

June 3, 2011

Mr. Jemi Nashion
Chairman
Tobolar Copra Processing Plant, Inc.:

Dear Mr. Nashion:

In planning and performing our audit of the financial statements of the Tobolar Copra Processing Plant, Inc. (TCPPI) as of and for the year ended September 30, 2010 (on which we have issued our report dated June 3, 2011 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 TCPPI'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 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. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to TCPPI's internal control over financial reporting and other matters as of September 30, 2010 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated June 3, 2011, on our consideration of TCPPI'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.

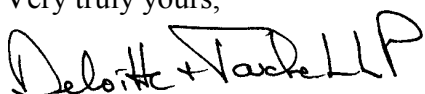
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with 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 TCPPI 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 TCPPI’s internal control over financial reporting as of September 30, 2010 that we wish to bring to your attention:

(1) QuickBooks Accounting System Set-Up

The Company started to utilize QuickBooks during the year. However, customer and vendor sub ledger accounts were not correctly set-up. Further, we noted discrepancies in the general ledger balance against sales by customer and payables per vendor reports. We recommend customer and vendor accounts be correctly established to facilitate reliable reports. Further, we recommend that management establish policies and procedures to require periodic reconciliation of subsidiary ledgers with general ledger accounts.

(2) Allowance for Doubtful Accounts

TCPPI does not have a review process for receivables and the related allowance for doubtful accounts. We recommend that management perform counterparty reconciliations and review and evaluate balances to ensure that uncollectable receivables are identified. TCPPI should determine and document the methodology and assumptions used for allowance provisions. Balances should be evaluated, collective efforts implemented, and provisions provided as appropriate. Historical loss experience and publicly observable data on loss experience by industry or risk profile of counterparties should be considered rather than provisioning based solely on an aging analysis. This matter was discussed in our previous letter dated April 15, 2010.

(3) Employee Receivables

At September 30, 2010, receivables from employees included credits of \$6,603, which resulted from lack of monitoring employee accounts. Additionally, suspense accounts maintained for temporary postings of employee charges and deductions had a year-end credit balance of \$10,102. We recommend that management establish policies and procedures to govern monitoring and review of employee receivables. This matter was reported as finding in the audits of TCPPI for fiscal years 2006 through 2009.

(4) Inventory

It has been TCPPI’s practice to record inventories as an expense upon purchase and to record an inventory adjustment at year end based on results of the annual physical count. Although certain control procedures are maintained, deficiencies are present in the implemented actions.

The production department performs daily counts of copra raw materials and copra oil. However, no independent checks and verification of inventory on hand is performed nor are periodic reconciliations of book to actual inventory on hand carried out.

Previously, monthly inventory reports were prepared to assist production analysis. This practice assisted TCPPI’s production efficiency; however, since the assigned employee resigned, these reports have not been prepared.

We recommend that adequate recordkeeping of inventory purchases occur, periodic cyclical counts be performed and complete and timely reconciliations be performed. TCPPI should ensure that adequate internal controls over inventories are established to safeguard inventories against susceptibility of pilferage and misappropriation. This matter was reported as finding in the audits of TCPPI for fiscal years 2005 through 2009.

(5) Filing of Receipts, Invoices and Travel Authorizations

The following exceptions were noted in our tests of expenses and disbursements:

- Missing price quotation for a \$2,387 laser printer.
- Missing receipt # 37225 for a \$4,125 copra grinder with bag.
- Lack of invoice receipt for APCC membership contribution of \$13,823.
- Lack of approved travel authorization form for invoice # 2331 amounting to \$2,493.
- Lack of approved travel authorization form and invoice for round trip fare from Majuro to Manila amounting to \$4,007.

We recommend that receipts, invoices and authorization forms be maintained and be filed to adequately support transactions.

(6) Fixed Assets

Based on the fixed asset register, we noted that negative depreciation was charged and that fixed assets below the \$1,000 capitalization threshold were capitalized. We recommend periodic review of fixed asset transactions and depreciation schedules. Further, we recommend reference to the capitalization threshold to avoid unnecessary time spent monitoring immaterial fixed assets.

(7) RMI Withholding Tax

We noted a late filing of income tax for the quarter ending March 31, 2010. We recommend that timely remittances of taxes occur.

(8) Advances to Suppliers and Prepayments

Our tests of cost of sales revealed advances to suppliers for \$58,365 of undelivered copra bags. An audit adjustment was proposed to record the advance payment and to reverse the related expenses. Further, we noted that prepaid insurance was not adjusted from last year's balance. We recommend timely monitoring of prepayments and advances to suppliers to establish cut-off and recording of expenses.

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 Reconciliations

Bank reconciliations are not independently reviewed and approved by an individual other than the preparer. An independent review is important to ensure that reconciliations are accurate, are prepared in a timely manner, and include valid reconciling items. We recommend that review and approval of bank reconciliations be performed. This matter was reported as a finding in the audits of TCPPI for fiscal years 2005 through 2009.

(2) Inventory

Copra oil, copra cake and soap and materials are valued at the lower of production cost, which includes raw copra, direct labor and factory overhead, or market (nets realizable value). However, TCPPI has not established a methodology to determine production cost, including overhead. The year-end inventory valuation is based on a net realizable value without comparison to cost. We recommend that management adopt a methodology to determine the value of inventory at cost. This matter was reported as finding in the audits of TCPPI for fiscal years 2008 and 2009.

(3) Accrued Expenses

At September 30, 2010, accounts payable to treasurers for purchases of copra reflect a debit balance of \$3,457. These accounts had no activity during fiscal year 2010 and in prior years. We recommend that management verify whether the debit balance should be removed. This matter was reported as finding in the audits of TCPPI for fiscal years 2008 and 2009.

(4) Interest on Related Party Loan

During the year ended September 30, 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.

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.