

Management Letter

Tobolar Copra Processing Authority

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

Year ended September 30, 2024



**Shape the future
with confidence**

July 14, 2026

Management and the Board of Directors
Tobolar Copra Processing Authority

In planning and performing our audit of the financial statements of the business-type activities of Tobolar Copra Processing Authority (TCPA) as of and for the year ended September 30, 2024, 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:

Trade Receivables

Condition: During our review of accounts receivable, we noted two outstanding customer balances totaling \$248,189 and \$692,241 originating from 2016 and 2019, respectively, that remain uncollected as of year-end. Management has not formally documented collection efforts and determined whether write-off is appropriate; however, a corresponding allowance for doubtful accounts has been established.

Recommendation: We recommend that management assess the collectability of these long-outstanding receivables and, upon Board of Directors' approval, consider writing off amounts deemed uncollectible.

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.

Non-Compliance on RMI Withholding Income Taxes

Condition: TCPA filed and paid income taxes withheld for the four-week period ended 10/06/2024 in the amount of \$9,563 to the RMI Ministry of Finance, Banking and Postal Service (MOFBPS) in a manner inconsistent with Section 105 of the Income Tax Act of 1989, as amended. Specifically, TCPA filed and remitted payment (check #31302) to MOFBPS on 10/24/2024. The Income Tax Act of 1989 requires employers to file and remit payment within two weeks following the preceding four-week period.

Recommendation: We recommend that management establish policies and procedures to comply with the Income Tax Act of 1989, as amended.

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.

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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