

Management Letter

Republic of the Marshall Islands
National Environmental Protection Authority Fund
(A Component Unit of the Republic of the Marshall Islands)

Year ended September 30, 2021



December 13, 2024

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

In planning and performing our audit of the financial statements of the Republic of the Marshall Islands National Environmental Protection Authority (EPA) Fund as of and for the year ended September 30, 2021, in accordance with auditing standards generally accepted in the United States, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 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 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.

During our audit, we noted the following deficiencies in internal control (as described above) and other matters:

Cash in Bank - Unreleased checks

Comment: The September 2021 General Fund bank reconciliation included one unreleased check in the amount of \$12,870. An audit adjustment was proposed to reinstate this check payment as accounts payable.

Recommendation: We recommend management establish internal control policies and procedures over the monitoring and disposition of unreleased checks.

Receivables

Comment: During the audit, we noted that the collectability of accounts receivable aggregating \$141,250 and employee receivables aggregating \$23,109 are uncertain due to aging of accounts. A corresponding allowance for doubtful accounts in the amount of \$145,078 has been established, which included a proposed audit adjustment of \$20,984 to correct the understatement of the allowance.

Recommendation: We recommend management strengthen credit approval processes and collection efforts to minimize the occurrence of overdue and uncollectible accounts. Furthermore, we recommend management establish clear policies and procedures for the timely write-off of uncollectible receivables, supported by appropriate approvals and documentation.

Capital Assets

Comment: During our review of the fixed asset register, we noted certain fully depreciated fixed assets are still recorded in the register despite no longer being physically present or in use.

Recommendation: We recommend management conduct a detailed review of the fixed asset register to identify and remove fully depreciated assets that no longer exist or are no longer in use.

Taxes Payable

Comment: At September 2021, the withholding tax payable account was overstated by \$6,945. Furthermore, the social security and health fund tax payable accounts were overstated by \$13,570. An audit adjustment was proposed to correct these misstatements.

Recommendation: We recommend management perform a detailed reconciliation of withholding tax and social security tax records, including comparing the ledger with actual remittances and supporting Form 1178 and Form MI-SS-3 tax returns.

Accrued Expenses

Comment: During the audit, it was observed that certain consulting services expenses in the amount of \$16,200 relating to services provided in 2021 were not accrued in the appropriate accounting period. Furthermore, the erroneous receipt of funds in the amount of \$6,000 from the Ministry of Finance was recorded as revenue instead of a liability. Audit adjustments were proposed to correct the understatement of accounts payable.

Recommendation: We recommend management provide training to relevant staff to emphasize the importance of accruing expenses in the correct period. Furthermore, we recommend management strengthen the period-end cut-off procedures by reviewing all outstanding obligations and accruals prior to closing the books.

Board Sitting Fees

Comment: During the year ended September 30, 2021, EPA paid sitting fees of \$3,600 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.

This communication is intended solely for the information and use of management, the Board of Directors, 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. However, this report is also a matter of public record.

At this time, we would like to thank all the staff and management of EPA for their cooperation extended to us during the course of our audit. We would be pleased to discuss the above matters or to respond to any questions, at your convenience.

Ernst & Young LLP