

May 23, 2008

Board of Directors
Micronesia Petroleum Corporation:

In planning and performing our audit of the financial statements of the Micronesia Petroleum Corporation (MPC) for the year ended September 30, 2007, on which we have issued our report dated May 23, 2008, we developed the following recommendations concerning matters related to MPC's internal control. Our recommendations are summarized below:

1. Documentation of Asset Valuation

Comment:

MPC reacquired a mechanical twin pump at an assigned value of \$3,000, which was applied against the customer receivable account. This asset was originally sold to the customer in January 2000 for \$5,024. Using MPC's normal depreciation policy, the repurchased asset should have a zero value as of the reacquisition date. No documentation was provided to demonstrate the basis of establishing the value of the reacquired asset.

Recommendation:

In a non monetary exchange, the basis of valuation of assets exchanged should be documented to ensure to the extent possible, an absence of bias.

Auditee Response:

It is agreed that the basis of valuation in non-monetary exchange transactions should be documented to ensure an absence of bias.

The specific asset referenced, the mechanical twin pump, was evaluated as to its mechanical usefulness and status, and a written report submitted to document its condition. This report was the basis for the valuation used by the former general manager, the report is available for your review if necessary.

2. Authorization on Write-offs

Comment:

Authorization from the Board of Directors was not obtained to support the write-off of certain accounts receivable. The \$19,025 that was written-off was fully allowed for and this matter therefore had no financial statement effect.

| | |
|------------------|-----------------|
| Trade | \$19,025 |
| Employee Advance | 1,969 |
| | <u>\$20,994</u> |

Recommendation:

Board of Directors' authorization of receivable write-offs should be obtained.

Auditee Response:

It is now understood that Board Approval should be obtained for discretionary write-off. This will be addressed at future Board meetings. However, of the \$20,994 write offs, \$14,104.21 was written off due to a Court mandated settlement of an account receivable.

Management will ensure that uncollectible account write-offs receive Board approval.

3. Inventory Variance

Comment:

The physical inventory count differed from the final inventory balance for the following:

| Inventory | Cost | Per GL | Per Count | Difference | \$ Value |
|---------------------------------|------|-----------|--------------|------------|----------|
| 2 Cycle Shell Nautilus Outboard | 414 | 2 | 3 | (1) | (414) |

Recommendation:

Discrepancies should be timely investigated.

Auditee Response:

It is agreed that all inventory discrepancies should be timely investigated.

The specific variance referred to has been so investigated and reconciled.

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This report is intended solely for the information and use of MPC's Board of Directors and management.

We will be pleased to discuss the above comments with you and, if desired, to assist you in implementing the suggestions.

We wish to thank the staff and management of MPC for their cooperation and assistance during the course of this engagement.

Very truly yours,

