Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3911
USA
Tel: (671)646-3884
Fax: (671)649-4932
www.deloitte.com

September 30, 2010

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) as of and for the year ended September 30, 2009 (on which we have issued our report dated September 30, 2010), 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, 2009 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 September 30, 2010, 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

Member of
Deloitte Touche Tohmatsu

SECTION I – CONTROL DEFICIENCIES

We identified, and have included below, control deficiencies involving MIDB's internal control over financial reporting as of September 30, 2009 that we wish to bring to your attention:

1. Long Outstanding Travel Advances

Comment:

As of September 30, 2009, MIDB recorded travel advances of $13,172 that include balances that have been outstanding for a number of years. This matter was included in the prior year letter dated June 15, 2009.

Recommendation:

Management should ensure timely disposition of these items.

Management Response:

Outstanding balance now fully paid off.

2. Estimated 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 such are actively being used in field assignments. This matter was included in the prior year letter dated June 15, 2009.

Recommendation:

Management should consider whether this policy should be amended.

Management Response:

Basis for depreciation of vehicles is three years since all, except for one car, are being used actively in field assignments. Vehicles are ninety five percent depreciated as of September 30, 2009. Management is considering making changes to using five years on vehicles acquired from October 1, 2010.

3. Capitalization of Major Repairs

Comment:

MIDB does not have a formal policy on capitalization of major repairs of fixed assets. A repairs and maintenance item, amounting to $54,725, was capitalized during fiscal year 2009, which should have been expensed. This matter was included in the prior year letter dated June 15, 2009.

Recommendation:

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

3. Capitalization of Major Repairs, Continued

Management Response:

$54,725 was reversed from asset to repairs expense. Adjusted amounts are the same as the audited financial statements.

4. Written Agreement on Sample House

Comment:

MIDB was able to provide a copy of the agreement relating to the sample house. However, we noted insufficient information on the agreement, i.e. agreed interest rate, amount of total receivable, etc. This matter was included in the prior year letter dated June 15, 2009.

Recommendation:

Management should ensure that agreements are properly documented.

Management Response:

The house referred to here is the one in Alwal Weto in Rita, owned by Neria and Tom Getty. The house was turned over to the Bank, under a special arrangement, on November 11, 2006. Under the arrangement, the Bank was to repair the house and rent it out to recover all expenses involved in the repair, including interest expenses. There was no dollar limit for the repair, and the interest rate used was left to the Bank Management's discretion. After 10 years, the Bank would return the house to the owner and, under the arrangement, if the Bank was not able to recover all expenses during the ten year period the owner would pay MIDB the remaining balance.

5. Deposits Pledged

Comment:

For 1 of 4 (or 25%) deposits pledged tested, the deposit was established from a loan drawdown. MIDB debited loans receivable and credited deposits pledged upon the drawdown. No funds were actually disbursed or received.

Recommendation:

Management should ensure the validity of the recorded loans receivables.

Management Response:

The loan drawdown signed by the borrower specifies where proceeds shall be credited. MIDB only credits proceeds to Savings account if duly consented by the borrowers in the loan drawdown. Nonetheless, management has discussed the issue with the Loan Officers and will not credit any proceeds to Savings.

6. Cash Receipts

Comment:

a. For 1 of 11 (or 9%) interest income on loans tested, no loan number was indicated on the underlying cash receipt (OR# 40773).

b. For 1 of 11 (or 9%) interest income on loans tested, certain entries in the loan system relating to an MIDB employee loan account (loan# 23320) were posted by the same employee and borrower.

Recommendation:

Management should ensure that pertinent loan information is indicated on the cash receipt to ensure payments are applied accurately to corresponding loans. Furthermore, employees who have outstanding loans with MIDB should be restricted in posting entries to loan accounts.

Management Response:

a. We will require MIDB Secretaries to ask the clients for the note numbers when they pay. As for single allotment for various borrowers we will request that they also indicate the note numbers in the schedules they provide us.

b. The transaction mentioned was only entered by the employee in Loan System but final posting was made by another, the Loan Supervisor. Current procedure is one employee enters payment in the Loan System based on payroll deductions then another employee, the Loan System Supervisor, performs final posting upon his review. Another Accounting personnel monitors posted payments to employee loans since payments are entered separately in the Accounting system.

7. Payroll

Comment:

a. For 1 of 5 (or 20%) payroll items tested, no overtime authorization was provided for our examination as required by a memorandum dated November 25, 2008, signed by the acting Managing Director.

b. For 1 of 5 (or 20%) payroll items tested, no employment contract or personnel action form was provided for our examination.

Recommendation:

Management should ensure overtime authorization and employment terms are documented.

Management Response:

a. The bank is guarded on a 24/7 basis thus Security men, as mentioned in your findings, who are limited in number would normally render overtime hours. Management shall correct the error so this would not happen again.

b. The Managing Director has served the Bank in his position for over twenty years. He shall try to secure from RMI Government supporting papers for his employment terms.

8. 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 full-time task. This matter was included in the prior year letter dated June 15, 2009.

Recommendation:

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

Management Response:

The Management will direct and prohibit any IT personnel in performing Accounting work. They shall be allowed to the extent of performing back up for all MIDB systems and programs.

MIDB has availed outside help to assist only in updating our Loan System since they are the same persons who created the software. Any networking and troubleshooting of servers shall be performed by our IT personnel.

SECTION II – DEFINITIONS

The definition of a deficiency 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.

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 affected 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.