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July 9, 2015

Mr. Jemi Nashion
General Manager
Tobolar Copra Processing Authority:

Dear Mr. Nashion:

In planning and performing our audit of the financial statements of Tobolar Copra Processing Authority (the Authority) as of and for the year ended September 30, 2014 (on which we have issued our report dated July 9, 2015 in accordance with 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, we considered the Authority's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to the Authority's internal control over financial reporting and other matters as of September 30, 2014 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated July 9, 2015, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The definition of a deficiency is also set forth in the attached Appendix I.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of the Board of Directors, management, 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.

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of the Authority for their cooperation and assistance during the course of this engagement.

Very truly yours,

Deloitte & Touche LLP

SECTION I - CONTROL DEFICIENCIES

We identified, and have included below, control deficiencies involving the Authority's internal control over financial reporting as of September 30, 2014 that we wish to bring to your attention:

(1) QuickBooks Accounting System Set-up

The customer sub ledger accounts were not properly set-up in the QuickBooks accounting system when balances were migrated from the previous accounting system. We recommend appropriate set-up of customer accounts in QuickBooks to facilitate generation of reliable reports. This matter was reported as a finding in the audits of the Authority for fiscal years 2010 through 2013.

(2) Accounts Receivable

No allowance for doubtful accounts analysis is performed. The Authority did not implement a review process over receivables and the related allowance for doubtful accounts. We recommend that management perform counterparty reconciliation, review and evaluate balances thus requiring that invalid receivables be written off and that doubtful accounts be adequately provided for. The Authority should determine and document the methodology and assumptions to be used as the basis for provisioning. Balances should be evaluated, collective efforts be implemented, and provisions be provided as appropriate. Historical loss experience and publicly observable data on loss experience by the industry or the risk profile of the counterparty should be considered rather than provisioning based solely on an ageing analysis. This matter was reported as a finding in the audits of the Authority for fiscal years 2009 through 2013.

(3) Employee Receivables

At September 30, 2014, suspense staff advance accounts pertaining to employee advances for merchandise ordered and collected through salary deductions, aggregated $9,887. However, no apparent monitoring of employee receivables was performed. In addition, the staff suspense lunch account of $5,143 has no indication as to whom to collect from. This amount been fully provided with an allowance. We recommend that management establish policies and procedures to govern monitoring and review of receivables from employees. This matter was reported as a finding in the audits of the Authority for fiscal years 2005 through 2013.

(4) Inventory

It has been the Authority's practice to record inventories as an expense upon purchase and then record an inventory adjustment at year end based on annual physical count. We noted that although the following control procedures are maintained, deficiencies are present in the actions implemented.

The production department performs daily counts of copra raw materials and copra oil. However, no independent check and verification of inventory on hand is performed and periodic reconciliations of book to actual inventory on hand are not carried out.

We recommend that adequate recordkeeping of inventory purchases occur, periodic cyclical counts be performed, and complete and timely reconciliations be performed to properly account for available inventories. The Authority should establish adequate internal controls over inventories. This matter was reported as a finding in the audits of the Authority for fiscal years 2005 through 2013.

SECTION I - CONTROL DEFICIENCIES, CONTINUED

(5) Payroll Testing

Of twenty one payroll payments tested, the hourly rate paid for two was not supported by amended employment contracts. We recommend management keep adequate payroll documentation on file.

(6) Expenses

Of nine expenses tested, $6,987 for travel costs to Pohnpei and Japan were not supported by underlying airline tickets. Furthermore, the Authority has no formal travel policy relative to liquidation and reporting travel advances. We recommend that travel expenses be supported by underlying airline tickets. Furthermore, we recommend management establish an appropriate travel policy.

(7) Cost of Goods Sold

Of seventy five (75) cost of goods sold tested, sixteen supporting documents (check vouchers, supplier invoices and liquidation reports) were missing. In addition, nine had no check vouchers attached and no signature of preparer and reviewer evidencing independent review. We recommend management strengthen internal control over purchases and disbursements.

Cost of Goods Sold – Copra Purchases

We were not able to verify the completeness of copra purchase tickets since some were missing and were not properly filed. We recommend management establish internal control over copra purchases on outer islands and have proper monitoring and filing of copra purchase ticket by arranging those items in sequence per trip for future reference.

(8) Sales and revenue testing

Of nineteen sales and revenues tested, two were not supported by receipts and reported unidentified customer deposits reflected in bank statements. Prior year negative receivables were reclassified as cash sales since management could not determine their appropriate classification.

We recommend management strengthen internal controls over sales and revenues and monitor unidentified receipts

SECTION II - OTHER MATTERS

Our observations concerning other matters related to operations, compliance with laws and regulations, and best practices involving internal control over financial reporting that we wish to bring to your attention at this time are as follows:

(1) Journal Entries and Bank Reconciliation

Sign-offs on journal entries by the preparer and reviewer are not indicated on the JV’s to evidence that independent reviews occurred. We also recommend that the date be specified to substantiate the timeliness of the control procedure. This matter was reported as a finding in the audits of the Authority for fiscal year 2013.

SECTION II - OTHER MATTERS, CONTINUED

(2) Inventory

Copra oil, copra cake and soap and materials are valued at lower of production cost, which includes raw copra, direct labor and factory overhead, or market (net realizable value). However, the Authority has not established a methodology to determine the production cost of such inventories. Year-end valuation is based on average cost without comparison to NRV. In addition, the basis of cost for copra meal cannot be provided. We recommend that management adopt a methodology to determine the value of inventory at cost. This matter was reported as a finding in the audits of the Authority for fiscal years 2008 through 2013.

(3) Sales discounts

The Authority's records sales discounts as the difference between collections received and invoices issued. We were not provided documentation substantiating the approval of sales discounts. Management should establish policies and procedures and strengthen internal controls over the approval of sales discounts.

(4) Maintenance of files

Several unpaid invoices and check duplicates were missing. Check vouchers were not attached indicating signature of preparer and reviewer to evidence that the transaction was independently reviewed and approved. We recommend management establish internal controls over filing accounting documents.

(5) Cost of Goods Sold

Expenses of $52,704 recorded and paid in FY14 occurred and were not accrued in FY13. We recommend management properly monitor and timely record unpaid invoices.

SECTION III - DEFINITIONS

The definition of a deficiency is as follows:

A *deficiency* 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 deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

The Authority's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.