



April 4, 2002

CONFIDENTIAL

Mr. Michael Slinger
General Manager
Tobolar Copra Processing Plant, Inc.

Dear Mr. Slinger:

In planning and performing our audit of the financial statements of Tobolar Copra Processing Plant, Inc. (TCPPI) for the year ended September 30, 2001, on which we have issued our report dated April 4, 2002, we developed the following recommendations concerning certain matters related to TCPPI's internal control and certain observations and recommendations on other accounting, administrative and operating matters. Our recommendations are summarized below:

(1) Revenue/Receipts

Of fifteen soap and pineop oil invoices tested, we noted the following exceptions:

- We were unable to agree sales for two invoices (invoice #s 3406 and 3428 for \$137 and \$2, respectively) to supporting cash receipts and the general ledger.
- One cash receipt (receipt # 18695 for \$23), dated April 23, 2001, was not deposited until June 7, 2001.

Furthermore, we noted that sales invoices during the year ended September 30, 2001, were not issued in numeric sequence.

We recommend that management ensure that all sales invoices are recorded, deposits are made to the bank in a timely manner, and that invoices are issued in numeric sequence.

(2) Purchases/Disbursements

Of twenty-seven non-payroll disbursements tested, the purchase order for one disbursement (check # 32867, totaling \$286) was not made available. We recommend that management ensure that purchase orders support all disbursements.

(3) Purchases/Disbursements

All check vouchers should be issued in numeric sequence. During the year ended September 30, 2001, we noted that check voucher #s 22001 through 22200 pertaining to the Bank of Guam general account (A/c # 0105-005689) were not issued. We recommend that management ensure that check vouchers are issued in numeric sequence.

(4) Payroll

Of twenty-five payroll disbursements tested, personnel files for fifteen employees did not contain an employment contract or letter of employment evidencing approved pay rates. Furthermore, allotments for seventeen employees were not evidenced by authorized allotment forms. We recommend that the management of TCPPI ensure employee personnel files are updated for changes in authorized pay rates and employee deductions. This matter was discussed in our previous letter dated December 13, 2000.

(5) Payroll

Of twenty-five payroll disbursements tested, we noted the following exceptions relating to hours paid:

<u>Employee No.</u>	<u>PPE</u>	<u>Hours Worked</u>	<u>Hours Paid</u>	<u>Variance</u>
72	12/03/00	16.5	11.5	(5.0)
86	03/22/01	8.5	7.5	(1.0)
144	08/20/01	9.5	10.5	1.0

We recommend that management ensure that salaries and wages paid are based on actual hours worked.

(6) Receivables

TCPPI does not prepare detailed aging schedules for accounts receivable and does not maintain invoices in an orderly manner. In particular, recorded accounts receivable as of September 30, 2001 for soap/pinneep oil sales did not have a detailed aging schedule and did not agree to outstanding sales invoices, which were maintained by the soap factory manager. Detailed aging schedules prepared on a regular basis can assist management to determine the adequacy of the allowance for doubtful accounts. We recommend that the management of TCPPI implement procedures to prepare accounts receivable aging schedules on a regular basis and maintain sales invoices in an orderly manner. This matter was discussed in our previous letter dated December 13, 2000.

(7) Notes Payable

As of September 30, 2001, TCPPI was in default of repayment terms concerning two notes payable to the Marshall Islands Ports Authority aggregating \$100,000. Specifically, the promissory notes required repayment of principal and interest on or before September 30, 1998. We recommend that management renegotiate an extension to the repayment terms of these notes payable. This matter was discussed in our previous letters dated December 13, 2000 and November 18, 1999.

(8) By-Laws

Article II, Section 1 of TCPPI's by-laws states that an annual meeting of shareholders shall be held each year on March 15. In addition, Article III, Section 3 states that a regular meeting of the Board of Directors shall be held immediately after, and at the same place as, the annual meeting of shareholders. No annual meeting of shareholders or regular meeting of the Board of Directors were held during the year ended September 30, 2001. We recommend that management advise the Board that, in accordance with the by-laws, an annual meeting of shareholders, together with a regular meeting of the Board immediately after, must be held each year. This matter was discussed in our previous letters dated December 13, 2000 and November 18, 1999.

(9) Local Noncompliance

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. At September 30, 2001, TCPPI owed RepMar \$11,612 in income tax withholdings from employee wages. This amount is represented by income tax withheld from employee wages for the pay periods ended October 7, 2000 through September 30, 2001. We recommend that management of TCPPI comply with the Income Tax Act of 1989, as amended. This matter was reported as a finding in the audits of TCPPI for fiscal years 1999 and 2000.

(10) Local Noncompliance

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. For the year ended September 30, 2001, TCPPI did not submit payments to the Social Security Administrator for employer and employee contributions due within the timeframe prescribed for the quarters ended December 31, 2000 and September 30, 2001. We recommend that management of TCPPI comply with the Social Security Act of 1990 and the Social Security Health Fund Act of 1991. This matter was reported as a finding in the audits of TCPPI for fiscal years 1999 and 2000.

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We have communicated certain matters noted during our audit of the financial statements of TCPPI for the year ended September 30, 2001, which we considered to be reportable conditions in our report dated April 4, 2002.

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

We would like to thank the accounting staff and management for their assistance during the course of our audit. Should you have any questions regarding the matters discussed herein, please contact our office at your convenience.

Very truly yours,

