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November 14, 2022

Mr. Eugene Wase
General Manager
Tobolar Copra Processing Authority:

Dear Mr. Wase:

In planning and performing our audit of the financial statements of Tobolar Copra Processing Authority (TCPA) as of and for the year ended September 30, 2021 (on which we have issued our report dated November 14, 2022) 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 TCPA'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 TCPA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of TCPA'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 TCPA's internal control over financial reporting and other matters as of September 30, 2021 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated November 14, 2022, on our consideration of TCPA'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 TCPA 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 TCPA's internal control over financial reporting as of September 30, 2021 that we wish to bring to your attention:

(1) Accounts Receivable

Periodic analysis of the adequacy of the allowance for uncollectible accounts is not performed. TCPA did not implement a review process over receivables and the related allowance for uncollectible accounts. We recommend management establish internal control policies and procedures requiring counterparty reconciliation, review and evaluation of balances that will facilitate invalid receivables being written-off and doubtful accounts being adequately provided for. TCPA should determine and document the methodology and assumptions to be used as the basis for its bad debt provision. 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 aging analysis. This matter was reported as a finding in the audits of TCPA for fiscal years 2009 through 2020.

(2) Employee Receivables

As of September 30, 2021, employee receivables pertaining to cash shortages from copra purchases and advances for merchandise ordered and collected through salary deductions amounted to $17,920. However, monitoring of these receivable accounts did not appear to be performed. These amounts have been fully allowed for within the allowance for uncollectible accounts. We recommend management establish internal control policies and procedures over the monitoring and review of employee receivables. This matter was reported as a finding in the audits of TCPA for fiscal years 2005 through 2020.

(3) Inventory

It has been TCPA's practice to record inventories as an expense upon purchase and then to record an inventory adjustment at year end based on the annual physical count. Although certain control procedures are maintained, deficiencies are present in the actions implemented. We recommend management establish internal control policies and procedures over adequate recordkeeping of inventory purchases and the performance of periodic cyclical inventory counts. Furthermore, we recommend complete and timely reconciliations be performed to properly account for available inventories. This matter was reported as a finding in the audits of TCPA for fiscal years 2005 through 2020.

(4) Advances to Suppliers

Of $99,930 in advances as of September 30, 2021 to a supplier for capital asset acquisitions, $19,743 has been outstanding for more than nine months. Furthermore, a $3,500 advance to a supplier for supplies inventory has been outstanding since FY2017 and a $20,558 advance to a supplier for jute bags has been outstanding since FY2019. We recommend management establish internal control policies and procedures over timely follow up of advances for delivery of capital assets and supplies. This matter was reported as a finding in the audit of TCPA for fiscal year 2020.

(5) Capital Assets

During the year ended September 30, 2021, MV Tobolar II boat was transferred to the Jaluit Local Government; however, engines and steering kit amounting to $3,305 are still recorded in the Fixed Asset Register. These capital assets are fully depreciated. We recommend management correct the Fixed Asset Register for capital assets no longer in use by TCPA.

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) Inventory

Copra oil, copra cake and soap and materials are valued at the lower of production cost, which includes raw copra, direct labor and factory overhead, or market (net realizable value or NRV). TCPA adopted a product costing methodology to determine the value of inventory at cost wherein the basis of unit cost for copra meal and refined cooking oil is estimated at 15% and 12%, respectively, of the unit cost of crude oil. Year-end valuation is based on computed production unit costs without comparison to NRV. Furthermore, the product costing methodology to support the 15% and 12% estimates was not made available. We recommend that management adopt the valuation of inventory at the lower of production cost or NRV. Furthermore, we recommend that management evaluate the product costing methodology and require that such be supported by underlying documentation. This matter was reported as a finding in the audits of TCPA for fiscal years 2019 and 2020.

(2) Board Sitting Fees and Incentive Fees

During the year ended September 30, 2021, TCPA paid sitting fees and incentive fees of $36,350 and $1,800, respectively, to Board members. These payments may constitute wages under the Income Tax Act 1989 and thus may be subject to withholding taxes. No withholding taxes were withheld by TCPA. We recommend management obtain an interpretation from the Ministry of Finance, Banking and Postal Services Chief of Revenue and Taxation concerning the applicability of withholding taxes on sitting fees paid to Board members. This matter was reported as a finding in the audits of TCPA for fiscal years 2019 and 2020.

(3) Retirement Savings Plans

During the year ended September 30, 2021, TCPA made contributions of $39,423 to retirement savings plans for the benefit of TCPA employees. These matching contributions, which represent employer match based on employee contributions, may constitute wages under the Income Tax Act 1989 and thus may be subject to withholding taxes. No withholding taxes were withheld by TCPA. We recommend management obtain an interpretation from the Ministry of Finance, Banking and Postal Services Chief of Revenue and Taxation concerning the applicability of withholding taxes on the matching employer contributions.

(4) RMI Procurement Code

Section 127 of the RMI Procurement Code allows for purchases not exceeding $25,000 to be procured in accordance with small purchase procedures. Purchases exceeding this threshold shall utilize competitive sealed bidding. During the year ended September 30, 2021, TCPA acquired a $30,000 cargo truck (check #s 30168 and 30181) utilizing small purchase procedures through informal price bid quotations. We recommend that management require that documentation be adequate to comply with applicable procurement requirements. Specifically, documentation should indicate the history of procurement including rationale for contractor selection.

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

TCPA'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.