

August 15, 2005

CONFIDENTIAL

Mr. Robert Muller
Chairman
Tobolar Copra Processing Plant, Inc.

Dear Mr. Muller:

In planning and performing our audit of the financial statements of Tobolar Copra Processing Plant, Inc. (TCPPI) for the year ended September 30, 2004, on which we have issued our report dated August 15, 2005, 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) Payroll

Of twenty-five payroll disbursements tested, five employee allotments were not evidenced by authorized allotment forms. We recommend management of TCPPI ensure that authorized allotment forms be retained in employee personnel files. This matter was discussed in our previous letters dated April 1, 2004, August 5, 2003, April 4, 2002 and December 13, 2000.

(2) Payroll

Of twenty-five payroll disbursements tested, one item (check # 17671) indicated 94.5 hours paid whereas the employee's timecard indicated 102 hours worked, resulting in an underpayment of gross wages of \$41.41. We recommend management of TCPPI ensure that hours paid are consistent with hours worked as indicated on the employee timecard. This matter was discussed in our previous letter dated April 1, 2004.

(3) Payroll

Of twenty-five payroll disbursements tested, one item (check #17280) was paid to an employee whose name was not listed on the employee listing approved by the General Manager. We recommend management of TCPPI ensure that the employee listing is updated to include all new employees. This matter was discussed in our previous letter dated April 1, 2004.

(4) Inventories

Recorded quantities (262 and 780 bags) of two refinery raw materials items (caustic sodium hyroxide flakes and absorbent bleaching clay, respectively) tested varied from actual quantities (357 and 814 bags, respectively) indicated on the count sheets. We recommend management of TCPPI ensure that inventory is accurately recorded.

(5) Fixed Assets

We selected two items (an IBM computer and a Toyota pickup truck) from the fixed asset register for existence testing and were informed that these items had been disposed of and replaced; however, the assets were not removed from the register. Although the fixed assets were fully depreciated, we recommend that the fixed asset register be updated for all disposals. This matter was discussed in our previous letter dated April 1, 2004.

(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, 2004 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 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 1, 2004, August 5, 2003, April 4, 2002 and December 13, 2000.

(7) Employee Receivables

At September 30, 2004, TCPPI recorded employee receivables of \$24,167 that included an unknown balance of \$12,445; this balance is included in the allowance for doubtful accounts. We recommend management of TCPPI consider obtaining the Board's approval to write-off this unknown balance.

(8) Notes Payable

As of September 30, 2004, TCCPI was in default of repayment terms concerning two notes payable to the RMI Ports Authority aggregating \$100,000. Specifically, the promissory notes required repayment of principal and interest on or before September 30, 1998. We recommend management of TCPPI renegotiate an extension to the repayment terms of these notes payable. This matter was discussed in our previous letters dated April 1, 2004, August 5, 2003, April 4, 2002, December 13, 2000 and November 18, 1999.

(9) Revenue

One invoice (invoice #041404) pertaining to copra cake sales was not recorded in the general ledger, resulting in unrecorded copra cake sales of \$33,536. An audit adjustment was proposed to record this sale. We also noted that certain charge sales to individuals are not recorded in the general ledger until they are paid. We recommend management of TCPPI ensure that sales invoices are recorded in the general ledger at the time the sale is initiated.

(10) Purchases/Disbursements

Of twenty-five non-payroll disbursements tested, the supporting purchase orders for two items (check #s 22185 and 23141) were not made available. Additionally, for one item (check #23072), a supporting invoice for \$1,632 was not made available. We recommend management of TCPPI ensure that all purchases/disbursements are properly supported by approved purchase orders and that all invoices are maintained on file.

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(11) Capitalization Policy

TCPPI currently does not have a formal capitalization policy for property, plant and equipment. We recommend management of TCPPI establish a formal capitalization policy for the recording of capital assets.

(12) Compensated Absences

TCPPI currently does not maintain a subsidiary register for sick leave hours accrued and taken. We recommend management of TCPPI ensure that a subsidiary register for sick leave is maintained.

(13) General Accounting

Journal entries and monthly bank reconciliations should be prepared and reviewed by separate individuals to ensure accuracy and approval. We noted no evidence that the journal entries and monthly bank reconciliations were independently reviewed and approved. We recommend that management of TCPPI ensure that journal entries and monthly bank reconciliations are independently reviewed and approved.

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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, 2004, which we considered to be reportable conditions in our report dated August 15, 2005.

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,

