

January 24, 2022

Mr. Dwight Heine
Managing Director
Marshall Islands Development Bank

Dear Mr. Heine:

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, 2020 (on which we have issued our report dated January 24, 2022), 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, 2020 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated January 24, 2022, 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.

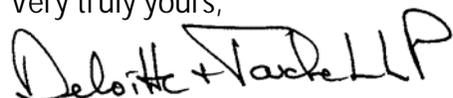
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with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



SECTION I - CONTROL DEFICIENCIES

We identified, and have included below, deficiencies involving MIDB's internal control over financial reporting as of September 30, 2020 that we wish to bring to your attention:

1. Negative Balances in Deposit Accounts

As of September 30, 2020, there were 188 deposit liability accounts with negative balances totaling \$40,629. Deposits generally pertain to loan overpayments. Therefore, it appears that MIDB refunded certain customers in excess of related deposit balances. We recommend management establish internal control policies and procedures over deposit liability accounts. Furthermore, we recommend management continue to pursue this matter and consider adding these amounts to existing loans, determine whether these balances should be charged-off, or whether an applicable allowance for doubtful accounts be established. This matter was discussed in our previous letters to management for the audits of fiscal years 2013 through 2019.

2. Loan Overpayments

MIDB receives loan payments from borrowers through payroll deductions or allotments remitted by borrower employers. Payments received in excess of loan balances are deposited to the borrower's deposit account. We recommend management establish internal control policies and procedures to timely monitor loan accounts with excess payments. Furthermore, we recommend management consider designating a person responsible for informing related borrowers of excess payments. This matter was discussed in our previous letter to management for the audit of fiscal year 2019.

3. Maintenance of Files

During the year ended September 30, 2020, MIDB recorded \$10,364 in Christmas Party expenses, which included one \$327 item that was not supported by relevant documentation. We recommend management establish internal control policies and procedures over the documentation and filing processes for recorded financial statement transactions.

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. RMI Withholding Taxes

MIDB filed and paid employee income taxes withheld in a manner inconsistent with 48 MIRC Chapter 1, Income Tax Act of 1989, Section 105. Scrutiny of withholding tax payments (Form 1178) revealed the following exceptions:

<u>Payroll period</u>	<u>Date Filed</u>	<u>Date Paid</u>
09/12/19 - 10/09/19	10/23/2019	11/13/2019
11/21/18 - 01/01/20	01/17/2020	02/03/2020
03/26/20 - 04/22/20	05/07/2020	05/07/2020
04/23/20 - 05/20/20	06/05/2020	06/05/2020

Form 1178 is due within two weeks following the preceding four week pay period. MIDB was noncompliant with this requirement. Further, the Form 1178 for payroll period 11/07/19 - 11/20/19 was not retained on file and remained unpaid of September 30, 2020. We recommend management timely file and remit RMI withholding tax payments in accordance with established requirements. This matter was discussed in our previous letter to management for the audit of fiscal year 2019.

SECTION II - OTHER MATTERS, CONTINUED

2. RMI Procurement Code

RepMar's Procurement Code states the following:

- (a) Section 124 - unless otherwise authorized by law, all Government contracts shall be awarded by competitive sealed bidding.
- (b) Section 128 - a contract may be awarded for a supply, service, or construction item without competition when it is determined in writing that there is only one source for the required supply, service, or construction item.

Payments aggregating \$71,000 were made to the selected vendor for employee group life insurance; however, competitive sealed bidding and justification of vendor selection was not apparent. We recommend management require that documentation be adequate to comply with applicable procurement requirements. Specifically, documentation should indicate the history of procurement, including the rationale for vendor selection. This matter was discussed in our previous letter to management for the audit of fiscal year 2019.

3. Interest Calculation

On June 14, 2018, MIDB entered into a subsidiary loan agreement with RepMar relating to a loan dated November 8, 2016 between RepMar and the International Cooperation and Development Fund (ICDF), with an available subsidiary loan of \$4,000,000 and repayment commencing in 2021 in bi-monthly installments with interest at 2% per annum. As of September 30, 2020, total drawdowns related to this subsidiary loan were \$1,000,000, with no interest accrued and the confirmation does not indicate an interest liability. We recommend management obtain an interpretation from the Ministry of Finance, Banking and Postal Services concerning potential interest payable.

4. Employee Pension Plan

MIDB has a retirement plan for employees wherein MIDB employees who elect to be members of the plan contribute \$30/pay period and MIDB will match the full amount of the employee contribution. We recommend management establish an employee pension plan outside of MIDB to be administered by a pension plan trustee to clearly segregate pension plan assets and liabilities for the security of its plan members. This matter was discussed in our previous letters to management for the audits of fiscal years 2017 through 2019.

5. Board Sitting Fees

During the year ended September 30, 2020, MIDB paid sitting fees of \$52,800 to Board members. These fees may constitute wages under the Income Tax Act 1989 and thus be subject to withholding taxes. No withholding taxes were withheld by MIDB. We recommend management obtain an interpretation from the Ministry of Finance, Banking and Postal Services Chief of Revenue and Taxation concerning the applicability of withholding taxes on sitting fees paid to Board members. This matter was discussed in our previous letter to management for the audit of fiscal year 2019.

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.