

July 27, 2020

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, 2019, on which we have issued our report dated July 27, 2020, 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, 2019 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated July 27, 2020 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.

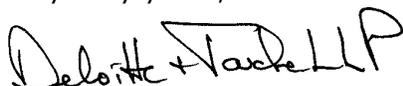
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with 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, 2019 that we wish to bring to your attention:

1) Revenues

Comment: During the year ended September 30, 2019, we noted duplicate recording of a \$5,000 earthmoving permit (invoice # 19-098). An audit adjustment was proposed to correct this matter.

Recommendation: We recommend EPA implement internal control procedures requiring that revenues be accurately supported, identified, and recorded in the correct accounting period.

2) Consultancy Fees and Repairs

Comment: During the year ended September 30, 2019, we noted \$7,558 of consultancy fees and repairs incurred in 2019, which were incorrectly recorded in the subsequent period. An audit adjustment was proposed to correct this matter.

Recommendation: We recommend EPA implement internal control procedures to facilitate timely receipt of billings and accurate recording of expenses in the correct accounting period.

3) Grant Fund Expenditure Classifications

Comment: During the year ended September 30, 2019, we noted the purchase of equipment amounting to \$13,976 for administrative use charged to restricted funds. Classification by charging to unrestricted funds was corrected during the audit process.

Recommendation: We recommend EPA implement internal control procedures to facilitate correct classification of grant fund expenditures in order to facilitate proper monitoring of unexpended restricted grant funds.

4) Equipment

Comment: During the year ended September 30, 2019, we noted various purchases of equipment amounting to \$7,526, which individually exceeded the current capitalization threshold of \$300 and were not recorded as capital assets. An audit adjustment was proposed to correct this matter.

Recommendation: We recommend EPA consistently apply its capitalization threshold.

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) Board Sitting Fees

Comment: During the year ended September 30, 2019, EPA paid sitting fees of \$2,800 to Board members. These fees may constitute wages under the Income Tax Act 1989 and thus be subject to withholding taxes. No withholding taxes were withheld by EPA.

Recommendation: We recommend management obtain an interpretation from the Ministry of Finance, Banking and Postal Services Chief of Revenue and Taxation concerning the applicability of withholding taxes on sitting fees paid to Board members.

SECTION II - OTHER MATTERS, CONTINUED

2) Local Noncompliance

Comment: During the year ended September 30, 2019, we noted the following exceptions to local procurement requirements:

- (1) Equipment purchases of \$2,100 were acquired bundled together with other equipment (which equipment may be purchased separately). However, another vendor quote suggested that the same equipment could be purchased for \$1,769.
- (2) Airfare ticket purchases of \$16,004 were acquired without consideration of the most economical airfare.

Indication of the procurement process, including vendor and fare class selection were not evident on the supporting vendor invoices, travel authorization, payment vouchers, etc.

Recommendation: We recommend management require that documentation be adequate to comply with applicable procurement requirements. Other possible means of purchase which can be more beneficial and cost-effective should be considered.

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.