

TOBOLAR COPRA PROCESSING PLANT, INC.

**INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL AND ON COMPLIANCE**

YEAR ENDED SEPTEMBER 30, 2006

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS**

Board of Directors
Tobolar Copra Processing Plant, Inc.:

We have audited the financial statements of the Tobolar Copra Processing Plant, Inc. (TCPPI) as of and for the year ended September 30, 2006, and have issued our report thereon dated May 14, 2007. 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.

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 an opinion 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 item 2006-1 through 2006-4.

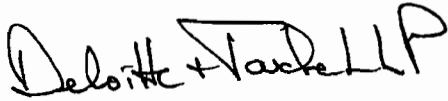
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being 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 material weaknesses. However, we do not consider the reportable conditions described above to be material weaknesses.

Compliance and Other Matters

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 grant agreements, 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* and which is described in the accompanying Schedule of Findings as item 2006-5.

We also noted certain additional matters that we reported to management of TCPPI in a separate letter dated May 14, 2007.

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.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

May 14, 2007

TOBOLAR COPRA PROCESSING PLANT, INC.

Schedule of Findings
Year Ended September 30, 2006

Finding No. 2006-1

Criteria: Invoices should relate to valid shipments.

Condition: One instance of an undelivered customer order was recorded as a sale (invoice# 5589).

Cause: The cause of the above condition is a lack of adequate policies and procedures to ensure that only delivered sales are invoiced.

Effect: If invoices are issued and processed that do not relate to valid shipments, revenue and accounts receivable will be overstated.

Recommendation: We recommend that management establish policies and procedures to ensure that invoices are processed based on actual deliveries.

Auditee Response and Corrective Action Plan: The MAS 90/200 System records an invoice when it is produced and not when the merchandise is delivered. The problem with invoice no. 5589 transaction was inadequate follow up to determine the merchandise for an off island sale was shipped and to document the delivery of the merchandise to the shipper. Thus, a procedure to confirm delivery for sales of merchandise that will be delivered to the customer by either Tobolar or a shipper will be developed.

TOBOLAR COPRA PROCESSING PLANT, INC.

Schedule of Findings, Continued
Year Ended September 30, 2006

Finding No. 2006-2

Criteria: Payroll rate approvals should be formalized.

Condition: Pay rates are based on a schedule that was signed by the previous General Manager, who is no longer associated with TCPPI.

Cause: It appears that TCPPI has not documented pay rate approvals.

Effect: Pay rates may not be updated and there is a potential for unapproved payments.

Recommendation: We recommend that TCPPI maintain an updated payroll master file executed by an authorized individual.

Prior Year Status: The lack of documentation of pay rate approvals was reported as a finding in the audit of TCPPI for fiscal year 2005.

Auditee Response and Corrective Action Plan: An Accountant will be assigned to review the personnel files of all Tobolar personnel to ensure that the personnel files have the proper documentation on the employee pay rates. The updated personnel files will be compared to the existing payroll master file and the payroll master file will be updated, as required.

The General Manager, Office Manager and Chief Accountant will review the updated payroll master file and the General Manager will approve and sign the updated payroll master file.

A formalized procedure for the processing of new employees will be developed, which will include a formal procedure for documenting their pay rates.

TOBOLAR COPRA PROCESSING PLANT, INC.

Schedule of Findings, Continued
Year Ended September 30, 2006

Finding No. 2006-3

Criteria: Management should maintain sick leave accruals.

Condition: TCPPI does not maintain a sick leave subsystem to monitor sick leave earned and used.

Cause: It appears that TCPPI has not instituted control over the monitoring of sick leave.

Effect: Sick leave could be incorrectly paid or accounted for.

Recommendation: TCPPI should maintain a sick leave subsystem that tracks leave earned and utilized.

Prior Year Status: The lack of internal control over monitoring of sick leave was reported as a finding in the audit of TCPPI for fiscal year 2005.

Auditee Response and Corrective Action Plan: The Chief Financial Officer will assign a Senior Accountant to develop a sick leave accrual and tracking system. Also, the Senior Accountant will memorialize the procedures for reimbursement of sick leave.

TOBOLAR COPRA PROCESSING PLANT, INC.

Schedule of Findings, Continued
Year Ended September 30, 2006

Finding No. 2006-4

Criteria: An adequate inventory system should be utilized.

Condition: As has been TCPPI's practice, inventories are expensed upon purchase. At the end of the year, inventory is recorded based on actual quantities.

Cause: It appears that TCPPI was unable to assign a specific individual to account for inventory.

Effect: Inventories may not be properly monitored and there is an opportunity for unauthorized usage.

Recommendation: TCPPI should consider recording inventory quantities upon purchase. A regular cyclical count can be performed to ensure that inventory quantities are correct and variances, if any, are investigated.

Prior Year Status: The lack of adequate internal control over inventory management was reported as a finding in the audit of TCPPI for fiscal year 2005.

Auditee Response and Corrective Action Plan: The inventory will be maintained on the books starting on October 01, 2007 when the accounting for Tobolar is fully implemented on the MAS 90/200 software.

There will be a physical inventory of all categories that will be reconciled to the inventory records on a monthly basis.

TOBOLAR COPRA PROCESSING PLANT, INC.

Schedule of Findings, Continued
Year Ended September 30, 2006

Finding No. 2006-5

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 that the requirements of Public Law 1992-2 have yet to be met.

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 2005.

Auditee Response and Corrective Action Plan: The Chief Financial Officer will contact the Chairman to discuss complying with Public Law 1992-2 and to obtain approval to contact the Attorney General to initiate the appropriate legal actions required to comply with Public Law 1992-2.

Please note that only the Attorney General can provide legal services to the Republic of the Marshall Islands Governmental Entities. Also, the Attorney General has been informed of this audit finding periodically over the past 10 years, but has not taken action. Thus, the Attorney General will set the timetable for compliance with Public Law 1992-2.