

TOBOLAR COPRA PROCESSING PLANT, INC.

**(A COMPONENT UNIT OF THE REPUBLIC
OF THE MARSHALL ISLANDS)**

**INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL AND ON COMPLIANCE**

YEAR ENDED SEPTEMBER 30, 2009

**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 Plant, Inc.:

We have audited the financial statements of Tobolar Copra Processing Plant, Inc. (TCPPI) as of and for the year ended September 30, 2009, and have issued our report thereon dated April 15, 2010. 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

In planning and performing our audit, we considered TCPPI'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 TCPPI's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of TCPPI'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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Responses (pages 3 through 7) as items 2009-1 through 2009-3 to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be material weaknesses.

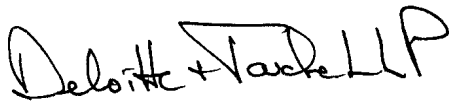
Compliance and Other Matters

As part of obtaining reasonable assurance about whether TCPPI'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 items 2009-4 and 2009-5.

We noted certain matters that we reported to management of TCPPI in a separate letter dated April 15, 2010.

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

This report is intended solely for the information and use of the Board of Directors, management, 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 + Touche LLP". The signature is written in a cursive, stylized font.

April 15, 2010

TOBOLAR COPRA PROCESSING PLANT, INC.

Schedule of Findings and Responses
Year Ended September 30, 2009

Journal Entries

Finding No. 2009-1

Criteria: Adequate accounting controls necessitate that journal entries and recorded adjustments be appropriately approved and documented. Further, an independent review of journal vouchers should occur.

Condition: TCPPI does not have a policy concerning authorization and review of manual journal entries. Manual journal entries are prepared and posted by a single person without independent review.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures to ensure that journal entries are subjected to review and approval.

Effect: The effect of the above condition is a potential that unauthorized journal entries may lead to misstatements of general ledger accounts.

Recommendation: We recommend that management adopt policies and procedures to ensure that only authorized journal entries are posted to the general ledger.

Prior Year Status: The lack of internal control over approval and independent review of journal vouchers was reported as a finding in the audit of TCPPI for fiscal year 2008.

Auditee Response and Corrective Action Plan: The Board, General Manager, Business Manager and new accounting staff will be advised of the need to establish accounting controls over journal entries to include appropriate documentation and review and approval procedures.

TOBOLAR COPRA PROCESSING PLANT, INC.

Schedule of Findings and Responses, Continued
Year Ended September 30, 2009

Accounts Receivable

Finding No. 2009-2

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

Condition: Of total receivables of \$216,945 (which excludes RepMar and affiliates totaling \$69,646), \$147,299 or 97% is over 120 days old, of which \$129,742 has been outstanding for over one (1) year. Regular reconciliations between the accounts receivable subledger and the general ledger account were not performed during the year. Management has recorded a corresponding allowance for doubtful accounts of \$139,638 at September 30, 2009.

Cause: This condition arose due to a lack of ongoing collection effort throughout the year and a lack of policies and procedures to ensure that account reconciliations periodically occur during the year.

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

Prior Year Status: The lack of internal control over monitoring of accounts receivable was reported as a finding in the audit of TCPPI for fiscal year 2008.

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.

Auditee Response and Corrective Action Plan: The Board, General Manager, Business Manager and new accounting staff will be advised to establish appropriate procedures to monitor accounts receivables and to establish a formal credit policy.

TOBOLAR COPRA PROCESSING PLANT, INC.

Schedule of Findings and Responses, Continued
Year Ended September 30, 2009

Sick Leave Accruals

Finding No. 2009-3

Criteria: Internal control over the monitoring of sick leave hours should be established and implemented.

Condition: TCPPI does not maintain a sick leave subsystem to monitor sick leave hours earned and utilized.

Cause: The cause of the above condition is that TCPPI has not instituted control over the monitoring of sick leave hours.

Effect: The effect of the above condition is that sick leave hours could be incorrectly paid or accounted for.

Recommendation: We recommend that management ensure that a sick leave subsystem that tracks sick leave hours earned and utilized is maintained.

Prior Year Status: The lack of internal control over monitoring of sick leave hours was reported as a finding in the audits of TCPPI for fiscal years 2005 through 2008.

Auditee Response and Corrective Action Plan: The Board, General Manager and Business Manager will be advised to develop a procedure and protocol for a sick leave tracking system. The procedure and protocol for tracking sick leave will be documented and approved by the General Manager and Chairman of the Board.

TOBOLAR COPRA PROCESSING PLANT, INC.

Schedule of Findings and Responses, Continued
Year Ended September 30, 2009

Local Noncompliance

Finding No. 2009-4

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. 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. 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: During the year ended September 30, 2009, TCPPI incurred costs amounting to \$83,890 for the roofing project undertaken by PII, a related party by virtue of management agreement. RMI government requires that procurement actions of goods and services provide full and open competition and should be appropriately documented in the procurement files. However, the said project did not undergo competitive bidding process and no document was obtained to evidence proper authorization and approval by the Board.

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

Auditee Response and Corrective Action Plan: The General Manager and Business Manager have been advised that proper Republic of the Marshall Islands Procurement Regulations must be followed.

TOBOLAR COPRA PROCESSING PLANT, INC.

Schedule of Findings and Responses, Continued
Year Ended September 30, 2009

Local Noncompliance

Finding No. 2009-5

Criteria: Public Law 1992-2, enacted on February 17, 1992, established the Tobolar Copra Processing Authority (the Authority). Pursuant to this law, the Authority was specifically authorized and directed to enter into appropriate arrangements with TCPPI for the assumption of all rights and title to any and all assets, equipment, contracts, liabilities, rights, obligations, functions, powers, etc., that TCPPI may have or control, including all rights to the use of the name "Tobolar". This assumption was to occur once TCPPI had been liquidated.

Condition: TCPPI has not been liquidated and all rights and title to any and all assets, equipment, contracts, liabilities, rights, obligations, functions, powers, etc., that TCPPI has or controls have not been assumed by the Authority.

Cause: The cause of the above condition is that the requirements of Public Law 1992-2 have yet to be met.

Effect: The effect of the above condition is that TCPPI is in noncompliance with the requirements of Public Law 1992-2.

Recommendation: We recommend that management take steps to comply with the requirements of Public Law 1992-2, including consultation with a legal counsel.

Prior Year Status: Noncompliance with the requirements of Public Law 1992-2 was reported as a finding in the audits of TCPPI for fiscal years 1994 through 2008.

Auditee Response and Corrective Action Plan: The Chairman of the Board will be advised that a formal request should be filed with the Attorney General requesting that the Attorney General take the appropriate action comply with Public Law 1992-2.

TOBOLAR COPRA PROCESSING PLANT, INC.

Unresolved Prior Year Findings
Year Ended September 30, 2009

The status of unresolved prior year findings is discussed within the Schedule of Findings and Responses section of this report (pages 3 through 7).