

TOBOLAR COPRA PROCESSING AUTHORITY
(A COMPONENT UNIT OF THE REPUBLIC
OF THE MARSHALL ISLANDS)

INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2012

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Tobolar Copra Processing Authority:

We have audited the financial statements of the Tobolar Copra Processing Authority (the Authority) as of and for the year ended September 30, 2012, and have issued our report thereon dated August 13, 2013. We conducted our audit 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.

Internal Control Over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting 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 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 that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses (pages 3 through 5), we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 a 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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2012-1 and 2012-3 to be material weaknesses.

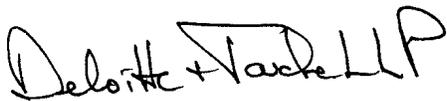
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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 audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as item 2012-2.

We also noted certain matters that we reported to management of the Authority in a separate letter dated August 13, 2013.

The Authority's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the Authority's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Directors, and others within the entity 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, stylized font.

August 13, 2013

TOBOLAR COPRA PROCESSING AUTHORITY

Schedule of Findings and Responses Year Ended September 30, 2012

Accounts Receivable

Finding No. 2012-1

Criteria: The aged accounts receivable subsidiary ledger should be monitored and used for credit control purposes.

Condition: Of total receivables of \$326,445 (which excludes RepMar and affiliates of \$53,446), \$190,314 or 58% has been outstanding for over one year. Management has recorded a corresponding allowance for doubtful accounts of \$118,573 at September 30, 2012. In addition, delays in collection of 30 days or more from current customers were noted. Regular reconciliations of customer sub ledger accounts were not performed during the year.

Cause: This condition arose due to a lack of extensive collection effort throughout the year and a lack of policies and procedures to periodically perform account reconciliations.

Effect: The effect of the above condition is that potential misstatements could occur and not be timely detected.

Recommendation: We recommend that management require periodic review and reconciliation of accounts receivable. In addition, we recommend that collection procedures be implemented, on-going status meetings organized and collection targets established.

Prior Year Status: The lack of internal control over monitoring of accounts receivable was reported as a finding in the audits of the Authority for fiscal years 2008 through 2011.

Auditee Response and Corrective Action Plan: The Accounts Receivable finding is an issue carried forward from previous fiscal periods. Tobolar's response in FY2011 prompt collection by assigning staff to concentrate on collecting overdue/outstanding receivables. The work commenced but unfortunately the person resigned.

Tobolar established the collection be part of the cashiering that was hired at the end of this fiscal year. More so, a periodic reporting of accounts receivable aging status to Chief Accountant to set up the collections and monitoring of the receivables by the cashier. Sending of collections letters and phone brigade are in shape to form part on this action plan.

TOBOLAR COPRA PROCESSING AUTHORITY

Schedule of Findings and Responses, Continued
Year Ended September 30, 2012

Local Noncompliance

Finding No. 2012-2

Criteria: RepMar's Procurement Code states the following:

- (a) Section 124 - unless otherwise authorized by law, all Government contracts shall be awarded by competitive sealed bidding.
- (b) Section 127 - procurement of goods and services not exceeding \$25,000 may be made in accordance with small purchase procedures promulgated by RepMar's Policy Office. Small purchase procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than \$25,000. RepMar's Ministry of Finance has previously declared that if small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.
- (c) Section 128 - a contract may be awarded for a supply, service, or construction item without competition when it is determined in writing that there is only one source for the required supply, service, or construction item.

Condition: RepMar requires that procurement actions of goods and services provide full and open competition and compliance with this provision should be appropriately documented in the procurement files. We noted a \$23,995 purchase of Ford Ranger where documentation on file was inadequate to evidence the procurement process. Price quotations from vendors were not available.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring documentation of procurement procedures to support compliance with RepMar's Procurement Code.

Effect: The effect of the above condition is noncompliance with RepMar's Procurement Code.

Recommendation: We recommend that management establish adequate internal control policies and procedures to conform to RepMar's Procurement Code.

Prior Year Status: The lack of compliance with RepMar's Procurement Code was reported as a finding in the audit of the Authority for fiscal year 2011.

Auditee Response and Corrective Action Plan: Tobolar was able to provide a Board Resolution for the purchase of the Ford Ranger in contrast to the REP MAR's Procurement Code, nevertheless it was advised that the truck absolutely had no comparison since this was branded and procuring is limited since there is only one source of supplier.

In view of this, procurement was latter on this FY2012 was transferred to Finance department which was previously from operation to avoid bias quotations and supplier comparisons. Tobolar now requires the use of the new form of request for payment, which needs detailed 2 or more suppliers or construction companies.

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Schedule of Findings and Responses, Continued
Year Ended September 30, 2012

Significant Delay in the Accounting Records

Finding No. 2012-3

Criteria: Day-to-day transactions should be posted timely. Reconciliations of key accounts, including bank reconciliations, and review of such reconciliations, should be performed monthly.

Condition: The Company does not have an established set of policies, procedures and controls in place to timely process and post transactions, and to timely prepare and review reconciliations and reports. During the year ended September 30, 2012, various accounting records do not appear to have been processed and timely updated as evidenced by the following:

- Bank reconciliations were prepared and were independently reviewed but this review did not promptly occur. The September 30, 2012 reconciliations were completed in June 2013. Unaccounted for transactions aggregating \$12,731 in several bank accounts were also noted.
- Inventory reports were prepared but did not timely occur and were not independently reviewed. The September 30, 2012 reports and posting of year-end inventory adjustments were completed in April 2013.

Cause: The cause of the above condition appears to be noncompliance with the criteria.

Effect: The effect of the above is the delayed identification and correction of errors and misstatements in the financial statements.

Recommendation: Management should implement procedures that require timely posting of daily transactions and a checklist of accounts that should be reconciled and reviewed on a monthly basis. Prudence indicates that posting of daily transactions be performed within a week, and the reconciliation of key balance sheet accounts should be performed within a month.

Auditee Response and Corrective Action Plan: Tobolar accounting records files and system update had been idle for 6 months due to backlog done by previous chief accountant and the absence of qualified personnel to temporarily update the system from the time the CA resigned up to the hiring of the accountant. It takes more than 8 months for the newly hired accountant to update all financials in filing and updating in the accounting system.

Bank reconciliation was last dated January 2012 and inventoriabiles was assigned to operations that time which aggravated the filing and the department to accomplished timely recording and update.

Chief Accountant was hired to set up the system online to all staff for update of the QuickBooks system. He was able to consummate all the financials thru the aid of the staff on line and filing in order with the hiring of the new cashier for the receipts and the accounting specialist for payable, procurement officer for PO.

In effect, accounting records are now in processing to apprise from filing in order to QuickBooks update.

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Unresolved Prior Year Findings
Year Ended September 30, 2012

The status of unresolved prior year findings is discussed within the Schedule of Findings and Responses section of this report (pages 3 through 5).