

June 1, 2009

Board of Directors
Tobolar Copra Processing Plant, Inc.:

In planning and performing our audit of the financial statements of the Tobolar Copra Processing Plant, Inc. (TCCPI) as of and for the year ended September 30, 2008 (on which we have issued our report dated June 1, 2009), 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 TCCPI'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 TCCPI's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of TCCPI'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 TCCPI's internal control over financial reporting and other matters as of September 30, 2008 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors and management, also dated June 1, 2009, on our consideration of TCCPI'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.

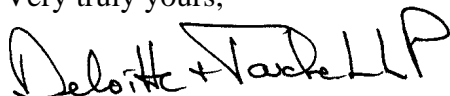
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with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

Very truly yours,



SECTION I –DEFICIENCIES

We identified, and have included below, deficiencies involving TCCPI's internal control over financial reporting as of September 30, 2008 that we wish to bring to your attention:

(1) Accounts Receivable

The September 30, 2008 accounts receivable subsidiary ledger includes \$26,132 of unidentified old balances and a long disputed balance of \$4,395.

We recommend that management review receivables and evaluate balances to ensure that invalid receivables are written off and that doubtful accounts are adequately provided for. This matter was discussed in our previous letters dated January 14, 2009 and May 14, 2007.

(2) Accounts Receivable

Of seven customer accounts confirmed, one customer response indicated an overstatement of \$16,562. We were informed that the variance represented sales to another customer. We recommend that management ensure that sales are correctly billed and recorded. This matter was discussed in our previous letter dated January 14, 2009.

(3) Employee Receivable

At September 30, 2008, receivables from employees included credits of \$4,949. According to the accountant, the credit balances may be due to unposted or mispostings of employee charges. Additionally, suspense accounts where charges and deductions from employees are temporarily posted prior to posting to their respective ledger accounts had a credit balance of \$1,522. We recommend that management establish policies and procedures to govern monitoring and review of receivables from employees. This matter was discussed in our previous letter dated January 14, 2009.

(4) Inventory

As has been TCPPI's practice, inventories are expensed upon purchase. Inventories are valued only at year end based on annual physical count. Although the production department performs daily counts of copra raw materials and copra oil no reconciliation to accounting records occurs and independent verification is also lacking. We recommend that a regular cyclical count be performed during the year to assist in ensuring that inventories are adequately safeguarded against pilferage and misappropriation.

(5) Accounts Payable

Reconciliation between the accounts payable subsidiary ledger and the general ledger account were not periodically performed throughout the year. Reconciliation of accounts only occurred after the fiscal year ended. This resulted in an immaterial variance of \$1,988 between the subsidiary ledger and the general ledger. We recommend that management establish policies and procedures to require periodic reconciliation of subsidiary ledgers with general ledger accounts.

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) Bank Account

A non-interest bearing bank account (# 0105-041284) has been inactive since fiscal year 2004 and has been incurring bank charges. We recommend that management assess the purpose of and need for this bank account and minimize bank charges. This matter was discussed in our previous letter dated January 14, 2009.

(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 TCPPI has not established a methodology to determine the production cost, including overhead. Year-end valuation is based on net realizable value without comparison to cost. We recommend that management adopt a methodology to determine the value of inventory, at cost.

(3) Fixed Assets

A Toyota pickup truck acquired on May, 1992, remains on the fixed asset register though the asset was abandoned since 2004. We recommend that management ensure that the fixed asset register is updated for all disposals. This matter was discussed in our previous letter dated January 14, 2009.

(4) Accrued Expenses

As of September 30, 2008, accounts payable to treasurers or purchases of copra have a debit balance of \$3,457. These accounts have no activities during fiscal year 2008 and prior year. We recommend that management verify whether the balance to should be removed from the books.

(5) Interest on Related Party Loan

During fiscal year 2008, TCPPI removed interest payable of \$81,410 to agree to a balance confirmed by the RMI Ports Authority (RMIPA). The aforementioned interest has not been formally forgiven. We recommend that management obtain written verification of the forgiveness of interest.

(6) Document Filing

Retrieval of files was difficult and could not be done timely because documents were strewn throughout the office. This storage practice leaves files vulnerable to hazards (i.e. flood, spilt boxes, etc.) and also makes it difficult to retrieve files in a timely manner. Furthermore, promissory notes dated 4/29/08 and 5/15/08 were not available for examination as they could not be located.

We recommend that management implement a formal filing policy to improve the efficiency of file retrieval and storage and to assist in improving security over Company records.

SECTION III – DEFINITIONS

The definition of a deficiency that is established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, 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

TCPPI'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.