

October 7, 2002

CONFIDENTIAL

Mr. John Bungitak
General Manager
National Environmental Protection Authority Fund

Dear Mr. Bungitak:

In planning and performing our engagement to audit the financial statements of the National Environmental Protection Authority Fund (EPA) for the year ended September 30, 2000, on which we have issued our report dated October 7, 2002, which stated that the scope of our work was not sufficient to enable us to express, and we did not express, an opinion on the financial statements due to our inability to determine that assets, liabilities, revenues and expenditures were fairly stated, and our inability to obtain minutes of Board of Directors' meetings held from October 1, 1999 through October 7, 2002, we developed the following recommendations concerning certain matters related to EPA's internal control and certain observations and recommendations on other accounting, administrative and operating matters. Our principal recommendations are summarized below:

(1) Local Noncompliance

Section 5 of the Republic of the Marshall Islands (RepMar) Income Tax Act of 1989, as amended, states that the employer shall, once every four weeks or thirteen times per year, pay taxes withheld under Section 4 of the Act. At September 30, 2000, EPA owed RepMar \$556 in income tax withholdings from employee wages. This amount is represented by income tax withheld from employee wages for pay periods ended March 13, 1998 through June 5, 1998, and pay periods ended July 28, 2000 through September 8, 2000. We recommend that EPA comply with the Income Tax Act of 1989, as amended. This matter was discussed in our previous letters dated October 7, 2002.

(2) Local Noncompliance

Sections 131 and 215 of the RepMar Social Security Act of 1990 and the Social Security Health Fund Act of 1991, respectively, state that no later than the tenth day after the end of each quarter, every employer shall submit to the Marshall Islands Social Security Administration (MISSA) a report of the wages and salaries paid, and the contributions due, under Sections 129 and 130, and 213 and 214, respectively, and pay into the Fund the contributions due. At September 30, 2000, EPA owed MISSA \$549 in employee contributions. This amount is represented by contributions withheld from employee wages for the quarters ended March 31, 1998, June 30, 1998 and September 30, 2000. We recommend that EPA comply with the Social Security Act of 1990 and the Social Security Health Fund Act of 1991. This matter was discussed in our previous letters dated October 7, 2002.

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We have previously communicated certain matters noted during our engagement to audit the financial statements of EPA for the year ended September 30, 2000, which we considered to be reportable conditions, in our report to the Board of Directors dated October 7, 2002.

This report is intended solely for the information and use of management and others within EPA and is not intended to be and should not be used by anyone other than these specified parties.

We would like to thank the accounting staff and management for their assistance during the course of our engagement to audit. Should you have any questions regarding the matters discussed herein, please contact our office at your convenience.

Very truly yours,

Deloitte & Touche