

TOBOLAR COPRA PROCESSING PLANT, INC.

**(A COMPONENT UNIT OF THE REPUBLIC
OF THE MARSHALL ISLANDS)**

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

YEAR ENDED SEPTEMBER 30, 2007

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS 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, 2007, and have issued our report thereon dated January 14, 2009. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of TCPPI's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of TCPPI's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Responses (pages 3 through 7) as items 2007-1 through 2007-4 to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

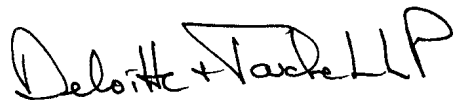
Compliance and Other Matters

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 or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2007-5.

We noted certain matters that we reported to management of TCPPI in a separate letter dated January 14, 2009.

TCPPI's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit TCPPI's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, and others within the entity 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.

January 14, 2009

TOBOLAR COPRA PROCESSING PLANT, INC.

Schedule of Findings and Responses
Year Ended September 30, 2007

Revenue

Finding No. 2007-1

Criteria: Invoices should relate to valid sales.

Condition: One instance of a price quotation request was recorded as a sale (invoice # 6436). An audit adjustment was proposed to reverse this entry.

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

Effect: The effect of the above condition is an overstatement of revenues and receivables.

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

Prior Year Status: The lack of established policies and procedures to ensure that only valid sales are invoiced and recorded was reported as a finding in the audit of TCPPI for fiscal year 2006.

Auditee Response and Corrective Action Plan: A procedure for issuing quotations will be implemented. The procedure will require that quotations be issued on a Quotation Form and will state that an invoice cannot be used to provide a quotation. The Chief Financial Officer has discussed the new procedure with the Business Manager.

TOBOLAR COPRA PROCESSING PLANT, INC.

Schedule of Findings and Responses, Continued
Year Ended September 30, 2007

Payroll Expenses

Finding No. 2007-2

Criteria: Payroll rates should be subjected to formal approvals.

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

Cause: The cause of the above condition is that TCPPI has not prepared personnel action forms for all employees.

Effect: The effect of the above condition is that pay rates may not be updated; further, there is a potential for unapproved payments.

Recommendation: We recommend that TCPPI maintain a payroll master file based on formally approved pay rates.

Prior Year Status: The lack of documentation of pay rate approvals was reported as a finding in the audits of TCPPI for fiscal years 2005 and 2006.

Auditee Response and Corrective Action Plan: The Chief Accountant will meet with the General Manager and Business Manager to set up procedures and a schedule to review the personnel files to insure that pay rates are documented and that all other pertinent personnel documents are in the file. Further, a procedure will be developed to document pay rates and to obtain all pertinent documents for any new hires.

TOBOLAR COPRA PROCESSING PLANT, INC.

Schedule of Findings and Responses, Continued
Year Ended September 30, 2007

Sick Leave Accruals

Finding No. 2007-3

Criteria: Internal control over the monitoring of sick leave hours should be established and implemented.

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

Cause: The cause of the above condition is that TCPPI has not instituted control over the monitoring of sick leave hours.

Effect: The effect of the above condition is that sick leave hours could be incorrectly paid or accounted for.

Recommendation: We recommend that management ensure that a sick leave subsystem that tracks sick leave hours earned and utilized is maintained.

Prior Year Status: The lack of internal control over monitoring of sick leave hours was reported as a finding in the audits of TCPPI for fiscal years 2005 and 2006.

Auditee Response and Corrective Action Plan: The Chief Accountant will meet with the General Manager and Business Manager to discuss the procedures for implementing a sick leave accrual and tracking system. The procedure for determining the sick leave accrual and the tracking procedure will be documented and will be approved by the General Manager and Chairman of the Board.

TOBOLAR COPRA PROCESSING PLANT, INC.

Schedule of Findings and Responses, Continued
Year Ended September 30, 2007

Inventory

Finding No. 2007-4

Criteria: An adequate inventory management system should be utilized.

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

Cause: The cause of the above condition is that TCPPI has not assigned an individual to account for inventory.

Effect: The effect of the above condition is that inventories may not be monitored; further, there is an opportunity for unauthorized usage.

Recommendation: We recommend that TCPPI consider recording inventory upon purchase. A regular cyclical count can be performed to assist in establishing 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 audits of TCPPI for fiscal years 2005 and 2006.

Auditee Response and Corrective Action Plan: Coconut oil, copra cake and copra are inventoried on a monthly basis and a report is provided to the General Manager and Jerry Kramer. The coconut oil, copra cake and copra represent the majority of the inventory. For the 12 months ended September 30, 2007 coconut oil, copra cake and copra accounted for 92% of the year end inventory value. Thus, management believes that there are adequate controls over the inventory. The monthly inventory of coconut oil, copra cake and copra are not recorded in the accounting system. However, there are plans to record inventory items in the accounting system on a monthly basis.

TOBOLAR COPRA PROCESSING PLANT, INC.

Schedule of Findings and Responses, Continued
Year Ended September 30, 2007

Local Noncompliance

Finding No. 2007-5

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 take steps to comply with the requirements of Public Law 1992-2, including consultation with a 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 2006.

Auditee Response and Corrective Action Plan: The Chief Accountant will contact the Chairman of The Board to discuss complying with Public Law 1992-2 and to obtain approval to contact the Attorney General to initiate the appropriate legal action 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. The Attorney General's Office has previously been informed of this audit finding, but has not taken action. Thus, the timeframe for resolving this audit finding and complying with Public Law 1992-2 will be set by the Attorney General and not TCPPI.

TOBOLAR COPRA PROCESSING PLANT, INC.

Unresolved Prior Year Findings
Year Ended September 30, 2007

The status of unresolved prior year findings is discussed within the Schedule of Findings and Responses section of this report (pages 3 through 7).