The cause of the above condition is lack of proper maintenance of employee files to support salaries and wages paid.

Effect: The effect of the above condition is that payment for salaries and wages for the two employees, one for \$10,710 and the other employee had total wages of \$10,025 were unsupported.

Recommendation: We recommend that EPA require that employee contracts are maintained on file to support payment of salaries and wages.

Auditee's Response and Corrective Action Plan: All personnel files and contracts have been updated and filed.

**NATIONAL ENVIRONMENTAL  
PROTECTION AUTHORITY FUND**

Schedule of Findings and Responses, Continued  
Year ended September 30, 2014

Finding No. 2014-17

Bank Accounts

Criteria: Per the EPA Accounting Policy Manual, the fund must establish an account at any local banking institutions on Majuro that is a member of the Federal Deposits Insurance Corporation (FDIC). The account must be maintained at a balance of \$2,500.

Condition: EPA has a TCD account at Bank of the Marshall Islands which is not subject to FDIC coverage.

Cause: The cause of the above condition is lack of adherence to established policies and procedures.

Effect: The effect of the above condition is noncompliance with established policies and procedures.

Recommendation: We recommend that EPA comply with established internal control procedures or revise the policies to accommodate operational needs.

Prior Year Status: Noncompliance with EPA Accounting Policy by holding a TCD account at Bank of Marshall Islands which is non FDIC insured was reported as finding in the audit of EPA for September 30, 2013.

Auditee's Response and Corrective Action Plan:

The TCD account for EPA at the Bank of Marshall Islands will be closed.

**NATIONAL ENVIRONMENTAL  
PROTECTION AUTHORITY FUND**

Unresolved Prior Year Findings and Questioned Costs  
Year ended September 30, 2014

Questioned Costs

The prior year report on compliance with laws and regulations noted the following questioned costs and comments that were unresolved at September 30, 2014:

Questioned costs previously reported	\$ 15,000
Questioned costs of fiscal year 2014	<u>-</u>
Unresolved questioned costs at September 30, 2014	<u>\$ 15,000</u>

Unresolved Findings

The status of unresolved prior year findings is discussed within the Schedule of Findings and Responses section of this report.