

TOBOLAR COPRA PROCESSING PLANT, INC.

INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2000



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED UPON THE AUDIT 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, 2000, and have issued our report thereon dated December 13, 2000. 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.

Compliance

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 grants, 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 that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings (pages 3 through 7) as items 2000-3 through 2000-5.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered TCPPI's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect TCPPI's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 2000-1 and 2000-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over financial reporting which we have reported to management of TCPPI in a separate letter dated December 13, 2000.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche

December 13, 2000

TOBOLAR COPRA PROCESSING PLANT, INC.

Schedule of Findings
Year Ended September 30, 2000

Receivables

Finding No. 2000-1

Criteria: The accounts receivable subsidiary ledger should be closely monitored and used as a tool for credit control.

Condition: At September 30, 2000, TCPPI recorded certain accounts receivable that have been outstanding for over three years. These amounts include a receivable from a director of TCPPI totaling \$6,890.

Cause: The cause of the above condition is the lack of follow-up from the Office of the Attorney General.

Effect: The effect of the above condition is further aging of the receivables and increased difficulty of collection.

Recommendation: We recommend that the Board and the management of TCPPI follow-up with the Office of the Attorney General with respect to receivable accounts previously forwarded for collection.

Prior Year Status: Lack of follow-up of receivables from the Office of the Attorney General was reported as a finding in the audits of TCPPI for fiscal years 1998 and 1999.

Auditee Response and Corrective Action Plan: We concur with this finding and will again refer this to the Office of the Attorney General.

TOBOLAR COPRA PROCESSING PLANT, INC.

Schedule of Findings, Continued
Year Ended September 30, 2000

Payable to Affiliates

Finding No. 2000-2

Criteria: Financial arrangements should be supported by authorized loan agreements.

Condition: At September 30, 2000, TCPPI had obtained advances of \$500,000 from the government of the Republic of the Marshall Islands (RepMar), based on RepMar Cabinet Minute C.M. 154(99), authorizing a loan of \$500,000. These advances were not supported by a loan agreement that specified terms and conditions.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is the possibility of disputes between TCPPI and RepMar.

Recommendation: We recommend that the Board and the management of TCPPI obtain a loan agreement from RepMar for the advances.

Prior Year Status: Lack of a supporting loan agreement was reported as a finding in the audit of TCPPI for fiscal year 1999.

Auditee Response and Corrective Action Plan: Any loan agreement to be provided will be done so at the discretion of RepMar's Ministry of Finance.

TOBOLAR COPRA PROCESSING PLANT, INC.

Schedule of Findings, Continued
Year Ended September 30, 2000

Local Noncompliance

Finding No. 2000-3

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 unknown.

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 TCPPI take steps to comply with the requirements of Public Law 1992-2. Such steps should include the consultation of 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 1999.

Auditee Response and Corrective Action Plan: We concur with this finding and will again refer this to the Office of the Attorney General.

TOBOLAR COPRA PROCESSING PLANT, INC.

Schedule of Findings, Continued
Year Ended September 30, 2000

Local Noncompliance

Finding No. 2000-4

Criteria: Section 5 of the Republic of the Marshall Islands (RepMar) Income Tax Act of 1989, as amended, states that the employer shall, once every four weeks or thirteen times per year, pay taxes withheld under Section 4 of the Act.

Condition: At September 30, 2000, TCPPI owed RepMar \$22,582 in income tax withholdings from employee wages. This amount is represented by income tax withheld from employee wages for the pay periods ended May 20, 1999 through September 30, 2000.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is noncompliance with the Income Tax Act of 1989, as amended.

Recommendation: We recommend that the management of TCPPI comply with the Income Tax Act of 1989, as amended.

Prior Year Status: Noncompliance with the Income Tax Act of 1989, as amended, was reported as a finding in the audit of TCPPI for fiscal year 1999.

Auditee Response and Corrective Action Plan: As RepMar was unable to fund all of the regulated price in fiscal year 2000, it was agreed that payments for income tax withholdings would be made only as and when funds allowed for such payment.

TOBOLAR COPRA PROCESSING PLANT, INC.

Schedule of Findings, Continued
Year Ended September 30, 2000

Local Noncompliance

Finding No. 2000-5

Criteria: Sections 131 and 215 of the RepMar Social Security Act of 1990 and the Social Security Health Fund Act of 1991, respectively, state that no later than the tenth day after the end of each quarter, every employer shall submit to the Social Security Administrator a report of the wages and salaries paid, and the contributions due, under Sections 129 and 130, and 213 and 214, respectively, and pay into the Fund the contributions due.

Condition: For the year ended September 30, 2000, TCPPI did not submit payment to the Social Security Administrator for contributions due within the timeframe prescribed. The employer and employee contributions for the year ended September 30, 2000 were paid on the following dates:

		<u>Date Paid</u>
Quarter ended December 31, 1999	\$ 9,869	May 12, 2000
Quarter ended March 31, 2000	\$ 8,313	September 5, 2000
Quarter ended June 30, 2000	\$ 7,849	October 4, 2000
Quarter ended September 30, 2000	\$ 9,080	December 5, 2000

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is noncompliance with the Social Security Act of 1990 and the Social Security Health Fund Act of 1991.

Recommendation: We recommend that the management of TCPPI comply with the Social Security Act of 1990 and the Social Security Health Fund Act of 1991.

Prior Year Status: Noncompliance with the Social Security Act of 1990 and the Social Security Health Fund Act of 1991 was reported as a finding in the audit of TCPPI for fiscal year 1999.

Auditee Response and Corrective Action Plan: While every attempt has been made to pay contributions on time, cash flow restrictions from inadequate funding by RepMar of the regulated price has delayed payments. Payment of contributions now takes priority over all other payments and are made by the due date.

TOBOLAR COPRA PROCESSING PLANT, INC.

Unresolved Prior Year Findings
Year Ended September 30, 2000

Unresolved Prior Year Comments

The status of unresolved prior year findings are disclosed within the Schedule of Findings section of this report (pages 3 through 7).