



August 5, 2003

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, 2002, on which we have issued our report dated August 5, 2003, 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) Purchases/Disbursements

Of twenty-five non-payroll disbursements tested, we noted the following:

- No supporting documents were made available for one disbursement (check # 33586) for \$200.
- One disbursement (check # 33559) for \$22 related to employee bonuses paid during the year. We noted that no payroll taxes were withheld from employee bonuses paid.
- One disbursement (check # 22307) for \$7,917 was not recorded in the cash disbursements journal and therefore, was not recorded in the general ledger. An audit adjustment was proposed to record this disbursement.

We recommend that management ensure that all source documents are retained to support all disbursements and that all disbursements are recorded in the general ledger. Furthermore, we recommend that management ensure that payroll taxes are withheld from employee bonuses paid.

(2) Payroll

Of twenty-five payroll disbursements tested, certain allotments for twenty-four employees were not evidenced by authorized allotment forms. Furthermore, the payroll registers for pay periods ended October 21, 2001 and March 10, 2002 were not made available. We recommend that management ensure that authorized allotment forms are retained in employee personnel files and that payroll is supported by payroll registers. This matter was discussed in our previous letters dated April 4, 2002 and December 13, 2000.

(3) Cash

We noted one check (# 22400, for \$5,605) dated July 11, 2002 that was unreleased at September 30, 2002 but was not recorded as a reconciling item in the general account bank reconciliation as of September 30, 2002. We recommend that management ensure that all disbursements are recorded in the general ledger.

(4) 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, 2002 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 letters dated April 4, 2002 and December 13, 2000.

(5) Fixed Assets

We noted one disposed asset (Factory Dryer) which was still included in the fixed asset register. We recommend that management ensure that the fixed asset register is updated for all disposals.

(6) Notes Payable

As of September 30, 2002, 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 April 4, 2002, December 13, 2000 and November 18, 1999.

(7) Insurance Coverage

Fire insurance coverage at September 30, 2002 for furniture, fixture and equipment amounted to \$500,000; however, furniture, fixture and equipment had a total net book value at September 30, 2002 of \$659,828. We recommend that management ensure that all fixed assets are adequately insured against risks of loss.

(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 was held during the year ended September 30, 2002. We recommend that management advise the Board that, in accordance with the by-laws, an annual meeting of shareholders must be held each year. This matter was discussed in our previous letters dated April 4, 2002, December 13, 2000 and November 18, 1999.

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(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, 2002, TCPPI owed RepMar \$30,059 in income tax withholdings from employee wages. This amount is represented by income tax withheld from employee wages for the pay periods ended September 9, 2000 through September 30, 2002. We recommend that management of TCPPI comply with the Income Tax Act of 1989, as amended. This matter was discussed in our previous letter dated April 4, 2002 and 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, 2002, 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, 2001, March 31, 2002 and September 30, 2002. 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 discussed in our previous letter dated April 4, 2002 and 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, 2002, which we considered to be reportable conditions in our report dated August 5, 2003.

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,

