

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, 2010

**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, 2010, and have issued our report thereon dated June 3, 2011. 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 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 6), 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 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 2010-1 through 2010-3 to be material weaknesses.

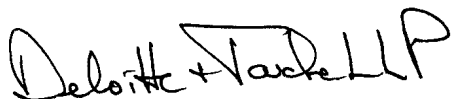
Compliance and Other Matters

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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2010-4.

We also noted certain matters that we reported to management of TCPPI in a separate letter dated June 3, 2011.

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 + Stachell LLP". The signature is written in a cursive, stylized font.

June 3, 2011

TOBOLAR COPRA PROCESSING PLANT, INC.

Schedule of Findings and Responses Year Ended September 30, 2010

Journal Entries

Finding No. 2010-1

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. Further, we noted that general ledger accounts does not reconcile to the sales ledger per customer and payables per vendor due to inappropriate entries booked to wrong customer and vendor accounts, respectively.

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 audits of TCPPI for fiscal years 2008 and 2009.

Auditee Response and Corrective Action Plan: As a recurring audit findings from previous years, Tobolar's new management was serious in resolving this particular issue to improve and comply with the effective internal control on journal entries and adjustments.

We have implemented an internal control over journal vouchers for FY2010 which we think were already put in place. All journal vouchers on file were prepared and recorded in the books by the Chief Accountant and signed by the Plant Manager to signify review and approval. The latter was designated by Tobolar board as the acting General Manager (GM) since the post was vacant until February 28, 2011.

TOBOLAR COPRA PROCESSING PLANT, INC.

Schedule of Findings and Responses, Continued
Year Ended September 30, 2010

Accounts Receivable

Finding No. 2010-2

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

Condition: Of total receivables of \$123,612 (which excludes RepMar and affiliates totaling \$178,126), \$120,978 or 98% is over 120 days old and has been outstanding for over one (1) year. Regular reconciliations between the accounts receivable sub ledger and the general ledger account were not performed during the year. Management has recorded a corresponding allowance for doubtful accounts of \$118,573 at September 30, 2010.

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.

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 audit of TCPPI for fiscal years 2008 and 2009.

Auditee Response and Corrective Action Plan: Apparently the Accounts Receivables are from prior management which perhaps made attempt to collect but unable to succeed. The current management will ascertain adequate effort to collect the overdue receivables in FY2011. A staff will be assigned to retrieve the old files and records of these outstanding receivables and will take full charge of communicating with each respective clients to collect the outstanding balance.

Said staff will ensure proper monitoring of receivables on an ongoing basis to establish effective collections. The Chief Accountant will be supervising the collection and on monthly basis report any progress and development to the General Manager accordingly.

Subject to the outcome of the collection, the Chief Accountant will consult with the General Manager on determining uncollectable account(s) to be written off.

TOBOLAR COPRA PROCESSING PLANT, INC.

Schedule of Findings and Responses, Continued
Year Ended September 30, 2010

Sick Leave Accruals

Finding No. 2010-3

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 2009.

Auditee Response and Corrective Action Plan: Our payroll officer is currently reconciling sick leave hours of all employees (from previous years to present) and hopefully finished it within May or June 2011. Once finalized, we will try to integrate this with our QuickBooks System, in particular the payroll module, the Sick Leave, including Annual Leave hours for easy and systematic monitoring. The Chief Accountant will be primarily in charge of ensuring that the leave hours are monitored, reconciled, and importantly, properly recorded.

The Chief Accountant will provide a generated report to the General Manager who will check and make sure that the monitoring and recording of the leave hours are properly and acceptably done.

TOBOLAR COPRA PROCESSING PLANT, INC.

Schedule of Findings and Responses, Continued
Year Ended September 30, 2010

Local Noncompliance

Finding No. 2010-4

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 2009.

Auditee Response and Corrective Action Plan: The finding involves legal implication which requires assistance and guidance from the Office of the Attorney General. In this respect, Tobolar Management contacted the Office of the Attorney General and obtained a legal opinion on options to pursue. Such opinion will be reviewed by the Tobolar Board of Directors who will decide on which option to pursue.

Both options will still require the support of the Office of the Attorney General and therefore subject to the Board decision and further instruction. Tobolar management will be responsible to facilitate action accordingly. It is Tobolar's main objective to resolve the audit finding as early as possible.

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Unresolved Prior Year Findings
Year Ended September 30, 2010

The status of unresolved prior year findings is discussed within the Schedule of Findings and Responses section of this report (pages 3 through 6).