

NATIONAL ENVIRONMENTAL
PROTECTION AUTHORITY FUND

INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2001



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED UPON THE ENGAGEMENT TO AUDIT
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
National Environmental Protection Authority Fund

We were engaged to audit the financial statements of the National Environmental Protection Authority Fund (EPA) as of and for the year ended September 30, 2001. Our report dated October 7, 2002, 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, 2000 through October 7, 2002.

Compliance

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, require that an audit be planned and performed in order to obtain reasonable assurance about whether the financial statements are free of material misstatement. We performed tests of EPA's compliance with certain provisions of laws, regulations, contracts and grants, 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 our objective and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance, which we have reported to management of EPA in a separate letter dated October 7, 2002.

Internal Control Over Financial Reporting

In planning the audit, we considered EPA's internal control over financial reporting in order to determine the auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect EPA's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings (pages 3 through 11) as items 2001-1 through 2001-9.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider all of the reportable conditions described above to be material weaknesses. We noted one other matter involving the internal control over financial reporting, which we have reported to management of EPA in a separate letter dated October 7, 2002.

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

Deloitte & Touche

October 7, 2002

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Schedule of Findings
Year Ended September 30, 2001

Purchases/Disbursements

Finding No. 2001-1

Criteria: Disbursements should be properly authorized to ensure that payments are only made for goods and services received.

Condition: Of thirty-five non-payroll expenditures tested, we noted that, for all items, the check voucher was not signed by the required two signatories. In addition, we noted that pre-numbered purchase orders were not used, but rather numbers were manually assigned.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is the possibility of unauthorized and invalid expenditures.

Recommendation: We recommend that disbursements be signed by the required two signatories and that expenditures be supported by authorized pre-numbered purchase orders.

Prior Year Status: Lack of proper authorization of disbursements was reported as a finding in the audits of EPA for fiscal years 1998 through 2000.

Auditee Response and Corrective Action Plan: New administration will endeavor to ensure the recommendation is followed.

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Schedule of Findings, Continued
Year Ended September 30, 2001

Payroll

Finding No. 2001-2

Criteria: Payroll disbursements and related payroll expenditures should be supported by authorized Personnel Action Forms (PAFs).

Condition: Of seven payroll expenditures tested, we noted seven items (check #s 101, 110, 111, 112, 113, 128 and 1399 for \$1,154, \$1,154, \$1,025, \$657, \$1,154, \$2,192 and \$602, respectively), relating to three employees, for which the supporting employee personnel files and PAFs were not made available.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is the possibility of unauthorized and invalid payroll expenditures.

Recommendation: We recommend that payroll disbursements and related payroll expenditures be supported by authorized PAFs.

Prior Year Status: Lack of supporting employee personnel files and PAFs was reported as a finding in the audit of EPA for fiscal year 2000.

Auditee Response and Corrective Action Plan: Recommendation is well accepted.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Schedule of Findings, Continued
Year Ended September 30, 2001

Revenue/Receipts

Finding No. 2001-3

Criteria: Cash receipts should be supported by appropriate documentation and be recorded in the period in which they are received.

Condition: During the year ended September 30, 2001, EPA recorded fees revenue, totaling \$12,885, relating to earthmoving and water permits that were not supported by sales invoices indicating the nature of the fees charged. Furthermore, we noted earthmoving and water permit fees, totaling \$845, collected on cash receipt #s 1049 through 1054, dated July 24, 2001, cash receipt #s 985 and 986, dated August 21, 2001, and cash receipt # 1108, dated September 27, 2001, for which we were unable to determine if and when they were deposited to bank. As at September 30, 2001, the amount of \$841 was recorded as a deposit-in-transit. In addition, we noted two items, dated January 8, 2001 and January 29, 2001 for \$8,550 and \$27,957, respectively, recorded as other revenue for which no supporting documentation was made available.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is the possibility of misappropriation of cash.

Recommendation: We recommend that cash receipts be supported by appropriate documentation and be recorded in the period in which they are received. Furthermore, we recommend that sales invoices support fees revenue collected and that cash receipt transactions be batched and that batch input data be balanced based on cash receipt totals and cash receipt numbers issued.

Prior Year Status: Lack of appropriate supporting documentation for cash receipts was reported as a finding in the audits of EPA for fiscal years 1998 through 2000.

Auditee Response and Corrective Action Plan: New administration will apply to recommendation of the finding.

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Schedule of Findings, Continued
Year Ended September 30, 2001

Revenue/Receipts

Finding No. 2001-4

Criteria: Grant revenues should be recorded based on grant awards received from donors.

Condition: During the year ended September 30, 2001, EPA received grant awards totaling \$165,448 from various donors, including the South Pacific Regional Environment Programme (SPREP), for which supporting grant awards were not made available to support cash receipts recorded as grant revenues. Furthermore, grant revenues were recorded based on cash receipts rather than grant awards.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is the possibility of unrecorded grant revenues and misappropriation of cash receipts.

Recommendation: We recommend that grant revenues be recorded as receivables based on grant awards and that cash receipts pertaining to grant awards be recorded as a reduction in the grantor receivable.

Prior Year Status: Lack of supporting grant awards for grant revenues was reported as a finding in the audits of EPA for fiscal years 1998 through 2000.

Auditee Response and Corrective Action Plan: New administration will take action as recommended.

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Schedule of Findings, Continued
Year Ended September 30, 2001

Cash

Finding No. 2001-5

Criteria: Proper internal control over cash requires that bank reconciliations be prepared on a regular basis and be evidenced as to review by management.

Condition: As of September 30, 2001, EPA's bank reconciliations were not performed on a regular basis and were not evidenced as to review by management. In addition, EPA recorded \$1,064 as cash in bank for which no supporting documentation was made available. This balance appeared to relate to a cash shortage of \$14 on a deposit dated October 6, 2000 and a cash shortage of \$1,050 on a deposit dated February 1, 2001.

Cause: The cause of the above condition is the lack of policies and procedures requiring the timely reconciliation and review by management of EPA's bank accounts.

Effect: The effect of the above condition is the possibility that errors will not be detected in a timely manner.

Recommendation: We recommend that bank reconciliations be performed on a regular basis and in a timely manner and be evidenced as to review by management.

Prior Year Status: Lack of policies and procedures requiring the timely reconciliation and review by management of EPA's bank accounts was reported as a finding in the audits of EPA for fiscal years 1998 through 2000.

Auditee Response and Corrective Action Plan: New administration will take action as recommended.

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Schedule of Findings, Continued
Year Ended September 30, 2001

Travel Advances

Finding No. 2001-6

Criteria: Travel advances should be issued in accordance with prescribed policies and procedures and, upon liquidation, be supported by appropriate documentation.

Condition: Of thirty-five non-payroll expenditures tested, we noted six items (check #s 106, 108, 118, 1459, 1495 and 1500 for \$556, \$576, \$625, \$2,050, \$843 and \$675, respectively) that were not supported by appropriate documentation, including copies of tickets, trip reports or travel liquidation vouchers. Furthermore, we noted that per diem was advanced in full to the traveler prior to commencement of travel.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is the lack of compliance with prescribed travel policies and procedures and the possibility of unauthorized and invalid travel expenditures.

Recommendation: We recommend that travel advances be made in accordance with prescribed policies and procedures and that the liquidation of travel advances be supported by appropriate documentation.

Auditee Response and Corrective Action Plan: New administration will take action as recommended.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Schedule of Findings, Continued
Year Ended September 30, 2001

Fixed Assets

Finding No. 2001-7

Criteria: General fixed assets do not represent financial resources available for expenditure but are items for which financial resources have been used and for which accountability should be maintained.

Condition: EPA has established a General Fixed Assets Account Group containing certain fixed asset acquisitions for fiscal year 2001. No inventory of fixed assets has been performed to ensure that all capital assets are correctly recorded in the General Fixed Assets Account Group.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is that EPA is not presenting financial statements that account for all items for which resources have been used.

Recommendation: We recommend that EPA perform an inventory of fixed assets as a basis for recording all fixed assets in the General Fixed Assets Account Group.

Prior Year Status: Lack of established policies and procedures to ensure proper control of and accountability for fixed assets was reported as a finding in the audits of EPA for fiscal years 1998 through 2000.

Auditee Response and Corrective Action Plan: New administration will perform an inventory of its fixed assets.

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Schedule of Findings, Continued
Year Ended September 30, 2001

Accounts Payable

Finding No. 2001-8

Criteria: Accounting principles generally accepted in the United States of America require that expenditures be recognized when the obligation is incurred.

Condition: During the year ended September 30, 2001, EPA recognized and recorded expenditures when paid rather than when the obligation was incurred.

Cause: The cause of the above condition is the lack of policies and procedures requiring the recognition of expenditures when the obligation is incurred.

Effect: The effect of the above condition is the misstatement of expenditures and related payable balances.

Recommendation: We recommend that EPA maintain its accounts on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Prior Year Status: Lack of policies and procedures requiring the recognition of expenditures when the obligation is incurred was reported as a finding in the audits of EPA for fiscal years 1998 through 2000.

Auditee Response and Corrective Action Plan: New administration will transact its business as recommended.

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Schedule of Findings, Continued
Year Ended September 30, 2001

External Financial Reporting

Finding No. 2001-9

Criteria: Board minutes are a primary means by which regulatory agencies and independent auditors can evaluate the administration of EPA's operations.

Condition: The Board of Directors' minutes of meetings held from October 1, 2000 through October 7, 2002 were not made available.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is the possibility that directives of the Board are not properly disclosed or recorded in the financial statements of EPA.

Recommendation: We recommend that the Board of Directors ensure that all minutes of meetings are formally documented by the Secretary and approved by the Chairman.

Prior Year Status: Lack of minutes of meetings of the Board of Directors was reported as a finding in the audits of EPA for fiscal years 1998 through 2000.

Auditee Response and Corrective Action Plan: New administration Board of Directors will take action as recommended.

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Unresolved Prior Year Findings
Year Ended September 30, 2001

The status of unresolved prior year findings is disclosed within the Schedule of Findings section of this report (pages 3 through 11).