

**NATIONAL ENVIRONMENTAL PROTECTION
AUTHORITY FUND**

**INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL AND ON COMPLIANCE**

YEAR ENDED SEPTEMBER 30, 2005

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED UPON AN ENGAGEMENT TO AUDIT 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, 2005. Our report dated February 13, 2007, 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 expenses were fairly stated.

Internal Control Over Financial Reporting:

In planning the audit, we considered EPA's internal control over financial reporting in order to determine our 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 19) as items 2005-1 through 2005-16.

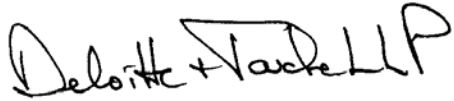
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being 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, of the reportable conditions described above, we consider items 2005-3, 2005-4, 2005-6, and 2005-9 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether EPA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 an objective of our engagement to audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain additional matters that we reported to management of EPA in a separate letter dated February 13, 2007.

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

A handwritten signature in black ink that reads "Deloitte + Tatchell LLP". The signature is written in a cursive, slightly stylized font.

February 13, 2007

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Schedule of Findings
Year Ended September 30, 2005

Cash

Finding 2005-1

Criteria: EPA policy is that cash receipts be deposited intact and in a timely manner.

Condition: Deposit slips were not located to support cash receipt numbers 2178 and 2186 in the amounts of \$35.90 and \$75, respectively. Additionally, cash receipts, 2029, 2173, 2252, and 2256 were deposited five to ten days after receipt. Furthermore, cash receipt # 2041 was deposited eleven days after receipt.

Cause: The cause of the above condition is that management overrode established accounting policies and procedures.

Effect: The effect of the above condition is the possibility of funds being misused and non-compliance with established policies and procedures.

Recommendation: We recommend that management adhere to established policies and procedures regarding cash receipts to ensure that cash receipts are deposited intact in a timely manner.

Prior Year Status: The lack of adherence to the established policies and procedures regarding cash receipts was reported as finding in the audits of EPA for fiscal years 2002 through 2004.

Auditee Response and Corrective Action Plan: The late deposits of some of the collections were due to absence of the personnel responsible. Sometimes she is on official travel, on leave or reported sick. With the new assistant for the POPs Program authorized to do deposits, there is now great improvement in this area.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Schedule of Findings, Continued
Year Ended September 30, 2005

Cash

Finding No. 2005-2

Criteria: Proper internal control over cash requires that bank reconciliations be prepared on a regular basis.

Condition: As of September 30, 2005, EPA's bank accounts for the entire year had not been reconciled.

Cause: The cause of the above condition is the lack of policies and procedures requiring the timely reconciliation of 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.

Auditee Response and Corrective Action Plan: Cash reconciliation is now regularly monitored after recent training of administrative staffs by former Secretary of Finance.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Schedule of Findings, Continued
Year Ended September 30, 2005

Travel Advances

Finding No. 2005-3

Criteria:

1. Travel advances should be reconciled to the subledger on a regular basis.
2. EPA's accounting policies and procedures require travel advances to be authorized and issued in accordance with RepMar prescribed policies.
3. EPA's accounting policies and procedures regarding travel require that a traveler file timely claims and trip reports at the completion of official travel.
4. Cabinet Minute 247(2000) sets per diem rates for official government travel to all locations in the Republic of the Marshall Islands at \$125.00 a day for Majuro and Kwajalein Atolls and \$50.00 a day for all other atolls and islands.

Condition:

1. At September 30, 2005, EPA reflected a credit balance of \$18,248 in travel advances, which was not reconciled to the general ledger.
2. Of thirty one (31) travel expenses tested, three travelers were advanced 100% of approved per diem. TA#015-02 was not supported by a copy of the ticket and boarding pass to evidence trip completion.
3. Not all travelers file travel claims and trip reports at completion of official travel. A total of \$14,705 of unliquidated claims dating back to 2002 were recorded at September 30, 2005.
4. Per diem paid for travel to Jaluit was not consistent with established per diem rates.

Cause: The cause of the above condition is that established policies and procedures regarding travel advances may not have been followed. Additionally, travel advances are not reconciled to the subledger in a timely manner.

Effect: The effect of the above condition is potential noncompliance with established policies and procedures and the possibility of unauthorized per diem payments. Additionally, the effect of untimely reconciliation of travel advances results in a potential misstatement of the account balance throughout the year.

Recommendation:

1. We recommend that management ensure that travel advances are reconciled to the subledger in a timely manner.
2. We recommend that management ensure that only 80% of per diem is advanced to travelers.
3. We recommend that management ensure compliance with established policies and procedures regarding travel claims.
4. We recommend that management ensure that authorized per diem rates for Outer Islands are consistent with approved rates per Cabinet Minute 247 (2000).

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Schedule of Findings, Continued
Year Ended September 30, 2005

Travel Advances, Continued

Finding No. 2005-3, Continued

Prior Year Status: The lack of adherence to establish travel policies and procedures was reported as a finding in the audits of EPA for fiscal years 2002 through 2004.

Auditee Response and Corrective Action Plan: Many of these reported travel advances were of prior years and were not corrected and reconciled until recently when Administrative staffs received training from former Secretary of Finance under the DOI Assistance Program.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Schedule of Findings, Continued
Year Ended September 30, 2005

Travel Expenses

Finding No. 2005-4

Criteria: Travel expenses should be recorded in the correct accounting period.

Condition: At September 30, 2005, EPA recorded \$92,223 in prior year adjustments relating to travel expenses. We were informed that this was necessary to adjust the travel advance account for travel advances already liquidated.

Cause: The cause of the above condition is the lack of management review of travel advances to ensure that travel is recorded in the correct accounting period.

Effect: The effect of the above condition is an overstatement of travel expenses. The matter was corrected through a proposed audit adjustment

Recommendation: We recommend that management ensure that travel advances are liquidated in a timely manner and that travel expenses are recorded in the correct accounting period.

Auditee Response and Corrective Action Plan: As a result of recent training, many of the travel expenses of prior years were adjusted to reflect the actual liquidations already made but not recorded properly over the years.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Schedule of Findings, Continued
Year Ended September 30, 2005

External Financial Reporting

Finding No. 2005-5

Criteria: Journal entries should be assigned reference numbers to provide an adequate audit trail.

Condition: During the year ended September 30, 2005, journal entries were directly recorded to the general ledger without a reference number.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring that journal entries be pre-numbered to provide an adequate audit trail.

Effect: The effect of the above condition is the possibility of unauthorized and unsupported transactions.

Recommendation: We recommend that management ensure that journal entries are pre-numbered.

Auditee Response and Corrective Action Plan: Administrative staffs also learned the skills of journal entry during the training. Also internal control policy on journal entry will be made to the effect.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Schedule of Findings, Continued
Year Ended September 30, 2005

Accounts Receivable

Finding No. 2005-6

Criteria: Accounts receivable should be reconciled to the subledger on a regular basis.

Condition: At September 30, 2005, the general ledger accounts receivable account reflects a negative balance of \$24,793.

Cause: The cause of the above condition is the untimely reconciliation of accounts receivable.

Effect: The effect of the above condition is that accounts receivable were misstated throughout the year.

Recommendation: We recommend that management ensure that accounts receivable are reconciled to the subledger on a regular basis.

Auditee Response and Corrective Action Plan: Reconciliation and journal entry were some of the subjects that the staff learned during their recent training with the former Secretary of Finance and such work is now being done regularly.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Schedule of Findings, Continued
Year Ended September 30, 2005

Expenditures

Finding No. 2005-7

Criteria: Expenditures should be recorded in the correct accounting period.

Condition: In 2005, electric expenses of \$8,000 were recorded related to FY2004.

Cause: The cause of the above condition is the lack of adherence to accounting principles generally accepted in the United States of America.

Effect: The effect of the above condition is an overstatement of expenditures that was corrected through a proposed audit adjustment.

Recommendation: We recommend that management ensure that expenditures are recorded in the correct accounting period.

Auditee Response and Corrective Action Plan: Payment was made for the outstanding utility bill of prior years. We were told that the office's electricity will be cut off if the utility bill of prior years of other provisions administrators was not clear.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Schedule of Findings, Continued
Year Ended September 30, 2005

Revenues

Finding No 2005-8

Criteria: Earthmoving permits should be filed and maintained to support revenues earned.

Condition: Only a few earthmoving permits were maintained and filed.

Cause: The cause of the above condition is the lack of established policies and procedures requiring that all revenues be supported by relevant supporting documents.

Effect: The effect of the above condition is that revenues earned were not properly supported.

Recommendation: We recommend that management ensure that earthmoving permits are maintained and filed to support recorded revenue.

Auditee Response and Corrective Action Plan: All paid supporting documents for earthmoving and other violation notices are now properly filed with the Administrative Office, unlike before they were filed with each respective responsible units.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Schedule of Findings, Continued
Year Ended September 30, 2005

Other Revenue

Finding No. 2005-9

Criteria: Other revenues should represent valid revenues earned by the Authority.

Condition: At September 30, 2005, EPA recorded a negative balance of \$12,900 in other revenues.

Cause: The cause of the above condition is the lack of timely reconciliation of general ledger accounts.

Effect: The effect of the above condition is that other revenues were misstated throughout the year and results in a qualification of the report on the 2005 financial statements.

Recommendation: We recommend that management ensure that general ledger accounts are reconciled on a regular basis.

Auditee Response and Corrective Action Plan: After the training, all prior years revenue files were reconciled. As a result, the finding of the negative balance was discovered. Routing reconciliation of revenues is not being carried regularly to repeat such mistake.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Schedule of Findings, Continued
Year Ended September 30, 2005

Revenues

Finding No. 2005-10

Criteria: Revenues should be supported by adequate source documentation.

Condition: Of eight revenue items tested, one item (R-2046) did not have a supporting notice of violation.

Cause: The cause of the above condition is the lack of established policies and procedures requiring that source documents be maintained and filed to support recorded revenue.

Effect: The effect of the above condition is that revenues are unsupported.

Recommendation: We recommend that management ensure that revenues are supported by adequate source documentation.

Auditee Response and Corrective Action Plan: Filing of supporting documents for revenues being collected from fines and other sources will strictly be followed. These documents will all file in a central file at the Administrative and Finance Unit.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Schedule of Findings, Continued
Year Ended September 30, 2005

Fixed Assets

Finding No. 2005-11

Criteria: Sufficient control and monitoring of fixed assets requires that fixed assets be inventoried on a periodic basis. Additionally, existing fixed asset policy requires that assets with a life of more than one year and with a value greater than or equal to \$300 be capitalized.

Condition: EPA did not perform a physical count of its fixed assets. Additionally, assets with a cost less than \$300 were capitalized. A proposed audit adjustment corrected the inappropriate capitalization.

Cause: The cause of the above condition is that fixed assets have not been inventoried on a periodic basis. Additionally, there is a lack of adherence to established internal control policies that sets the threshold for capitalization of fixed assets.

Effect: The effect of the above condition is a possible misappropriation of fixed assets. Additionally, EPA was not in compliance with its fixed asset policy.

Recommendation: We recommend that management ensure that a physical inventory of fixed assets is performed on a periodic basis. Additionally, we recommend that management ensure that the threshold for recording of fixed assets is adhered to.

Auditee Response and Corrective Action Plan: Regular physical inventory on all fixed assets of the agency will be conducted quarterly to enable tracking of the office equipment and property as required.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Schedule of Findings, Continued
Year Ended September 30, 2005

External Financial Reporting

Finding No. 2005-12

Criteria: Annual budgets are usually adopted to ensure that expenditures are properly approved prior to being incurred.

Condition: EPA does not have a mechanism within the accounting system to facilitate the monitoring of expenses against budgets.

Cause: The cause of the above condition is a lack of adequate internal control policies and procedures to monitor expenses against approved budgets.

Effect: The effect of the above condition is the possibility of unauthorized expenses.

Recommendation: We recommend that EPA incorporate annual budgets within the accounting system to ensure effective budgetary control and proper accountability over available funds.

Prior Year Status: The lack of adequate internal control policies and procedures to monitor expenses against approved budgets was reported as a finding in the audit of EPA for fiscal years 2003 and 2004.

Auditee Response and Corrective Action Plan: To avoid unauthorized expenses from what has been budgeted for the year, an internal control mechanism is being established for each approved cost items. This was done as part of the recent training of the fiscal officers. As part of the mechanism, a monthly report on each project fund will be issued for reviewed.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Schedule of Findings, Continued
Year Ended September 30, 2005

External Financial Reporting

Finding No. 2005-13

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 minutes for September 21, 2005 were not signed.

Cause: The cause of the above condition is a lack of policies and procedures over documentation of Board minutes.

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.

Recommendation: We recommend that the Board of Directors ensure that all minutes of meetings are properly approved.

Prior Year Status: The lack of approval of Board minutes was reported as a finding in the audits of EPA for fiscal years 2003 and 2004.

Auditee Response and Corrective Action Plan: The reason one of the Board's minutes was not signed was due to the sudden change in the members of the Board. The old members did not have meeting to review minutes before there was new changes in the Board of Directors. New board members did not want to approve earlier meeting minutes where they were never part of the discussions.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Schedule of Findings, Continued
Year Ended September 30, 2005

Revenue/Receipts

Finding No.2005-14

Criteria: Grant revenues should be recorded as earned.

Condition: During the year ended September 30, 2005, EPA received grant revenues totaling \$10,141 from various donors, including the South Pacific Regional Environment Program (SPREP). Grant revenues were recorded based on cash receipts rather than total expenses. Furthermore, EPA has not reflected net assets subject to restrictions externally imposed by grantors within the financial statements.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring the recording of grant revenues based on grant expenses and the lack of designation of net assets for externally imposed restrictions.

Effect: The effect of the above condition is the possibility of a misstatement of grant revenues and noncompliance with GASB Statement No. 34 requiring the designation of nets assets for externally imposed restrictions.

Recommendation: We recommend that grant revenues be recorded as receivables based on grant expenses. Furthermore, we recommend that net assets reflect external restrictions.

Auditee Response and Corrective Action Plan: Separate files for each project grants revenues will be established as total expenses for monitoring implementation of these projects to follow the imposed restrictions by the grantors.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Schedule of Findings, Continued
Year Ended September 30, 2005

Payroll Expense

Finding #2005-15

Criteria: Payroll expense should be supported by authorized contracts or personnel action forms.

Condition: One employee contract could not be provided.

Cause: The cause of the above condition a lack of established internal control over the maintenance of relevant supporting documents.

Effect: The effect of the above condition is the possibility of unauthorized payroll expense.

Recommendation: We recommend that management ensure that contracts or personnel action forms are maintained to support recorded expenses.

Auditee Response and Corrective Action Plan: The one personnel contract that was missing was of the Conservation Officer of Jaluit Atoll Conservation Area Project. The file may have been misplaced as the contract was ended sometime in 2004.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Schedule of Findings, Continued
Year Ended September 30, 2005

Undeposited Funds

Finding #2005-16

Criteria: Undeposited funds should represent deposits outstanding at year-end.

Condition: At September 30, 2005, the other revenues account reflected a debit balance of \$1,843. This resulted from the Authority's attempts to reconcile the undeposited fund account for revenues relating to prior years.

Cause: The cause of the above condition is the lack of established procedures requiring that undeposited funds be reconciled in a timely manner.

Effect: The effect of the above condition is that undeposited funds and other revenues were misstated throughout the year.

Recommendation: We recommend that management ensure that undeposited funds are reconciled in a timely manner.

Auditee Response and Corrective Action Plan: After reconciliation of prior years undeposited funds during the training of our fiscal officers, now reconciliation of undeposited funds are being regularly monitored.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Unresolved Prior Year Findings
Year Ended September 30, 2005

The status of unresolved prior year findings is disclosed within the Schedule of Findings section of this report (pages 3 through 19).