



**REPUBLIC OF THE MARSHALL ISLANDS
OFFICE OF THE AUDITOR-GENERAL
P.O. Box 245**

Majuro, Republic of the Marshall Islands 96960
Email Address: patrjun@mail.com Web: www.rmioag.com

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

August 31, 2015

Mr. Julius Lucky
Interim General Manager
National Environmental Protection Authority

Dear Mr. Lucky:

In planning and performing our audit of the financial statements of the National Environmental Protection Authority Fund (EPA) as of and for the year ended September 30, 2014, (on which we have issued our report dated August 31, 2015) 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, we considered EPA's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing 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 was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to EPA's internal control over financial reporting and other matters as of September 30, 2014 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also 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 agreement and other matters.

The definition of a deficiency is also set forth in the attached Appendix I.

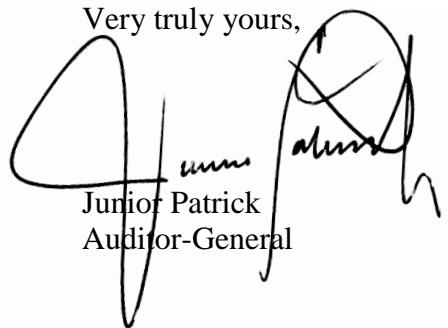
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of the Board of Directors, Management, others within the organization, and the Office of the Auditor-General and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of these suggestions.

We wish to thank the staff and management of EPA for their cooperation and assistance during the course of this audit.

Very truly yours,



A handwritten signature consisting of stylized initials and the name "Junior Patrick".

Junior Patrick
Auditor-General

APPENDIX I

SECTION I – CONTROL DEFICIENCIES

We identified, and have included below, control deficiencies involving EPA's internal control over financial reporting as of September 30, 2014 that we wish to bring to your attention:

(1) Collection of Fees

Collection of fees for services rendered should be collected in a timely manner. Out of the thirteen (13) items that we selected for revenues testing, we noted invoice no 803-14 was issued to a certain company dated 7/16/2014 for \$250 for bakery and water testing annual fee, however, no payment has been received as of the date of our fieldwork on 4/27/2015. We recommend that service fees be collected in a timely manner.

(2) Employee Receivable

Payments received from employees to pay off their accounts should be posted to their accounts. During our audit, we noted a payment of \$167 from one employee that never got posted to his account. This is due to the fact that individual accounts were not set up in the accounts receivable module but were accounted for in the general ledger. We recommend that employee accounts be set up in the accounts receivable module of the Quickbooks Accounting software in order for transactions to be posted properly.

SECTION II – DEFINITIONS

The definition of a deficiency that is established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, is as follows:

A 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 and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

APPENDIX II

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

EPA's management is responsible for the overall accuracy of the financial statement and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.