

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

NATIONAL ENVIRONMENTAL  
PROTECTION AUTHORITY FUND

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FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT

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YEARS ENDED SEPTEMBER 30, 2016 AND 2015



AUDIT No.: OAG 06/16-2077

July 25, 2016  
Date

P.O. BOX 245  
MAJURO, MH 96960  
REPUBLIC OF THE MARSHALL ISLANDS

**NATIONAL ENVIRONMENTAL  
PROTECTION AUTHORITY**

Years Ended September 30, 2016 and 2015

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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  
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, 2016 and 2015, 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, 2016 and 2015, 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***

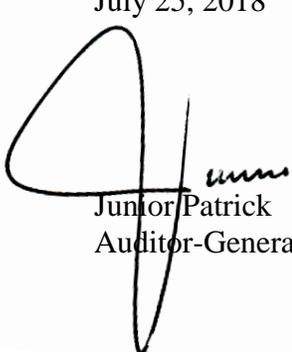
***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis on pages 3 through 8 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 July 25, 2018, 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 solely 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 the effectiveness of EPA’s 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.

July 25, 2018



Junior Patrick  
Auditor-General



# NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

## Management's Discussion and Analysis September 30, 2016 and 2015

This section of the Environmental Protection Authority annual financial report presents our discussion and analysis for RMIEPA's financial performance during the fiscal year that ended on September 30, 2016. 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 acts only give us the authority to protect and police and these acts in some cases are 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:

- Water Quality Monitoring and Laboratory
- Land, Coastal, and Conservation Management
- Waste and Pollution, 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, 2016 and 2015

## 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 Office 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.

## FINANCIAL HIGHLIGHTS

Management's Discussion and Analysis for the year ended September 30, 2016 is set forth in the report on the audit of RMIEPA's financial statements. The Discussion and Analysis explains the major factors impacting the 2016 financial statements.

RMIEPA's net assets increased in 2016 by \$87,185 or 51% from \$171,724 in 2015 to \$258,909 in 2016 due to a decrease in operating revenues of \$453,284 or 42% compared to 2015 offset by a decrease in operating expenses of \$529,138 or 49% compared to 2015. In 2016, operating revenues were decreased mainly as a result of fines and penalties and operating expenses were decreased as a result of landowner pay out.

## FINANCIAL ANALYSIS OF EPA

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

## NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

### Management's Discussion and Analysis September 30, 2016 and 2015

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

<b><u>Year ended September 30</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>
Current assets	\$ 266,705	\$ 692,858	\$ 162,707
Capital assets	<u>27,735</u>	<u>46,021</u>	<u>77,268</u>
Total assets	<u>\$ 294,440</u>	<u>\$ 738,879</u>	<u>\$ 239,975</u>
Current liabilities	<u>\$ 35,531</u>	<u>\$ 567,155</u>	<u>\$ 55,916</u>
Investment in capital assets	27,735	46,021	77,268
Unrestricted	136,578	81,534	58,114
Restricted	<u>94,596</u>	<u>44,170</u>	<u>48,677</u>
Total net assets	<u>258,909</u>	<u>171,724</u>	<u>184,059</u>
Total liabilities & net assets	<u>\$ 294,440</u>	<u>\$ 738,879</u>	<u>\$ 272,279</u>

As indicated above, the total net assets have increased by \$87,185 from \$171,724 in 2015 to \$258,909 in 2016. This increase in total net assets reflects a net increase in operating grant awards received from foreign funding sources and increase in fees and charges.

Current liabilities reflect a decrease of \$531,624 or 94% from \$567,155 in 2015 to 35,531 in 2016. The decrease indicates landowner payment.

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

<b><u>Year ended September 30</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>
Revenues:			
Total Operating revenues*	\$ 637,152	\$ 1,090,436	\$ 677,748
Expenses:			
Total Operating expenses**	<u>549,967</u>	<u>1,102,772</u>	<u>707,662</u>
Non-operating expenses			
Change in net assets	<u>\$ (87,185)</u>	<u>\$ (12,336)</u>	<u>\$ (53,636)</u>

\*Includes Nitijela Appropriations

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

**NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND**

Management's Discussion and Analysis  
September 30, 2016 and 2015

The Statement of Revenues, Expenses and Changes in Net Assets identifies the various revenue and expense items that impact the change in net assets. As indicated above, RMIEPA's total revenues have decreased by \$453,284 from \$1,090,436 in 2015 to \$637,152 in 2016. The significant decrease is due to payment of landowner settlement payout.

Below is the summary of the major components of operating revenues for RMIEPA in 2016 compared to 2015 and 2014:

**Operating revenues**

<b>Year ended September 30</b>	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>
Nitijela appropriations	\$ 165,223	\$ 170,144	\$ 313,996
Grants	91,342	32,135	70,482
Monitoring fees-RSA Project	-	-	29,134
Fines	6,000	601,900	30,000
Fees & Charges	154,966	117,574	140,809
Compact revenues	209,379	166,807	55,061
Others	<u>10,242</u>	<u>1,876</u>	<u>38,266</u>
	637,152	1,090,436	677,748
Less uncollectible accounts	<u>-</u>	<u>(23,667)</u>	<u>(23,722)</u>
Net Operating revenues	<u>\$ 637,152</u>	<u>\$ 1,066,769</u>	<u>\$ 654,026</u>

The data provided above portrays that the total operating revenues have decreased by \$453,284 from \$1,090,436 in 2015 and were primarily due landowner payout.

Below is a summary of the major components of operating expenses for RMIEPA in 2016 compared to 2015 and 2014.

<b>Year ended September 30</b>	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>
Salaries and Wages Marsh*	\$ 191,546	\$ 363,054	\$ 377,516
Travel	29,205	26,807	57,055
Supplies and Materials	28,083	28,355	43,205
Consultant services	-	-	-
Depreciation	24,209	39,702	42,809
Compact expense	209,379	20,457	55,061
Other Expenses	<u>67,545</u>	<u>1,018,375</u>	<u>132,016</u>
Total Operating expenses	<u>\$ 549,967</u>	<u>\$ 1,079,105</u>	<u>\$ 707,662</u>

\*Includes Nitijela Appropriations

# NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

## Management's Discussion and Analysis September 30, 2016 and 2015

Figures above outlines the decrease in total operating expenses by \$531,624 from \$1,079,105 in 2015 to \$549,967 in 2016. As stated in the figures, 2016 has decreased in other expenses with the payment of fine settlement in 2015

### CAPITAL ASSETS

Net capital Assets decreased by \$18,286 from \$46,021 in 2015 compared to \$27,735 in 2016 as a result of depreciation of value for the vehicles with a less current year depreciation expense of \$15,493

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

<b>Year ended September 30</b>	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>
Motor Vehicles	\$ 116,799	\$ 116,799	\$ 116,799
Office furniture and equipment	74,068	67,166	59,691
Boat	<u>28,744</u>	<u>28,744</u>	<u>28,744</u>
	219,611	212,709	205,234
Less accumulated depreciation	<u>(191,876)</u>	<u>(167,667)</u>	<u>(127,966)</u>
	<u>\$ 27,735</u>	<u>\$ 45,042</u>	<u>\$ 77,268</u>

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

### 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**

Statements of Net Position  
September 30, 2016 and 2015

<u>ASSETS</u>	<u>2016</u>	<u>2015</u>
Current assets:		
Cash	\$ 224,056	\$ 66,787
Receivables:		
Grants	31,515	31,495
Other	74,320	657,762
	<u>105,835</u>	<u>689,257</u>
Less allowance for doubtful accounts	(63,186)	(63,186)
Total receivables, net	<u>42,649</u>	<u>626,071</u>
Total current assets	266,705	692,858
Capital assets, net	<u>27,735</u>	<u>46,021</u>
	<u>\$ 294,440</u>	<u>\$ 738,879</u>
<u>LIABILITIES AND NET POSITION</u>		
Liabilities:		
Accounts payable	\$ 17,410	\$ 9,000
Payable to landowners	-	540,000
Other liabilities and accruals	18,121	18,155
Total liabilities	<u>35,531</u>	<u>567,155</u>
Commitments and contingencies		
Net position:		
Net investment in capital assets	27,735	46,021
Restricted	94,596	44,170
Unrestricted	136,578	81,533
Total net position	<u>258,909</u>	<u>171,724</u>
	<u>\$ 294,440</u>	<u>\$ 738,879</u>

See accompanying notes to financial statements.

## NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

### Statements of Revenues, Expenses, and Changes in Net Position Years Ended September 30, 2016 and 2015

	2016	2015
Operating revenues:		
Nitijela appropriation	\$ 374,602	\$ 336,951
Fees and charges	154,966	117,574
Grants and contributions	91,342	32,135
Fines	6,000	601,900
Other	10,242	1,876
	637,152	1,090,436
Total operating revenues		
Provision for bad debts	-	(23,667)
	637,152	1,066,769
Net operating revenues		
Operating expenses:		
Salaries, wages and employee benefits	400,925	363,054
Travel	29,205	26,807
Supplies and materials	28,083	28,355
Depreciation	24,209	39,702
Communications	15,114	14,944
Rentals	11,326	10,435
Food stuffs	7,437	6,347
Repairs and maintenance	6,371	1,732
Fuel	5,778	11,872
Advertisements	3,591	1,312
Freight	1,450	2,053
Printing and reproduction	1,088	2,494
Contractual services	1,000	3,350
Landowner share	-	540,000
Utilities	-	150
Miscellaneous	14,390	26,498
	549,967	1,079,105
Total operating expenses		
Change in net position	87,185	(12,336)
Net position at beginning of year	171,724	184,060
Net position at end of year	\$ 258,909	\$ 171,724

See accompanying notes to financial statements.

**NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND**

Statements of Cash Flows  
Years Ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Operating grants received	\$ 209,359	\$ 42,622
Cash received from customers	845,992	119,576
Cash payments to suppliers for goods and services	(656,457)	(164,293)
Cash payments to employees for services	(235,702)	(47,320)
Net cash provided by (used for) operating activities	<u>163,192</u>	<u>(49,415)</u>
Cash flows from capital and related financing activities:		
Acquisition of fixed assets	<u>(5,923)</u>	<u>(8,455)</u>
Net change in cash	157,269	(57,870)
Cash at beginning of year	<u>66,787</u>	<u>124,657</u>
Cash at end of year	<u>\$ 224,056</u>	<u>\$ 66,787</u>
Reconciliation of change in net position to net cash provided by (used for)		
operating activities:		
Change in net position	\$ 87,185	\$ (12,336)
Adjustments to reconcile change in net position to net cash		
provided by (used for) operating activities:		
Depreciation	24,209	39,702
Provision for bad debts	-	23,667
(Increase) decrease in assets:		
Receivables:		
Grants	(20)	(9,970)
Other	583,442	(601,774)
(Decrease) increase in liabilities:		
Accounts payable	8,410	(27,944)
Payable to landowners	(540,000)	540,000
Other liabilities and accruals	<u>(34)</u>	<u>(760)</u>
Net cash provided by (used for) operating activities	<u>\$ 163,192</u>	<u>\$ (49,415)</u>

Noncash investing, capital and financing activities:

During the years ended September 30, 2016 and 2015, EPA recorded on-behalf payments of \$165,223 and \$316,494, respectively, made by RepMar relating to salaries, wages and benefits of EPA employees.

See accompanying notes to financial statements.

# NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Notes to Financial Statements  
September 30, 2016 and 2015

## (1) Organization

The National Environmental Protection Authority (EPA) Fund, 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

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*, establish standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net position categories:

- Net investment in capital assets - capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- Restricted - net position whose use by EPA is subject to externally imposed stipulations that can be fulfilled by actions of EPA pursuant to those stipulations or that expire by the passage of time. As of September 30, 2016 and 2015, EPA has expendable net position as follows:

	<u>2016</u>	<u>2015</u>
Persistent Organic Pollutants Project	\$ 3,166	\$ 23,416
Secretariat of the South Pacific	9,249	18,445
Other	<u>82,181</u>	<u>2,309</u>
	<u>\$ 94,596</u>	<u>\$ 44,170</u>

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

# NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Notes to Financial Statements  
September 30, 2016 and 2015

## (2) Summary of Significant Accounting Policies, Continued

### Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and deferred outflows of resources, liabilities and deferred inflows of resources, 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 Nitijela appropriations and operational grants, and other revenues and costs that are directly related to EPA 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, 2016 and 2015, the carrying amounts of cash was \$224,056 and \$66,787, respectively, and the corresponding bank balances were \$234,090 and \$74,319, respectively. As of September 30, 2016 and 2015, bank balances in the amount of \$222,660 and \$62,936, respectively, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2016 and 2015, these bank deposits were fully FDIC insured. As of September 30, 2016 and 2015, bank deposits of \$11,430 and \$11,383, respectively, are maintained in a financial institution not subject to depository insurance. EPA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

### 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

# NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Notes to Financial Statements  
September 30, 2016 and 2015

## (2) Summary of Significant Accounting Policies, Continued

### Capital Assets

Capital assets with a cost that equals or exceeds \$300 are capitalized. Such assets are stated at cost. 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:

Boat	5 years
Motor vehicles	3 years
Office 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 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 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.

### Reclassifications

Certain balances in the 2015 presentation has been reclassified to conform to the 2016 presentation.

# NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Notes to Financial Statements  
September 30, 2016 and 2015

## (2) Summary of Significant Accounting Policies, Continued

### New Accounting Standards

During the year ended September 30, 2016, EPA implemented the following pronouncements:

- GASB Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment.
- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement No. 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears.
- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, which addresses for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. Those provisions were based on the Investment Company Act of 1940, Rule 2a7. Rule 2a7 contains the Securities and Exchange Commission's regulations that apply to money market funds and were significantly amended in 2014.

The implementation of these statements did not have a material effect on the accompanying financial statements.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements No. 67 and No. 68 with the reporting requirements in Statement No. 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

# NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Notes to Financial Statements  
September 30, 2016 and 2015

## (2) Summary of Significant Accounting Policies, Continued

### New Accounting Standards, Continued

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The provisions in Statement No. 78 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The provisions in Statement No. 80 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement No. 82 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

**NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND**

Notes to Financial Statements  
September 30, 2016 and 2015

(3) Capital Assets

Capital asset activity for the years ended September 30, 2016 and 2015 follows:

	October 1, <u>2015</u>	<u>Additions</u>	<u>Retirements</u>	September 30, <u>2016</u>
Boat	\$ 28,744	\$ -	\$ -	\$ 28,744
Motor vehicles	116,799	-	-	116,799
Office furniture and equipment	<u>68,146</u>	<u>5,922</u>	<u>-</u>	<u>74,068</u>
	213,689	5,922	-	219,611
Less accumulated depreciation	<u>(167,668)</u>	<u>(24,208)</u>	<u>-</u>	<u>(191,876)</u>
	\$ <u>46,021</u>	\$ <u>(18,286)</u>	\$ <u>-</u>	\$ <u>27,735</u>
	October 1, <u>2014</u>	<u>Additions</u>	<u>Retirements</u>	September 30, <u>2015</u>
Boat	\$ 28,744	\$ -	\$ -	\$ 28,744
Motor vehicles	116,799	-	-	116,799
Office furniture and equipment	<u>59,691</u>	<u>8,455</u>	<u>-</u>	<u>68,146</u>
	205,234	8,455	-	213,689
Less accumulated depreciation	<u>(127,966)</u>	<u>(39,702)</u>	<u>-</u>	<u>(167,668)</u>
	\$ <u>77,268</u>	\$ <u>(32,227)</u>	\$ <u>-</u>	\$ <u>46,021</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-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.

During the years ended September 30, 2016 and 2015, the operations of EPA were funded by appropriations of \$374,602 and \$336,951, respectively, from the Nitijela of RepMar, of which \$165,223 and \$316,494, respectively, represented on-behalf payments made by RepMar's General Fund relating to salaries and wages of EPA employees. Accordingly, EPA has recognized these on-behalf payments pertaining to salaries and wages as contributions from RepMar. A summary of RepMar appropriations by funding source received by EPA for the years ended September 30, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
General Fund	\$ 165,223	\$ 316,494
Compact	<u>209,379</u>	<u>20,457</u>
	\$ <u>374,602</u>	\$ <u>336,951</u>

# NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Notes to Financial Statements  
September 30, 2016 and 2015

## (4) Related Party Transactions, Continued

As of September 30, 2016, EPA recorded a total of \$15,253 and \$15,579, respectively, from certain of its employees for unliquidated travel advances and taxes owed for RMI Income Tax and Social Security. These amounts are recorded as other receivables within the accompanying financial statements.

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) Contingencies

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 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  
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, 2016, 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 July 25, 2018.

### **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.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2016-001 and 2016-002, which we consider to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether EPA's financial statements are free from 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 2016-003.

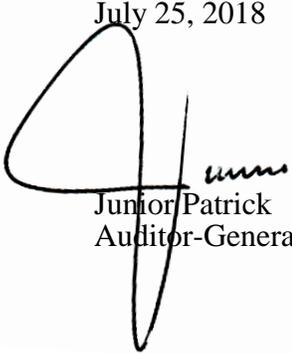
### **EPA's Response to Findings**

EPA's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. EPA's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

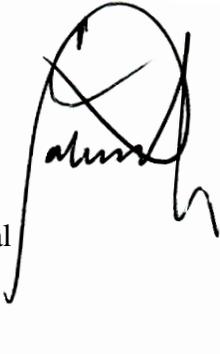
### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results 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.

July 25, 2018



Junior Patrick  
Auditor-General



# NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

## Schedules of Findings and Responses Year Ended September 30, 2016

### Finding No. 2016-001

#### Maintenance of Fixed Asset Register

Criteria: The EPA Financial Accounting Policy states that the fixed assets register must be maintained by the Fiscal Officer and that fixed assets must be given an individual identification number. In addition, all disposals must be approved by the Board of Directors through recommendation of the General Manager. Furthermore, the EPA Financial Accounting Policy states that the transaction details are entered and maintained in each account of the General Ledger for easier retrieval of information.

Condition: During the year ended September 30, 2016, we noted the fixed assets register listed a laptop (Tag #: ADMIN-040413) that is not working. Furthermore, the changes in fixed asset balances did not agree with the general ledger.

Cause: The cause of the above condition is the lack of regular maintenance and update by EPA of the fixed asset register, the lack of recommendation by the General Manager to request Board approval to dispose of fixed assets that are not in working condition, and the lack of oversight of the fixed asset account balances requiring that general ledger accounts be properly maintained.

Effect: The effect of the above condition is the lack of compliance with the Financial Accounting Policy over the maintenance and update of the fixed asset register and maintenance of general ledger accounts.

Recommendation: We recommend that EPA comply with the Financial Accounting Policy over the regular maintenance and update of the fixed assets register and maintenance of general ledger accounts.

#### Auditee Response and Corrective Action Plan:

The Board of Directors and Management have taken steps to address the findings. The asset register has since been updated with unusable items disposed through write offs, bids or disposal as of September 30, 2017. The Management will ensure the asset register is maintained on a timely basis to ensure RMIEPA's assets are registered and depreciated accordingly.

# NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Schedules of Findings and Responses, Continued  
Year Ended September 30, 2016

## Finding No. 2016-002

### Distribution of Erikub Payments

Criteria: Pursuant to the Release of Claims – Settlement Agreement Dismissal of High Court Civil Action 2015-100, under Terms of Release, Settlement and Dismissal #6 states” Claimants have the duty and responsibility to distribute the payment in accordance with the customary and traditional practices of the Marshall Islands or the laws of the Republic of the Marshall Islands”.

Condition: During the year ended September 30, 2016, we noted that a \$600,000 fine was paid by a shipping company whose boat ran aground on Wotje Atoll. The \$600,000 payment was subsequently distributed as follows: (1) \$405,000 to the Landowners Representative; (2) \$135,000 to an Escrow Account pending the outcome of Civil Action 2015-197 relating to the Alap share; and (3) \$60,000 to EPA. A direct deposit was made by EPA on October 23, 2015 to the Landowners party representative checking account; however, we were unable to determine if the rightful landowners received their shares in accordance with customary and traditional practices of the Marshall Islands or the laws of the Republic of the Marshall Islands.

Cause: The cause of the above condition is the lack of ascertaining by EPA whether the \$405,000 payment was ultimately made in accordance with customary and traditional practices of the Marshall Islands or the laws of the Republic of the Marshall Islands.

Effect: The effect of the above condition is potential noncompliance with the Release of Settle and Dismissal by the court to distribute the money in accordance with customary and traditional practices of the Marshall Islands or the laws of the Republic of the Marshall Islands.

Recommendation: We recommend that EPA seek legal counsel advice whether the \$405,000 payment was ultimately made in accordance with customary and traditional practices of the Marshall Islands or the laws of the Republic of the Marshall Islands.

### Auditee Response and Corrective Action Plan:

RMI EPA was acting under a Court Order to comply accordingly-RMI High Court Stipulation 2015-100 dated 4 September 2015. All supporting documents retained.

### Auditor-General Response to Auditee’s Corrective Action Plan:

RMI High Court Stipulation dated September 4, 2015 does not identify that the landowners shares be deposited to the landowner’s representative bank account. EPA did not provide other pertinent documentation supporting the rationale for the deposit. We reiterate our recommendation in order to satisfy the criteria.

# NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Schedules of Findings and Responses, Continued  
Year ended September 30, 2016

## Finding No. 2016-003

### Local Noncompliance

Criteria: The Income Tax Act of 1989 Section 103 states there shall be assessed, levied, collected and paid a tax of eight (8%) upon the first \$10,400, to be prorated at \$200 per week, or \$866.67 per month, and twelve (12%) upon the amount over \$10,400, as prorated by pay period, of all wages and salaries received by every employee, except as provided in subsections (2) and (3) of this Section. 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 “ the worker’s contribution 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”.

Condition: Withholding income taxes and social security taxes owed from prior years have not been paid to the respective authorities. As of September 30, 2016, balances owed were \$6,180 and \$11,067, respectively.

Cause: The cause of the above condition is the lack of regular review of the accounting functions by EPA management and the Board of Directors requiring the timely remittance of prior year liabilities.

Effect: The effect of the above condition is noncompliance with 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.

### Auditee Response and Corrective Action Plan:

The Board of Directors and Management are aware of this finding and will take the necessary steps to address this finding. The amount that is due is derivative of previous year’s management and further, the individuals are no longer staff of the RMIEPA. Management will work with the Board of Directors to resolve this issue. To date, there has been no other issues with reporting of employment taxes.

**NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND**

Unresolved Prior Year Findings  
Year Ended September 30, 2016

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

## **Prevent Fraud, Waste and Abuse in the collection and expenditure of all public funds**

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