

Management Letter

Marshall Islands Development Bank

(A Component Unit of the Republic of the Marshall Islands)

Year ended September 30, 2024



August 14, 2025

The Board of Directors and Management
Marshall Islands Development Bank

In planning and performing our audit of the financial statements of the business-type activities of Marshall Islands Development Bank (MIDB) as of and for the year ended September 30, 2024, in accordance with auditing standards generally accepted in the United States, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MIDB's internal control. Accordingly, we do not express an opinion on the effectiveness of MIDB's internal control.

A deficiency in internal control 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 material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

During our audit, we noted the following deficiencies in internal control (as described above) and other matters:

Loans Receivable

Condition: A review of a representative sample of thirty (30) loans revealed an absence of a signed loan agreement amendment for one loan. We recommend that management implement a systematic process to ensure that all amendments to loan agreements are properly signed and filed.

Recommendation: We recommend management strengthen internal controls over lending and credit administration and monitoring of such controls.

Allowance for Loans Losses

Condition: Management uses loss reserve ratios that are not directly related to the level of credit losses and not supported by a loss migration analysis. Furthermore, management does not have a robust system to determine allowance for loan losses based on a migration of historical losses or individual evaluation of loan impairment and related losses.

Recommendation: We recommend management establish internal control policies and procedures requiring comprehensive analysis of historical losses and other qualitative factors in determining the adequacy of the allowance.

Customer Refunds Payable

Condition: MIDB receives loan payments from borrowers through payroll allotments remitted by the borrower's employer. Continuing payments received after the borrower's loan is paid off are deposited to the borrower's deposit account. An examination of the schedule of customer refunds payable indicated that there are 3,040 deposit accounts aggregating \$898,050, which were not timely assessed and monitored, and which have been non-moving/inactive for more than one year.

Recommendation: We recommend that management establish internal control policies and procedures to monitor borrower loan accounts with excess payments in a timely manner. Furthermore, we recommend that management consider designating a person responsible for informing related borrowers of excess payments.

Undrawn Loan Funds

Condition: At September 30, 2024, undrawn loan funds amounted to \$454,894, which included 401 non-moving/inactive accounts aggregating \$269,971, which were not timely assessed and monitored, and which have been outstanding for more than one year.

Recommendation: We recommend management establish internal control policies and procedures to timely monitor long outstanding undrawn loan funds.

RMI Withholding Taxes

Condition: MIDB filed and paid income taxes withheld in a manner inconsistent with 48 MIRC Chapter 1, Income Tax Act of 1989, Section 105. Specifically, examination of employer's Withholding Tax Returns (Form 1178) indicated the following:

Payroll Period	Date Filed	Date Paid
11/16/2023 to 12/13/2023	12/22/2023	01/03/2024
12/14/2023 to 01/10/2024	01/31/2024	01/31/2024
04/04/2024 to 05/01/2024	05/20/2024	05/20/2024

Form 1178 is due within two weeks following the preceding four-week pay period. MIDB was noncompliant with this requirement.

Recommendation: We recommend that management file and remit RMI withholding tax payments in accordance with the established requirement.

Lease Agreements

Condition: Examination of lease agreements indicated that revised lease arrangements for one land lease was not formally documented.

Recommendation: We recommend management require lease agreements with counterparties be formally documented to memorialize revised contractual arrangements.

This communication is intended solely for the information and use of management, the Board of Directors, others within the organization, and the Office of the Auditor-General, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.

At this time, we would like to thank all the staff and management of MIDB for their cooperation extended to us during the course of our audit. We would be pleased to discuss the above matters or to respond to any questions, at your convenience.

Ernst + Young