

Management Letter

Tobolar Copra Processing Authority

(A Component Unit of the Republic of the Marshall Islands)

Year ended September 30, 2022



December 13, 2024

Management and the Board of Directors
Tobolar Copra Processing Authority

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, 2022, in accordance with auditing standards generally accepted in the United States, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of TCPA's internal control. Accordingly, we do not express an opinion on the effectiveness of TCPA's internal control.

A deficiency in internal control 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 material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

During our audit, we noted the following deficiencies in internal control (as described above) and other matters:

Cash Shortages

Comment: During the reconciliation of cash balances upon SV Kwai's return on February 16, 2022, it was noted that there was a discrepancy between recorded cash collections and actual cash on hand of \$20,692. This shortage indicates a lack of robust controls over cash handling during the voyage. This cash shortage was recorded as a receivable due from employee and was offset by a corresponding allowance for doubtful debts. As of September 30, 2022, total receivables due from this employee amounted to \$32,288.

Recommendation: We recommend management establish internal control policies and procedures over cash by implementing a dual-custody system for cash handling to ensure accountability.

Inventory Costing

Comment: Copra oil, copra cake, soap, and related materials are valued at the lower of production cost - which includes raw copra, direct labor, and factory overhead - or market value (net realizable value or NRV). TCPA has adopted a product costing methodology to determine the value of inventory at cost, wherein the unit cost for copra meal and refined cooking oil is estimated at 15% and 12%, respectively, of the unit cost of crude oil. However, the year-end valuation is based solely on computed production unit costs without comparison to NRV. Additionally, the product costing methodology supporting the 15% and 12% estimates was not made available, and inventory costs were not updated to reflect the current costs of raw materials (copra) and conversion costs (overhead).

Recommendation: We recommend that management evaluate and update the product costing methodology to ensure it is supported by underlying documentation and reflects current costs.

Inventory Count

Comment: 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.

Recommendation: 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.

Board Sitting Fees

Comment: During the year ended September 30, 2022, TCPA paid sitting fees of \$14,552 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.

Recommendation: 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.

Retirement Savings Plans

Comment: During the year ended September 30, 2022, TCPA made contributions of \$57,592 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.

Retirement Savings Plans, continued

Recommendation: 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.

This communication is intended solely for the information and use of management, the Board of Directors, 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. However, this report is also a matter of public record.

At this time, we would like to thank all the staff and management of TCPA for their cooperation extended to us during the course of our audit. We would be pleased to discuss the above matters or to respond to any questions, at your convenience.

Ernst + Young LLP