

August 28, 2007

CONFIDENTIAL

Mr. Amon Tibon
Managing Director
Marshall Islands Development Bank

Dear Mr. Tibon:

In planning and performing our audit of the financial statements of the Marshall Islands Development Bank (MIDB) for the year ended September 30, 2005, on which we have issued our report dated August 28, 2007, we developed the following recommendations concerning certain matters related to MIDB's internal control and certain observations and recommendations on other accounting, administrative and operating matters. Our principal recommendations are summarized below:

(1) Enhancement of IT Department

The Bank has an IT department staffed by two employees who also perform other functions in the accounting and loan departments. As the Bank does not have its own set of technically - equipped IT staff, the overall management of IT is highly dependent on assistance provided by an affiliate.

Per observation, certain reports may not be prepared timely due to the Bank's dependency on the availability of affiliate staff. Also, immediate corrective action may not be possible due to limited knowledge of MIDB IT staff.

The IT environment is a key area that the Bank should consider investing in but it appears that due to limited human technical resources, the Bank is maximizing the use of its employees in such a way that IT is not a full-time task. We recommend that the Bank assess the need to strengthen the IT department by either hiring additional staff or investing in education programs for existing staff.

(2) Review of Bank Reconciliation Reports

Bank reconciliations and float item reconciliations appear to have been regularly prepared during the year. This is in line with the Bank's extensive efforts to bring all accounting records current. However, based on sampled reports, signatures of the preparer and the reviewer were not always affixed on the reports. We recommend that to ensure adequate segregation over the preparation and review function, such reports be signed by preparers and reviewers/approvers.

(3) Allotment Allocation

One item (loan no. 39451) was 63 days past due but per review of the loan payment history, regular payments appear to have been made. Certain allotment payments were recorded by the Collections department as additions to the savings deposits pledged account instead of as loan payments. While this matter has already been subsequently corrected, we recommend that further account review occur to identify any other instances of this type, and that immediate corrective action occur.

(4) Updating of Records

Loan no. 39272 arose from the consolidation of various accounts (loan nos. 27613 and 26378) on April 15, 2005. However, as of May 2007, the old accounts were not closed and still contain balances and allotments applied. When the accounts were consolidated, loan system records were not updated. This was discovered only when the Bank underwent a records updating process. Hence, the old loans, in addition the new loan, remain outstanding in the system.

We recommend that further review of the loan system occur and that related issues, if any, be identified and corrected.

(5) Negative Balances in Savings Deposits Pledged

The Bank, as of September 30, 2005, initially recorded \$331,800 of negative balances in "savings deposits pledged" and as "Other receivables". Prior to updating the Bank's records, checks appear to have been refunded to borrowers as it was thought that these customers had paid in excess of required loan payments. When records were updated, it was determined that these balances were actually collections that were not applied to corresponding loans. Two identified instances of this follow:

<u>Particulars</u>	<u>Item no. 1</u>	<u>Item no. 2</u>
Savings account no.	25	18
Amount of withdrawal	\$ 2,895 (check no. 12194)	\$ 6,805 (check no. 14160)
Date of withdrawal	10/29/04	2/22/05
Actual balance as of date of withdrawal	\$ 402.25	\$ 3,157.28
Resulting overdraft	\$ (2,491.26)	\$ (3,647.72)

Additionally, expenses advanced by the Bank on the management of certain properties remained in this account and were not transferred to corresponding loan accounts. Currently, the Bank charges customers 4% for these overdraft accounts, which is less than what should have been charged had these been transferred to loans. Subsequently, 78% (\$260,432) of the total amount has been identified by the Bank as accounts with outstanding loans, which was therefore reclassified. The Bank should ensure that a thorough investigation be conducted prior to allowing a customer to withdraw from the savings account to prevent overdrafts and financial losses. Moreover, management should request Board approval of the 4% interest rate applied to overdraft accounts.

(6) Debit Balances in Payable Account

Accrued expenses primarily consist of allotments payable, but \$25,312 as of September 30, 2005 comprise debit balances. This same finding was cited in our prior year letter dated December 15, 2006.

The Bank should ensure that accounts with abnormal balances are identified and are timely adjusted.

Mr. Amon Tibon
Managing Director
Marshall Islands Development Bank
August 28, 2007

Page 3

(7) Insurance Premium Liability

The Bank, as of September 30, 2005, has an outstanding liability to the Individual Assurance Company (IAC). Historically, the Bank contracted IAC to provide credit life insurance. In 2003, the Bank's self-insurance policy was approved and became effective in fiscal year 2004. It appears that the Bank may not have had formal communication with IAC as to the termination of the insurance contract. Consequently, the Bank has received billings from IAC for a \$35,141 liability outstanding for several years.

We recommend that management address resolution of this matter.

(8) Depreciation of Fixed Assets

The Bank's depreciation basis for motor vehicles is 3 years, regardless of whether the vehicle was purchased brand new or used. Motor vehicles are normally depreciated over 5 years but in certain cases, 3 years may be appropriate if it is actively used in field assignments. We recommend that management consider whether this policy should be amended.

(9) Written Agreement on Sample Houses

Written agreements between the Bank and landowners were not executed to evidence the arrangement on the ownership of the sample houses. This matter was addressed in the prior year audit and we reiterate the need to address this matter.

(10) Disposition on Long Outstanding Advances

Unliquidated travel advances totaling \$21,573 as of September 30, 2005, have been long outstanding. This finding was cited in our prior year letter dated December 15, 2006. We recommend that management ensure disposition of these items.

(11) Lease Agreements

The Bank recognized rent income for 2005 of \$190,363 from leased office space and apartment units. No lease agreement was presented supporting the following rental income items:

<u>Receipt No.</u>	<u>Particulars</u>	<u>Rental Income</u>
OR#030354	Housing Rental/ Long Is. Apt	\$13,095
OR#29611C	Housing Rental/ Long Is. Apt	12,077

As this has been mentioned in our prior year letter dated December 15, 2006, we reiterate the need to formalize lease agreements for these arrangements.

(12) Supporting Documents for an Expense Item

No supporting invoice and check copy were presented for verification of a March 2005 communication expense of \$2,055.

We recommend that Bank expenses be supported by invoices and other relevant disbursement documents.

Mr. Amon Tibon
Managing Director
Marshall Islands Development Bank
August 28, 2007

Page 4

(13) Payroll Documents

Payroll documents for the following were not made available for verification:

<u>PPE</u>	<u>Check Number</u>	<u>Gross Salary</u>	<u>Net Pay</u>	<u>Missing Document</u>
10/15/2004	11938	\$ 576.00	\$ 90.40	Time cards and time sheets
10/29/2004	12212	\$ 746.21	\$ 142.31	"
8/5/2005	16972	\$ 659.20	\$ 24.92	"
8/19/2005	17300	\$ 504.36	\$ 16.89	"
9/2/2005	17514	\$ 673.08	\$ -	"
1/7/2005	13456	\$1,310.40	\$ 339.74	Cancelled check

We recommend that management ensure safekeeping of payroll documents such as timesheets and cancelled checks. This same finding was also mentioned in our prior year letter dated December 15, 2006.

* * * * *

We have also communicated matters noted during our audit of the financial statements of MIDB for the year ended September 30, 2005, which we considered to be reportable conditions in our report dated August 28, 2007.

This report is intended solely for the information and use of management, and others within the organization and is not intended to be used 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,

