

TOBOLAR COPRA PROCESSING PLANT, INC.

INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2001



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, 2001, and have issued our report thereon dated April 4, 2002. 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 one instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings (pages 3 through 6) as item 2001-4. We also noted certain immaterial instances of noncompliance, which we have reported to management of TCPPI in a separate letter dated April 4, 2002.

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 2001-1 through 2001-3.

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, of the reportable conditions described above, we consider item 2001-3 to be 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 April 4, 2002.

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

April 4, 2002

TOBOLAR COPRA PROCESSING PLANT, INC.

Schedule of Findings
Year Ended September 30, 2001

Receivables

Finding No. 2001-1

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

Condition: At September 30, 2001, TCPPI recorded certain accounts receivable that have been outstanding for over four 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 with the Office of the Attorney General was reported as a finding in the audits of TCPPI for fiscal years 1998 through 2000.

Auditee Response and Corrective Action Plan: This matter continues to be referred to both the Board of Directors and the Office of the Attorney General for action.

TOBOLAR COPRA PROCESSING PLANT, INC.

Schedule of Findings, Continued
Year Ended September 30, 2001

Payable to Affiliates

Finding No. 2001-2

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

Condition: At September 30, 2001, 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 audits of TCPPI for fiscal years 1999 and 2000.

Auditee Response and Corrective Action Plan: This matter will be referred to the Board of Directors. The actual loan was in lieu of receiving subsidy authorized by the Cabinet of RepMar but not paid.

TOBOLAR COPRA PROCESSING PLANT, INC.

Schedule of Findings, Continued
Year Ended September 30, 2001

Payables

Finding No. 2001-3

Criteria: A proper system of internal control requires that payables be monitored to ensure that invoices are not paid twice.

Condition: Our tests of disbursements made subsequent to September 30, 2001, noted one disbursement (check # 22322 for \$29,024), dated March 20, 2002, which represented a double payment on a previous disbursement (check # 22303 for \$29,024), dated February 20, 2002. The overpayment was subsequently applied to additional payable balances to the vendor.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is overpayment on vendor invoices.

Recommendation: We recommend that management of TCPPI verify the validity of vendor invoices before payments are made to ensure that an invoice is not paid twice.

Auditee Response and Corrective Action Plan: The employee responsible has since been terminated.

TOBOLAR COPRA PROCESSING PLANT, INC.

Schedule of Findings, Continued
Year Ended September 30, 2001

Local Noncompliance

Finding No. 2001-4

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 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 management of 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 2000.

Auditee Response and Corrective Action Plan: This matter continues to be referred to both the Board of Directors and the Office of the Attorney General for action.

TOBOLAR COPRA PROCESSING PLANT, INC.

Unresolved Prior Year Findings
Year Ended September 30, 2001

The status of unresolved prior year findings are disclosed within the Schedule of Findings section of this report (pages 3 through 6).