

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, 2001, 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, 2000 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) Purchases/Disbursements

During our year end cut-off procedures, we noted that check numbers from the General Fund bank account (check #s 1412 through 1416, 1449, and 1505 through 1507) and the Jaluit Atoll Conservation Project bank account (check #s 134 through 136) were not issued in sequential order. Furthermore, we noted that duplicate check numbers (check #s 101 through 114) were issued from the Jaluit Atoll Conservation Project bank account. We recommend that all checks be issued in sequential order and that duplicate check numbers not be used.

(2) 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, 2001, EPA owed RepMar \$1,716 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, pay periods ended July 28, 2000 through September 8, 2000, and pay periods ended September 22, 2000 through June 15, 2001. 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.

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(3) 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, 2001, EPA owed MISSA \$1,699 in employee contributions. This amount is represented by contributions withheld from employee wages for the quarters ended March 31, 1998, June 30, 1998, September 30, 2000, December 31, 2000, March 31, 2001 and June 30, 2001. 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, 2001, 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*