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August 27, 2012

Mr. Amon Tibon
Managing Director
Marshall Islands Development MIDB

Dear Mr. Tibon:

In planning and performing our audit of the financial statements of the Marshall Islands Development MIDB (MIDB) as of and for the year ended September 30, 2011 (on which we have issued our report dated August 27, 2012), 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, we considered MIDB's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MIDB's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of MIDB'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 was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to MIDB's internal control over financial reporting and other matters as of September 30, 2011 that we wish to bring to your attention. Although we have included management's written responses to our comments contained therein, such responses have not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the responses or the effectiveness of any corrective actions described therein.

We have also issued a separate report to the Board of Directors, also dated August 27, 2012, on our consideration of MIDB's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The definition of a deficiency is also set forth in the attached Appendix I.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of the Office of the Auditor-General, management, others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

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

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

Very truly yours,

Deloitte & Touche LLP

SECTION I – CONTROL DEFICIENCIES

We identified, and have included below, deficiencies involving MIDB's internal control over financial reporting as of September 30, 2011 that we wish to bring to your attention:

1. Erroneous Assignment of Reserve Rates

Comment: Per policy on allowance provisioning, a reserve rate is assigned a corresponding category of loans on a per age bracket basis; however, for certain loans, reserve rates assigned do not correspond to the age. This condition was represented to be due to errors and resulted in a misstatement of the recorded reserve. This resulted in an overstatement of the allowance for loan losses of approximately $328,000 as of September 30, 2011:

Age	Outstanding Balance as of September 30, 2011	Number of loans	Reserve rate per policy	Reserve rate assigned	Overstatement of Allowance
0	$ 269,365	47	5%	100%	$ 255,897
1-30	26,495	7	10%	100%	23,846
31-90	36,621	8	25%	100%	27,466
91-180	31,248	5	50%	100%	15,624
181-270	26,039	10	75%	100%	6,510
over 270	2,246	2	100%	50%	(1,123)

Recommendation: Management should verify the above loans and perform necessary corrective action. Additionally, we recommend more frequent review (i.e., monthly) of the loan reserve analysis.

Management Response: Management will ensure that recommendation is complied with.

2. Unlocated Copies of Voided Checks

Comment: The list of check disbursements from October 1, 2011 to April 30, 2012 contains ten missing check numbers. Management indicates that these were likely voided checks; however, the original voided/cancelled checks were not available for verification.

Recommendation: Checks are prone to fraud, and should be subject to a heightened level of review. Management should revisit the cited check numbers to determine if these are indeed voided. Voided checks should be entered as "voided" in the disbursement records to allow proper audit trail. Additionally, control procedures should be strengthened to require that all original voided checks are marked and/or properly filed to prevent unauthorized use.

Management Response: Most of these are payroll checks with zero cash account in which the check register could not capture. Management will seek the help of the MIP expert to make some enhancement in our system especially with the voided and payroll checks.

3. Absence of Lease Agreements

Comment: Signed copies of lease agreements for the following tenant/properties were not available for verification:

a. OEPPC - Rooms 504, 505 & 506
b. Banking Commission – Room 512
c. Copymaster
d. Tapukitea Rokoleku

SECTION I – CONTROL DEFICIENCIES, CONTINUED

3. Absence of Lease Agreements, Continued

Recommendation: Approved and signed lease agreements should be timely executed and filed to validate supporting lease rental transactions.

Management Response: Management was able to subsequently secure the signed copies of lease agreements except for the one with Banking Commission, which is with the Office of the Attorney General for review.

SECTION II – OTHER MATTERS

Our observations concerning other matters related to operations, compliance with laws and regulations, and best practices involving internal control over financial reporting that we wish to bring to your attention are as follows:

1. Matured Loans

Comment: We noted 407 loans with a total balance of $7,489,815 that are matured as of September 30, 2011; the majority of which have maturity dates of 2010 and earlier. Of the total loans, six with an aggregate outstanding balance of $132,379 are aged 270 days and below, while the rest are aged above 270 days and are fully reserved.

Recommendation: Management should verify and correct loans with the noted condition. Additionally, management should designate an officer to periodically review loan data for loan information errors.

Management Response: Loan officers have already begun working on reviewing and correcting the loan details.

2. Loans with Incorrect Open Dates

Comment: The September 30, 2011 system-generated loan trial balance contains 258 loans totaling $6,061,898 which have incorrect open dates of December 31, 1999. Furthermore, 72 loans with total balance of $1,946,422 have maturity dates earlier than the open date. This issue appears to be caused by a system migration error in 2000. All of these loans have been delinquent for more than 270 days and are therefore fully reserved.

Recommendation: Management should verify and correct loans with the noted condition and consider possible write-off. Additionally, management should designate an officer to periodically review loan data for information errors.

Management Response: Management will separately monitor all the loans with open dates of 1999.

3. Long Outstanding Checks

Comment: The September 30, 2011 bank reconciliation for Cash in Bank (CA-BOMI), contains 18 checks aggregating $14,443 that have been outstanding for more than one year. The Bank does not have a policy to separately record stale dated checks.

SECTION II – OTHER MATTERS, CONTINUED

3. Long Outstanding Checks, Continued

Recommendation: The Bank may consider establishing a policy over the processing, reconciliation, monitoring and disposition of stale dated checks.

Management Response: Management will review all the outstanding checks and revert them back to payables or take them in as other income.

4. Written Agreement on Sample House

Comment: MIDB was able to provide a copy of the agreement relating to the sample house receivable of $52,145 at September 30, 2011; however, we noted insufficient information on the agreement, i.e. agreed interest rate, amount of total receivable, etc. This matter was discussed in our previous letters for the audit of fiscal years 2008 to 2010.

Recommendation: We recommend that management require that all lending arrangements be supported by executed agreements detailing all pertinent information.

Management Response: Management will ensure that for the next lending agreements, there is proper execution of supporting documents.

5. Policy on Capitalization of Major Repairs

Comment: The Bank does not have a formal policy for capitalization of major repairs as fixed assets. This matter was discussed in our previous letters for the audit of fiscal years 2008 to 2010.

Recommendation: Management should consider formulating a policy relative to the capitalization of the cost of major repairs.

Management Response: Management has already formulated a policy with regards to major repairs, which has been duly approved by the board of directors.

6. Negative Balances in Deposit Accounts

Comment: There were 236 savings deposit accounts with negative balances totaling $47,749 as of September 30, 2011. Savings deposits generally pertain to loan over payments resulting from outdated records and withdrawals are made through customer refunds. Therefore, it appears that the Bank refunded certain customers with cash in excess of their deposit balances or this could be attributed to outdated records as well. Additionally, the accounting department appears to have calculated corresponding interest expense on these negative balances that does not get recorded in the books.

Recommendation: Management should revisit the cited accounts and consider adding these amounts to existing outstanding loans. Otherwise, management should decide whether these should be written off.

Management Response: Management has already implemented a policy that all savings accounts with negative balances will be added to the borrowers' existing loans.

SECTION II – OTHER MATTERS, CONTINUED

7. Inadequate Monitoring of Rental Receivables

Comment: The Property Manager monitors rent collections and calculates rent receivable and related rent income only at year-end. Hence, the accrued rent receivable and the corresponding accrued income at month- ends are understated.

Recommendation: Rental activities are a major revenue generating source. Therefore, management should assign a responsible officer to monitor related activities and the recordkeeping pertaining to such. Reports and reconciliations should be periodically reviewed by a higher level officer and be reported to the accounting department for timely and proper posting of transactions.

Management Response: Management will ensure that recommendation is complied with.

8. Missing Loan Information Resulting from Errors

Comment: The loan schedule as of September 30, 2011 did not initially contain maturity dates for 2,915 loans and next payment due dates for three of 75 loans tested for credit review. The missing information was subsequently provided and was represented to have been caused by manual errors during creation of the excel-based loan schedule using information generated from the loan system.

Recommendation: As critical decisions are made by management based on reports containing financial and other related information, we recommend that higher level review be performed for every report created and reported to management or used for audit trail purposes.

Management Response: Management has already assigned an employee who will be responsible in double checking the information in the loan system.

SECTION III – DEFINITIONS

The definition of a deficiency in internal control over financial reporting that is established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, is as follows:

A *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 and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

APPENDIX II

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

MIDB's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process effected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.