

June 24, 2019

Ms. Moriana Philip
General Manager
Republic of the Marshall Islands
National Environmental Protection Authority Fund

Dear Ms. Philip:

In planning and performing our audit of the financial statements of the Republic of the Marshall Islands National Environmental Protection Authority Fund (EPA) as of and for the year ended September 30, 2018, on which we have issued our report dated June 24, 2019, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered EPA's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of EPA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of EPA's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to EPA's internal control over financial reporting and other matters related to EPA's internal control over financial reporting as of September 30, 2018 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated June 24, 2019 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 definition of a deficiency is also set forth in the attached Appendix I.

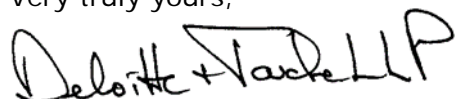
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with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

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

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

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

Very truly yours,



SECTION I – CONTROL DEFICIENCIES

We identified, and have included below, control deficiencies involving EPA's internal control over financial reporting as of September 30, 2018 that we wish to bring to your attention:

1) Revenues

Comment: During the year ended September 30, 2018, we noted the following exceptions concerning revenues:

- a) A marine survey paid by a contractor (check # 5241 for \$12,200) was recorded net of the corresponding earthmoving fee collected from the customer. An audit adjustment was proposed to correct this matter.
- b) Revenue associated with earthmoving fees of \$5,000 and \$2,803 were recognized even though the earthmoving projects never materialized. Furthermore, earthmoving fees of \$3,000 were An audit adjustment was proposed to correct this matter.
- c) Revenue associated with bunkering activities (invoice # 18-017 for \$500) was based on a \$50 special rate instead of the \$100 established rate; however, documentation was inadequate to support the negotiated rate. A memorandum of agreement was subsequently established with this customer.
- d) Ebeye revenue collections and related expenses were not timely recorded resulting in a net \$8,916 understatement of cash. Audit adjustments were proposed to correct this matter, which included a \$3,000 reversal of invoice # 18-633 that was incorrectly recorded twice.

Recommendation: We recommend management implement policies and procedures requiring proper recognition of revenues. Furthermore, we recommend negotiated rates with companies inconsistent with established rates be formally memorialized. Finally, we recommend bank reconciliations be timely prepared for all cash accounts and reconciling adjustments be promptly recorded.

2) Journal Voucher Preparation

Comment: Journal vouchers were not prepared for EPA's general journal transactions type.

Recommendation: We recommend journal vouchers be prepared, reviewed and approved before posting.

3) Unrecorded Capital Assets, Expenses and Liabilities

Comment: Unrecorded rent, supplies and fuel expenses, capital assets and liabilities of \$15,472 were noted.

Recommendation: We recommend management maintain a checklist of accruals to be made at year-end to verify that all transactions are recorded.

SECTION II - OTHER MATTERS

Our observations concerning other matters related to operations, compliance with laws and regulations, and best practices involving internal control over financial reporting that we wish to bring to your attention at this time are as follows:

1) Local Noncompliance

Comment: RepMar's Procurement Code states the following:

- (a) Section 127 - procurement of goods and services not exceeding \$25,000 may be made in accordance with small purchase procedures promulgated by RepMar's Policy Office. Small purchase procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than \$25,000. RepMar's Ministry of Finance has previously declared that if small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.
- (b) Section 126.7 - award shall be made to the responsible offeror whose proposal is determined in writing to be the most advantageous to the Government taking into consideration price and the evaluation factors set forth in the Request for Proposals. No other factors or criteria shall be used in the evaluation. The contract file shall contain the basis on which the award is made.
- (c) Section 128 - a contract may be awarded for supply, service, or construction item without completion when it is determined in writing that there is only one source for the required supply, service, or construction item.

Supporting documentation was inadequate to evidence the procurement process utilized for \$12,268 fuel purchases.

Recommendation: We recommend management require that documentation be adequate to comply with applicable procurement requirements. Specifically, documentation should indicate the history of procurement including rationale for contractor selection and documentation of a sole provider.

1) Backup

Comment: EPA has no formal policy on the regular back up of QuickBooks files.

Recommendation: We recommend management perform regular system back-ups and maintain the data outside the EPA's office premises.

2) Compliance to Grant Agreement

Comment: EPA's grant agreement with its grantor, United Nations Environment Programme (UN), requires that EPA submit 1) an annual report every December 31 and 2) reporting of consumption and production data. EPA has not submitted a report to UN for the year ended December 31, 2018.

Recommendation: We recommend management comply with grant provisions.

SECTION III - DEFINITIONS

The definition of a deficiency is as follows:

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

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

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

Management's Responsibility

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

Objectives of Internal Control over Financial Reporting

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

Inherent Limitations of Internal Control over Financial Reporting

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