

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, 2011

**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, 2011, and have issued our report thereon dated March 13, 2012, which report included an explanatory paragraph concerning a restatement. 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 TCPPI is responsible for establishing and maintaining effective 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 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 item 2011-1 to be a material weakness.

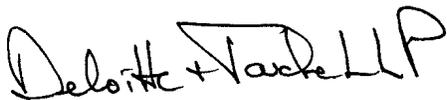
Compliance and Other Matters

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 2011-2 and 2011-3.

We also noted certain matters that we reported to management of TCPPI in a separate letter dated March 13, 2012.

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 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, slightly stylized font.

March 13, 2012

TOBOLAR COPRA PROCESSING PLANT, INC.

Schedule of Findings and Responses Year Ended September 30, 2011

Accounts Receivable

Finding No. 2011-1

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

Condition: Of total receivables of \$301,560 (which excludes RepMar and affiliates of \$245,702), \$145,614 or 48% has been outstanding for over one (1) year. Management has recorded a corresponding allowance for doubtful accounts of \$118,573 at September 30, 2011. 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. Additionally, an outstanding invoice of \$24,407, which was replaced by a new invoice, was not voided due to lack of timely customer account monitoring.

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 during the year.

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 TCPPI for fiscal years 2008 through 2010.

Auditee Response and Corrective Action Plan: The Account Receivable finding is an issue carried forward from previous fiscal periods. Tobolar's response in FY2010 was to prompt collection by assigning a staff to concentrate on collecting overdue/outstanding receivables. The work commenced but unfortunately the person resigned.

Tobolar has hired a collector to continue with the collection and recent development has been realized. With the ongoing effort and development, Tobolar is very hopeful to resolve the Finding.

Tobolar acknowledged the finding and looking for to accomplish the above.

TOBOLAR COPRA PROCESSING PLANT, INC.

Schedule of Findings and Responses, Continued
Year Ended September 30, 2011

Local Noncompliance

Finding No. 2011-2

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 the following items where documentation on file was inadequate to evidence the procurement process:

<u>Item Description</u>	<u>Amount</u>	<u>Comment</u>
Pay loader	\$ 219,785	Written award notice to supplier was not completed.
Isuzu Flat Bed	\$ 29,450	The procurement procedures were not followed considering the amount of vehicles purchased.
Mitsubishi L200	\$ 34,860	
Injection pump	\$ 16,875	Price quotations from vendors are 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 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 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 TCPPI for fiscal year 2010.

TOBOLAR COPRA PROCESSING PLANT, INC.

Schedule of Findings and Responses, Continued
Year Ended September 30, 2011

Local Noncompliance, Continued

Finding No. 2011-2, Continued

Auditee Response and Corrective Action Plan: Tobolar acknowledged the Finding that was based on the RMI Procurement Code which requires all Government Ministries and Agencies to comply with. While Tobolar acknowledged the Finding, it would like to emphasize the following justifications:

- Payloader - Tobolar legitimately followed the RMI Procurement Code bidding process. While the written award notice was not issued Tobolar verbally but formally informed the successful bidder.
- Isuzu Flat Bed Mitsubishi L200 - Tobolar did not bid out the procurement of the vehicle because of exclusive distributorship on island for each vehicle. Comparison was not possible and the Board approved to give discretion to the Management to decide.
- Injection pump - It was an emergency purchase which allowed under the Procurement Code. In addition, the part was not available on island and for that reason the order was place through aCat Dealer on island.

Tobolar is in the process of developing policies that will address the above and guide a more transparent and robust procurement process.

TOBOLAR COPRA PROCESSING PLANT, INC.

Schedule of Findings and Responses, Continued
Year Ended September 30, 2011

Local Noncompliance

Finding No. 2011-3

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 2010.

Auditee Response and Corrective Action Plan: Tobolar acknowledged the Audit Finding being repeatedly reflected from previous fiscal periods. Based on the recommendation from the Attorney General Office which Tobolar Board endorsed, it is proposed to amend the Tobolar Act to repeal section 1313.

Tobolar has taken the necessary steps to facilitate the proposed amendment. Tobolar is looking forward to obtain support from Cabinet in order to resolve the finding this fiscal year 2012.

TOBOLAR COPRA PROCESSING PLANT, INC.

Unresolved Prior Year Findings
Year Ended September 30, 2011

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