

June 30, 2008

Mr. Amon Tibon
Managing Director
Marshall Islands Development Bank:

In planning and performing our audit of the financial statements of the Marshall Islands Development Bank (MIDB) for the year ended September 30, 2007, on which we have issued our report dated June 30, 2008, we developed the following recommendations concerning matters related to the MIDB's internal control and certain observations and recommendations on other accounting, administrative and operating matters. Our recommendations are summarized below:

Cash and Cash Equivalents

1. Overdraft

Comment: As of September 30, 2007, a checking account had a \$44,061 negative balance. This was caused by checks drawn against an account with insufficient funds. Per inquiry, bank practice has allowed an overdraft. However, no written agreement was provided to support this practice.

Recommendation: Management should ensure that checks are drawn against sufficient funds, and if an overdraft is allowed, the agreement should be documented.

Accounts Receivables

2. Long outstanding travel advances

Comment: As of September 30, 2007, MIDB recorded travel advances of \$22,478 that include balances that have been outstanding for a number of years. This finding has been cited in the prior year audit.

Recommendation: Management should ensure timely disposition of these items.

Premises and Equipment

3. Disposal

Comment: No written approval was provided for the disposal of a motor vehicle (Mazda Millenia Sedan).

Recommendation: Management should ensure that approval of asset disposals is documented.

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4. Useful Life

Comment: MIDB depreciation basis for motor vehicles is 3 years, regardless of whether the vehicle was purchased new or used. Motor vehicles are normally depreciated over 5 years but in certain cases, 3 years may be appropriate if actively used in field assignments. This finding was also included in our prior year letter dated August 31, 2007.

Recommendation: Management should consider whether this policy should be amended.

5. Capitalization of Major Repairs

Comment: MIDB does not have a formal policy on capitalization of major repairs of fixed assets. Therefore, all repairs and maintenance items have been expensed. This matter was included in our prior year letter dated August 31, 2007.

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

Liabilities

6. Annual Leave Calculation

Comment: For one item tested, the pay rate per the annual leave schedule did not agree with the pay rate reflected in the employment contract.

<u>Acct. #</u>	<u>Account name</u>	<u>Rate per VL Schedule</u>	<u>Rate per Contract</u>	<u>Variance (rate/hr)</u>	<u>Variance (Gross)</u>
2450	Vacation leave payable	\$12.10	\$9.81	\$2.29	\$1,889

Recommendation: Management should ensure that pay rates used in the determination of annual leave agree with related employment contracts.

Revenue

7. Missing Rental Agreements

Comment: For two rental agreements tested, the underlying rental agreements were not provided.

<u>Acct. #</u>	<u>Account name</u>	<u>Doc #</u>	<u>Transaction Date</u>	<u>Amount</u>
5050	Office Rental	33953	10/25/06	\$42,000
5055	Housing Rental	35711	07/11/07	4,365
			Total	<u>\$46,365</u>

Recommendation: Management should ensure all related documentation is on file.

Expenses

8. Travel Authorization

Comment: For one item tested dated July 26, 2007 (Doc. # 27031), the travel authorization was not signed by the approver. Additionally, the travel authorization for the September 26, 2007 transaction (Doc. # 28012) was not provided.

Recommendation: Management should ensure that travel-related expenses are approved and documented through travel authorization forms. Additionally, all related documentation should be on file.

9. Accounting Period

Comment: For three items tested, it appears that expenses were incurred either in the prior or the subsequent year, but were recorded in FY 2007.

<u>Acct. #</u>	<u>Account name</u>	<u>Doc #</u>	<u>Transaction Date</u>	<u>Fiscal Year related to</u>	<u>Amount</u>
6070	Utilities	33953	10/12/06	FY 2006	\$11,172
6020	Office & house rental	33821	11/03/06	FY 2006	325
6080	Insurance	36194	03/22/07	FY 2008	3,853

Recommendation: Management should ensure that expenses are recorded in the correct accounting period.

Payroll

10. Timesheet

Comment: For three items tested, timesheets provided were not signed by the timekeeper or supervisor.

<u>Acct. #</u>	<u>Account name</u>	<u>Doc #</u>	<u>Transaction Date</u>	<u>Amount</u>
6000	Salary	26615	07/05/07	\$ 206
6000	Salary	25435	04/27/07	808
6005	Salary, non-operating	24111	02/02/07	659
			Total	<u>\$1,673</u>

Additionally, for one item, hours worked per the payroll register did not agree with hours reflected in the timesheet.

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<u>Acct. #</u>	<u>Account name</u>	<u>Doc #</u>	<u>Transaction Date</u>	<u>Hrs per Register</u>	<u>Hrs per Timesheet</u>	<u>Variance (Hrs)</u>	<u>Variance (\$ Amt)</u>
6005	Salary, non-operating	24253	02/16/07	80	64	16	\$115

Recommendation: Management should ensure that hours worked by employees are reviewed and approved by the timekeeper or supervisor.

11. Employment Contract

Comment: For five items tested, no employment contract or personnel action form was provided.

<u>Acct. #</u>	<u>Account name</u>	<u>Doc #</u>	<u>Transaction Date</u>	<u>Amount</u>
6000	Salary	25435	04/27/07	\$ 808
6000	Salary	23462	11/24/07	1,615
6000	Salary	27133	08/03/07	846
6005	Salary, non-operating	24111	02/02/07	659
6005	Salary, non-operating	24253	02/16/07	576
			Total	<u>\$4,504</u>

Additionally, for one item tested, the pay rate per the payroll register did not agree with the pay rate reflected in the employment contract.

<u>Acct. #</u>	<u>Account name</u>	<u>Doc #</u>	<u>Transaction Date</u>	<u>Rate per Register</u>	<u>Rate per Contract</u>	<u>Variance (rate/hr)</u>	<u>Variance (Gross)</u>
6000	Salary	26031	06/08/07	\$12.10	\$9.81	\$2.29	\$183

Recommendation: Management should ensure employment agreements, i.e. pay rate, employment duration, etc., are in agreement with underlying employment contracts or personnel action forms.

12. Written Agreement on Sample Houses

Comment: Written agreements between MIDB and landowners were not executed to evidence the arrangement on the ownership of sample houses. This same finding was also mentioned in our prior year letter dated August 31, 2007.

During the current year, MIDB was able to provide a copy of one agreement. However, insufficient information was included in the agreement, i.e. interest rate, amount of receivable, etc.

Recommendation: Management should ensure that agreements are properly documented.

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13. Enhancement of IT Department

Comment: MIDB has an IT department staffed by two employees who also perform other functions in the accounting and loan departments. As MIDB 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.

Certain reports may not be prepared timely due to MIDB'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 MIDB should consider investing in but it appears that due to limited human technical resources, MIDB is maximizing the use of its employees in such a way that IT is not a full-time task. This same finding was also mentioned in our prior year letter dated August 31, 2007.

Recommendation: Management should assess the need to strengthen the IT department by either hiring additional staff or investing in education programs for existing staff.

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We have also communicated matters noted during our audit of the financial statements of MIDB for the year ended September 30, 2007, which we considered to be significant deficiencies in our report dated June 30, 2008.

This report is intended solely for the information and use of the 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 will be pleased to discuss the above comment with you and, if desired, to assist you in implementing the suggestion.

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

Very truly yours,

