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May 3, 2016

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, 2015 (on which we have issued our report dated May 3, 2016), 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, 2015 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 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 May 3, 2016, 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.

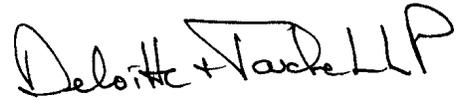
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with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

A handwritten signature in black ink that reads "Deloitte + Tatchell LLP". The signature is written in a cursive, slightly stylized font. The word "Deloitte" is on the left, followed by a plus sign, and "Tatchell LLP" is on the right. The letters are connected and fluid.

SECTION I – CONTROL DEFICIENCIES

We identified, and have included below, deficiencies involving MIDB's internal control over financial reporting as of September 30, 2015 that we wish to bring to your attention:

1. Absence of Lease Agreements

Comment: Signed lease agreements for three tenants could not be provided.

Recommendation: We recommend that signed lease agreements be timely executed and filed.

Management Response: Two of the three lease agreements have already been secured. An accounting staff has been assigned to monitor the expired and filing of lease agreements and to coordinate with the Property Manager. The Bank ensures that the recommendation will be taken.

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. Long Outstanding Checks

Comment: The September 30, 2015 bank reconciliation for Cash in Bank (CA-BOMI) contains 46 checks aggregating \$16,765 that have been outstanding for more than one year. The Bank does not have a policy to separately record stale dated checks.

Recommendation: Management should consider establishing a policy over the processing, reconciliation, monitoring and disposition of stale dated checks.

Management Response: These are checks that have been released to the borrowers, vendors and employees but have not yet been cashed in the bank. Despite the checks being outstanding for quite a period of time, the local bank still accepts them for encashment if the Bank provides them the letter of verification. The Bank ensures that the recommendation will be taken into consideration.

2. 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, 2015; however, we noted insufficient information in 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 2014.

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

Management Response: The Bank has a letter of agreement written in the local language and both parties understand, also duly notarized and recorded in the Land Registration Authority. It is stated in the letter that the owners have authorized the Bank to renovate and use it for rental until such time that all expenses spent to renovate are cleared, including interest of the money used for such project. And it is also agreed upon that after 10 years if all expenses were not paid off it will be the responsibility of the owners to pay off all the remaining balances.

SECTION II – OTHER MATTERS, CONTINUED**3. Policy on Accounts Receivable Allowance for Credit Losses**

Comment: MIDB does not have a formal policy for establishing an allowance for uncollectible accounts receivable.

Recommendation: Management should consider formulating a policy relative to establishing an allowance for uncollectible accounts receivable.

Management Response: The Bank ensures that the recommendation will be taken.

4. Negative Balances in Deposit Accounts

Comment: As of September 30, 2015, there were 204 savings deposit accounts with negative balances totaling \$44,193. Savings deposits generally pertain to loan overpayments resulting from dated records and withdrawals made through customer refunds. Therefore, it appears that the Bank refunded certain customers in excess of their deposit balances or this matter could be attributed to dated records.

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

Management Response: The Bank's current procedure with these negative balances is to put them in the borrower's existing loans but if the borrower has no existing loan to forward it to the collection and loan department for further collection.

5. Inadequate Monitoring of Rental Receivables

Comment: The Chief Financial Officer monitors rent collections and calculates rent receivables and related rent income 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 related recordkeeping.

Management Response: An accounting staff has been assigned to focus on monitoring the collections and issuing of invoices to any unpaid rental at the end of each month.

6. Valuation of Collateral

Comment: MIDB accepts collateral for loans but the collateral is not appraised. Furthermore, MIDB does not perform internal appraisals or valuations of collateral.

Recommendation: MIDB should perform internal appraisals of collateral.

Management Response: The Bank has no internal appraisal, but if there is a need to appraise a property, the Bank seeks the help of a professional.

SECTION II – OTHER MATTERS, CONTINUED

7. Interest Income on Delinquent Loans

Comment: MIDB recognizes interest income on delinquent loans that were provided a 100% allowance. Per Bank policy, interest accrues based on the unpaid principal balance. Accrual of interest on loans should discontinue when principal or interest payments are delinquent over 90 days or when, in the opinion of management, there is an indication that the borrower may be unable to meet payments as they become due. Moreover, per generally accepted accounting principles, upon such discontinuance, all unpaid accrued interest should be reversed and thereafter interest is recognized only to the extent cash payments are received after all principal is recovered.

Recommendation: We recommend that management consider formulating a policy relative to recognition of interest income on delinquent loans.

Management Response: The Bank does not impose a penalty or other charges if there is a delay in payment. Although the amount was delinquent, the Bank could still collect from the guarantors. Accrued interest stops when the loan was written off, frozen or waived as per the discretion of the board of directors and managing director.

8. Impairment of Assets

Comment: The Majuro Bowl has not been used for more than two years. The property does not appear to be in good working condition.

Recommendation: We recommend that management consider revisiting the asset value and provide a reasonable allowance for impairment.

Management Response: The RMI government has the intention of purchasing the Majuro Bowl but due to the land dispute within the families it was cancelled. Until such time that the court cases will be cleared then that will be the time that it will be opened for renegotiation to those who are interested in buying it.

SECTION III – DEFINITION

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 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.