

REPUBLIC OF THE MARSHALL ISLANDS
OFFICE OF THE AUDITOR-GENERAL

NATIONAL ENVIRONMENTAL
PROTECTION AUTHORITY FUND

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 2017 AND 2016



AUDIT No.: OAG 06/17-2077

December 5, 2018
Date

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

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

Years Ended September 30, 2017 and 2016

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REPUBLIC OF THE MARSHALL ISLANDS
OFFICE OF THE AUDITOR-GENERAL

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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, 2017 and 2016, 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, 2017 and 2016, 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

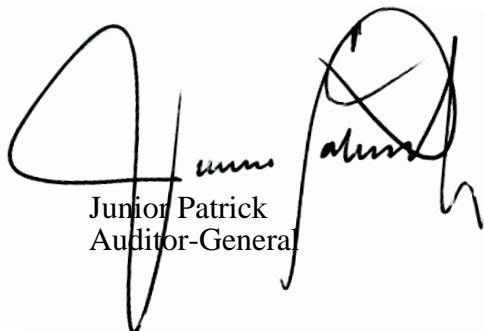
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis on pages 3 through 7 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 December 5, 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 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.

December 5, 2018



Junior Patrick
Auditor-General

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Management's Discussion and Analysis September 30, 2017 and 2016

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, 2017. 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, 2017 and 2016

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, 2017 is set forth in the report on the audit of RMIEPA's financial statements. The Discussion and Analysis explains the major factors impacting the 2017 financial statements.

RMIEPA's net assets increased in 2017 by \$711,978 or 73% from \$258,909 in 2016 to \$970,887 in 2017 due to an increase in operating revenues of \$637,514 or 50% compared to 2016 offset by an increase in operating expenses of \$35,186 or 6% compared to 2016. In 2017, operating revenues were increased mainly as a result of fines, Grants and contributions.

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, 2017 and 2016

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

<u>Year ended September 30</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Current assets	924,133	266,705	692,858
Capital assets	60,548	27,735	46,021
Total assets	984,681	294,440	738,879
Current liabilities	13,794	35,531	567,155
Investment in capital assets	60,548	27,735	46,021
Unrestricted	542,931	136,578	81,534
Restricted	367,408	94,596	44,170
Total net assets	970,887	258,909	171,725
Total liabilities & net assets	984,681	294,440	239,975

As indicated above, the total net assets have increased by \$711,978 from \$258,909 in 2016 to \$970,887 in 2017. 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 \$35,531 in 2016 to \$13,794 in 2017 in 2017. The decrease indicates Permits and Fines Fee.

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

<u>Year ended September 30</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Revenues:			
Total Operating revenues*	1,274,666	637,152	1,090,436
Expenses:			
Total Operating expenses**	585,153	549,967	1,079,105
Non-operating expenses			
Change in net assets	(689,513)	(87,185)	(12,336)
*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, 2017 and 2016

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 increased by \$637,514 from \$637,152 in 2016 to \$1,274,666 in 2017. The increase is due to Grants and Contribution.

Below is the summary of the major components of operating revenues for RMIEPA in 2017 compared to 2016 and 2015:

Operating revenues

Year ended September 30	2017	2016	2015
Nitijela appropriations	186,835	165,222	170,144
Grants	340,688	91,342	32,135
Monitoring fees-RSA Project			-
Fines	461,429	6,000	601,900
Fees & Charges	149,526	154,966	117,574
Compact revenues	180,467	209,379	166,807
Others	<u>4,398</u>	<u>10,242</u>	<u>1,876</u>
	1,274,666	637,151	1,090,436
Less uncollectible accounts	=	=	(23,667)
Net Operating revenues	1,274,666	637,152	1,066,769

The data provided above portrays that the total operating revenues have decreased by \$637,515 from \$637,151 in 2016 and were primarily due landowner payout.

Below is a summary of the major components of operating expenses for RMIEPA in 2017 compared to 2016 and 2015.

Year ended September 30	2017	2016	2015
Salaries and Wages Marsh*	214,688	191,546	363,054
Travel	38,682	29,205	26,807
Supplies and Materials	12,181	28,083	28,355
Consultant services	0	0	-
Depreciation	11,101	24,209	39,702
Compact expense	180,467.15	209,379	20,457
Other Expenses	<u>61,673</u>	<u>67,545</u>	<u>1,018,375</u>
Total Operating expenses	585,153	549,967	1,079,105

*Includes Nitijela Appropriations

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Management's Discussion and Analysis September 30, 2017 and 2016

Figures above outlines the decrease in total operating expenses by \$35,186 from \$549,967 in 2016 to \$585,153 in 2017. As stated in the figures, 2017 has increased in other expenses with the payment of fine settlement in 2016

CAPITAL ASSETS

Net capital Assets increase by \$32,813 from \$27,735 in 2016 compared to \$60,548 in 2017 as a result of depreciation of value for the vehicles with a less current year depreciation expense of \$60,548

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

Year ended September 30	2017	2016	2015
Motor Vehicles	78,849	116,799	116,799
Office furniture and equipment	79,051	74,068	67,166
Boat	63,744	28,744	28,744
			212,709
Less accumulated depreciation	161,096	191,876	(167,667)
	60,548	27,735	45,042

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 EPA's counterparts with an overview of EPA'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 Fund, Finance Manager, at P.O. Box 5, Majuro, MH 96960.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Statements of Net Position
September 30, 2017 and 2016

<u>ASSETS</u>	<u>2017</u>	<u>2016</u>
Current assets:		
Cash	\$ 877,889	\$ 224,056
Receivables:		
Grants	21,515	31,515
Other	87,915	74,320
	<u>109,430</u>	<u>105,835</u>
Less allowance for doubtful accounts	(63,186)	(63,186)
Total receivables, net	<u>46,244</u>	<u>42,649</u>
Total current assets	924,133	266,705
Capital assets, net	<u>60,548</u>	<u>27,735</u>
	<u>\$ 984,681</u>	<u>\$ 294,440</u>
<u>LIABILITIES AND NET POSITION</u>		
Liabilities:		
Accounts payable	\$ -	\$ 17,410
Other liabilities and accruals	13,794	18,121
Total liabilities	<u>13,794</u>	<u>35,531</u>
Commitments and contingencies		
Net position:		
Net investment in capital assets	60,548	27,735
Restricted	367,408	94,596
Unrestricted	542,931	136,578
Total net position	<u>970,887</u>	<u>258,909</u>
	<u>\$ 984,681</u>	<u>\$ 294,440</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, 2017 and 2016

	2017	2016
Operating revenues:		
Fines	\$ 461,429	\$ 6,000
Grants and contributions	340,688	91,342
Nitijela appropriation	318,625	374,602
Fees and charges	149,526	154,966
Other	4,398	10,242
Total operating revenues	1,274,666	637,152
Operating expenses:		
Salaries, wages and employee benefits	389,291	400,925
Contractual services	51,130	1,000
Travel	38,682	29,205
Communications	15,200	15,114
Supplies and materials	12,181	28,083
Depreciation	11,101	24,209
Rentals	10,824	11,326
Food stuffs	10,025	7,437
Fuel	6,101	5,778
Repairs and maintainance	5,693	6,371
Freight	3,373	1,450
Insurance	2,805	2,816
Advertisements	2,154	3,591
Printing and reproduction	1,572	1,088
Miscellaneous	25,021	11,574
Total operating expenses	585,153	549,967
Operating income	689,513	87,185
Nonoperating expense:		
Loss on disposal of fixed assets	(17,215)	-
	672,298	87,185
Capital contributions:		
Contributions from RepMar	39,680	-
Change in net position	711,978	87,185
Net position at beginning of year	258,909	171,724
Net position at end of year	\$ 970,887	\$ 258,909

See accompanying notes to financial statements.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Statements of Cash Flows Years Ended September 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Operating grants received	\$ 350,688	\$ 11,018
Cash received from customers	601,758	845,992
Cash payments to suppliers for goods and services	(189,088)	(124,867)
Cash payments to landowners	-	(540,000)
Cash payments to employees for services	(88,076)	(28,951)
Net cash provided by operating activities	675,282	163,192
Cash flows from capital and related financing activities:		
Capital contributions received from RepMar	39,680	-
Acquisition of fixed assets	(61,129)	(5,923)
Net cash used for capital and related financing activities	(21,449)	(5,923)
Net change in cash	653,833	157,269
Cash at beginning of year	224,056	66,787
Cash at end of year	\$ 877,889	\$ 224,056
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 689,513	\$ 87,185
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	11,101	24,209
(Increase) decrease in assets:		
Receivables:		
Grants	10,000	(20)
Other	(13,595)	583,442
Increase (decrease) in liabilities:		
Accounts payable	(17,410)	8,410
Payable to landowners	-	(540,000)
Other liabilities and accruals	(4,327)	(34)
Net cash provided by operating activities	\$ 675,282	\$ 163,192

Noncash investing, capital and financing activities:

During the years ended September 30, 2017 and 2016, EPA recorded on-behalf payments of \$318,625 and \$363,564, 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, 2017 and 2016

(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, 2017 and 2016, EPA has expendable net position as follows:

	<u>2017</u>	<u>2016</u>
Korean Small Grant	\$ 169,965	\$ -
Secretariat of the South Pacific	79,685	14,441
Persistent Organic Pollutants Project	21,523	3,166
UNDP	56,157	56,157
Other	<u>40,078</u>	<u>20,832</u>
	<u>\$ 367,408</u>	<u>\$ 94,596</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, 2017 and 2016

(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, 2017 and 2016, the carrying amounts of cash was \$877,889 and \$224,056, respectively, and the corresponding bank balances were \$911,946 and \$234,090, respectively. As of September 30, 2017 and 2016, bank balances in the amount of \$899,686 and \$222,660, respectively, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2017 and 2016, bank deposits in the amount of \$250,000 and \$222,660, respectively, were FDIC insured. As of September 30, 2017 and 2016, bank deposits of \$12,260 and \$11,430, 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 doubtful receivables is stated at an amount which management believes will be adequate to absorb possible losses on receivables that may become uncollectible based on evaluations of the collectability of these receivables and prior collection experience. The allowance is established through a provision for losses on receivables charged to expense.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Notes to Financial Statements
September 30, 2017 and 2016

(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.

New Accounting Standards

During the year ended September 30, 2017, EPA implemented the following pronouncements:

- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68.
- GASB 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).

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Notes to Financial Statements
September 30, 2017 and 2016

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements.
- GASB 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*.
- GASB 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.
- GASB 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 implementation of these statements did not have a material effect on the accompanying financial statements.

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 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 November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. 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, 2017 and 2016

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The provisions in Statement No. 85 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 May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions in Statement No. 86 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 June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

(3) Capital Assets

Capital asset activity for the years ended September 30, 2017 and 2016 follows:

	October 1, <u>2016</u>	<u>Additions</u>	<u>Retirements</u>	September 30, <u>2017</u>
Boat	\$ 28,744	\$ 45,000	\$ (10,000)	\$ 63,744
Motor vehicles	116,799	-	(37,950)	78,849
Office furniture and equipment	<u>74,069</u>	<u>16,129</u>	<u>(11,147)</u>	<u>79,051</u>
	219,612	61,129	(59,097)	221,644
Less accumulated depreciation	<u>(191,877)</u>	<u>(11,101)</u>	<u>41,882</u>	<u>(161,096)</u>
	\$ <u>27,735</u>	\$ <u>50,028</u>	\$ <u>(17,215)</u>	\$ <u>60,548</u>

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Notes to Financial Statements
September 30, 2017 and 2016

(3) Capital Assets, Continued

	<u>October 1,</u> <u>2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>September 30,</u> <u>2016</u>
Boat	\$ 28,744	\$ -	\$ -	\$ 28,744
Motor vehicles	116,799	-	-	116,799
Office furniture and equipment	<u>68,146</u>	<u>5,923</u>	<u>-</u>	<u>74,069</u>
	213,689	5,923	-	219,612
Less accumulated depreciation	<u>(167,668)</u>	<u>(24,209)</u>	<u>-</u>	<u>(191,877)</u>
	<u>\$ 46,021</u>	<u>\$ (18,286)</u>	<u>\$ -</u>	<u>\$ 27,735</u>

During the year ended September 30, 2017, EPA received a contribution from RepMar of \$39,680 for the purpose of financing certain capital asset acquisitions.

(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, 2017 and 2016, the operations of EPA were funded by appropriations of \$358,305 and \$374,602, respectively, from the Nitijela of RepMar, of which \$318,625 and \$363,564, respectively, 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.. A summary of RepMar appropriations by funding source received by EPA for the years ended September 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
General Fund	\$ 177,838	\$ 165,223
Compact	<u>180,467</u>	<u>209,379</u>
	<u>\$ 358,305</u>	<u>\$ 374,602</u>

As of September 30, 2017 and 2016, EPA recorded a total of \$21,482 and \$18,843, 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.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Notes to Financial Statements
September 30, 2017 and 2016

(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.



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
National Environmental Protection Authority Fund:

We have audited, 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, 2017, 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 December 5, 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 item 2017-001 that 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

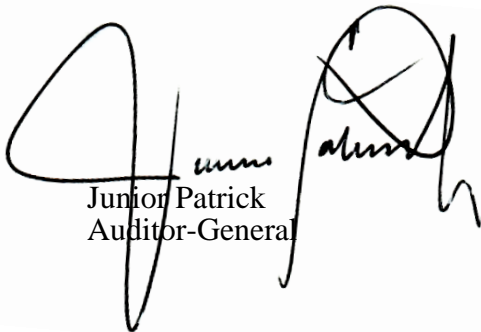
EPA's Response to Findings

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.

December 5, 2018



Junior Patrick
Auditor-General

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Schedules of Findings and Responses
Year Ended September 30, 2017

Finding No. 2017-001

Insufficient Supporting Documents

Criteria: RMI Environmental Protection Authority Financial Accounting Policy under Cash Disbursement, states that “all supporting documents must be attached to the payment Voucher”.

Condition: Our test of expenditures disclosed two (2) checks issued to one individual for services performed for EPA. Our review disclosed the following for:

- Check #4960 Dated 2/27/17 Amt. \$17,466

We noted that the only supporting documents attached were email communications, itinerary and contract. There were no copies of ticket, boarding passes and receipts.

- Check ##5206 Dated 9/27/17 Amt. \$13,994

Our review of documents attached with the payment voucher did not include any copies of the itinerary, ticket, boarding passes, receipts etc.

Cause: The cause is lack of regular review of the accounting functions by management as well as the Board of Directors to require all supporting documents to be attached to payment voucher as stated on EPA Accounting Policy.

Effect: The effect of the above condition is noncompliance with the EPA Financial Accounting Policy.

Recommendation: We recommend that the management of EPA to comply with EPA Accounting Policy and to have management as well as the Board of Directors to require all supporting documents to be attach to payment voucher.

Auditee Response and Corrective Action Plan: The Board of Directors and Management have taken steps to address the finding. The supporting documentation have been collated and included for the Auditors review. In addition, the Employment contract in question expired on September 30th 2016, but was formally accepted and renewed by the employee, the General Manager and the Attorney Manoni on October 1st (copy attached)-In Summary, the contract had not expired, rather it was going through the renewal and review process.

The Board of Directors and Management will comply with the EPA Accounting Policy and will be more diligent in ensuring that all supporting documents are collected and included with the payment voucher.

Auditor-General Response to Auditee’s Corrective Action Plan: We reviewed management’s response and have amended this finding accordingly.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Unresolved Prior Year Findings
Year Ended September 30, 2017

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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