

MARSHALL ISLANDS DEVELOPMENT BANK

**INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE**

NINE MONTHS ENDED SEPTEMBER 30, 2002

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Marshall Islands Development Bank:

We have audited the financial statements of the Marshall Islands Development Bank (MIDB) as of and for the nine months ended September 30, 2002, and have issued our report thereon dated October 13, 2006, which report was qualified due to our inability to determine the propriety of the carrying value of loans and accrued interest receivables. Except as discussed in the preceding sentence, we conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered MIDB's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect MIDB's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs (pages 6 through 17) as items 2002-1 through 2002-7.

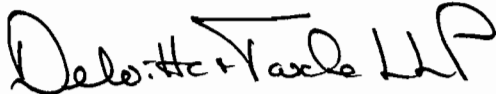
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2002-1 through 2002-4 and 2002-7 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MIDB's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We also noted certain additional matters that we reported to management of MIDB in a separate letter dated October 13, 2006.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies, and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Deletha + Tasha LLP". The signature is written in a cursive, somewhat stylized font.

October 13, 2006

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL
OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM
AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Board of Directors
Marshall Islands Development Bank:

Compliance

We have audited the compliance of the Marshall Islands Development Bank (MIDB) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its one major federal program for the nine months ended September 30, 2002. MIDB's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 6 through 17). Compliance with the requirements of laws, regulations, contracts, and grants applicable to its one major federal program is the responsibility of MIDB's management. Our responsibility is to express an opinion on MIDB's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about MIDB's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on MIDB's compliance with those requirements.

In our opinion, MIDB complied, in all material respects, with the requirements referred to above that are applicable to its one major federal program for the nine months ended September 30, 2002.

Internal Control Over Compliance

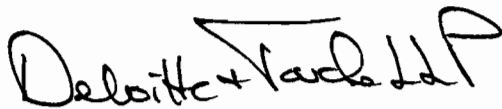
The management of MIDB is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered MIDB's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of MIDB as of and for the nine months ended September 30, 2002, and have issued our report thereon dated October 13, 2006, which report was qualified due to our inability to determine the propriety of the allowances for loan and interest receivable losses. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (page 5) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of MIDB. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the propriety of the carrying value of loans and accrued interest receivables been determined, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies, and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is stylized and appears to be written in a cursive or semi-cursive font.

October 13, 2006

MARSHALL ISLANDS DEVELOPMENT BANK

Schedule of Expenditures of Federal Awards Nine Months Ended September 30, 2002

	<u>Grant Award</u>	<u>Retained Earnings Beginning of Period</u>	<u>Federal Funds Received</u>	<u>Contributions or Earnings on Funds</u>	<u>Funds Expended</u>	<u>Retained Earnings End of Period</u>
<u>U.S. Department of the Interior</u>						
<u>CFDA #15.875</u>						
Agreement between the Government of the United States and the Government of the Marshall Islands for the Implementation of Section 111 of the Compact of Free Association.	\$ 10,000,000	\$ 2,799,028	\$ -	\$ 271,006	\$ (76,051)	\$ 3,146,085
Agreement between the Government of the United States and the Government of the Marshall Islands for the Implementation of Section 211 of the Compact of Free Association.	4,994,603	2,457,954	-	16,577	36,163	2,438,368
<u>U.S. Department of Agriculture</u>						
<u>CFDA #10.433</u>						
Rural Housing Preservation	<u>200,000</u>	<u>287,759</u>	<u>-</u>	<u>826</u>	<u>3,881</u>	<u>284,704</u>
	<u>\$ 15,194,603</u>	<u>\$ 5,544,741</u>	<u>\$ -</u>	<u>\$ 288,409</u>	<u>\$ (36,007)</u>	<u>\$ 5,869,157</u>

The above U.S. Department of the Interior funds were received in a subrecipient capacity through the Republic of the Marshall Islands. The loan portfolio established through Section 111 of the Compact of Free Association and the loan portfolio established through Section 211 of the Compact of Free Association were also selected for detailed compliance testing in accordance with applicable OMB Circular A-133 requirements. The loan portfolio related to Section 111, net of the allowance for doubtful loans of \$7,867,450, amounted to \$315,897 at September 30, 2002, and the loan portfolio related to Section 211, net of the allowance for doubtful loans of \$1,047,853, amounted to \$496,657 at September 30, 2002.

The above U.S. Department of Agriculture funds were received directly from the federal grantor agency. These funds were issued to loan customers under the Housing Preservation Grant fund. The loan portfolio related to the Housing Preservation Grant, net of the allowance for doubtful loans of \$3,881, amounted to \$19,312 at September 30, 2002.

The Schedule of Expenditures of Federal Awards is presented on the accrual basis of accounting, and is presented in accordance with the requirements of OMB Circular A-133.

See Accompanying Independent Auditors' Report on Compliance and Internal Control Over Compliance Applicable to Each Major Federal Award Program and on the Schedule of Expenditures of Federal Awards.

MARSHALL ISLANDS DEVELOPMENT BANK

Schedule of Findings and Questioned Costs Nine Months Ended September 30, 2002

Section I - Summary of Auditor's Results

1. The Independent Auditors' Report on the financial statements expressed a qualified opinion due to our inability to determine the propriety of the carrying value of loans and accrued interest receivables.
2. Reportable conditions in internal control over financial reporting were identified, some of which are considered to be material weaknesses.
3. No instances of noncompliance considered material to the financial statements were disclosed by the audit.
4. No reportable conditions in internal control over compliance with requirements applicable to the major federal award program were identified.
5. The Independent Auditors' Report on compliance with requirements applicable to the major federal award program expressed an unqualified opinion.
6. The audit disclosed no findings required to be reported by OMB Circular A-133.
7. MIDB's one major program is as follows:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Compact of Free Association	15.875

8. A threshold of \$455,838 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. MIDB did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

Section II - Financial Statement Findings

<u>Reference Number</u>	<u>Findings</u>	<u>Refer Page #</u>
2002-1	Loans Receivable	7
2002-2	Loans Receivable	8
2002-3	Loans Receivable	9
2002-4	Loans Receivable	10
2002-5	External Financial Reporting	11
2002-6	External Financial Reporting	12
2002-7	External Financial Reporting	13

Section III - Federal Award Findings and Questioned Costs

No federal awards findings are reported for the nine months ended September 30, 2002.

MARSHALL ISLANDS DEVELOPMENT BANK

Schedule of Findings and Questioned Costs, Continued Nine Months Ended September 30, 2002

Section II - Financial Statement Findings

Loans Receivable

Finding No. 2002-1

Criteria: Loan policies and procedures should address significant areas such as documentation and underwriting, loan review, grading, review of the allowance for loan losses, collection and recovery, review and approval of charge-offs, and foreclosure. Additionally, loan subsidiary ledgers should be maintained and reconciled with the general ledger and loan statements should be provided to borrowers on a regular basis.

Condition: MIDB's loan policies and guidelines do not address the above areas. Consequently, we noted various discrepancies including loans recorded in the wrong period, multiple holder #s for the same borrower, and loan #s that were not the same in the "Request for Loan Drawdown" form and the loan system. Additionally, MIDB does not have policies that require nonperforming loans to be placed on nonaccrual status.

Cause: The cause of the above condition is the lack of formal policies and procedures.

Effect: The effect of the above condition is the possible misstatement of loans receivable, accrued interest receivable and interest income resulting in a qualification of the opinion on the financial statements.

Recommendation: We recommend that MIDB adopt loan policies and procedures regarding documentation and underwriting, loan review, grading, review of the allowance for loan losses, collection and recovery, review and approval of charge-offs, and foreclosure. Such policies and procedures should be reviewed and approved on a regular basis. We also recommend that management ensure that loan subsidiary ledgers are maintained and reconciled with the general ledger and that loan statements are provided to borrowers on a regular basis.

Auditee Response and Corrective Action Plan: MIDB Management has agreed to review the whole loan process from loan evaluation, loan documentation, loan granting to loan collection. The process review will give Management a clear understanding of the loan processes in order to come up and update loan policies and procedures. MIDB maintains and reconciles subsidiary ledgers with the general ledgers.

The Bank is currently exhausting all efforts to update the Loan System and the Accounting System, once updated loan statements will be sent regularly to borrowers.

MARSHALL ISLANDS DEVELOPMENT BANK

Schedule of Findings and Questioned Costs, Continued
Nine Months Ended September 30, 2002

Loans Receivable

Finding No. 2002-2

Criteria: Management should routinely review certain critical loan information such as delinquency reports and restructured loans to effectively manage the loan portfolio.

Condition: Management does not routinely review critical information in the loan portfolio.

Cause: The cause of the above condition is the lack of formal policies and procedures to ensure that critical loan information is routinely reviewed by management.

Effect: The effect of the above condition is the possible misstatement of loans receivable resulting in a qualification of the opinion on the financial statements.

Recommendation: We recommend that MIDB adopt policies and procedures to ensure that critical information is provided to and routinely reviewed by management.

Auditee Response and Corrective Action Plan: The Loan System Reports are currently being reviewed by the Finance Department to assess what reports are useful to Management, delinquency reports are being revised to show the correct delinquent loan accounts.

MARSHALL ISLANDS DEVELOPMENT BANK

Schedule of Findings and Questioned Costs, Continued Nine Months Ended September 30, 2002

Loans Receivable

Finding No. 2002-3

Criteria: The allowance for loan and interest receivable losses should be periodically reviewed and maintained at a level adequate to absorb estimated losses.

Condition: The adequacy of the allowance for loans and interest receivable was not assessed on a periodic basis during the nine months ended September 30, 2002. The allowance was adjusted in preparation for the audit; however, audit procedures performed determined that the allowance was inadequate to absorb estimated losses.

Additionally, we reviewed specific loans and noted the following deficiencies:

- 1) Loan Number: 11011
 - Borrower per the loan documents is the individual business owners; borrower per the loan system is the business entity.
 - Interest rate per the loan file is 12%; interest rate per the loan system is 6.5%.
- 2) Loan Number: 11012
 - Maturity date per the loan file is 1999; maturity date per the loan system is December 18, 2000.
 - Term was reduced to 89 months; term per the loan system is 120 months.
- 3) Loan Number: 11013
 - Borrower per the loan documents is different to the borrower per the loan system.
- 4) Loan Number: 11015
 - Interest rate per the loan file is 8.5%; interest rate per the loan system is 6.5%.
 - Collateral for this loan was sold in a prior year; therefore, this loan should be removed from the books.
- 5) Loan Number: 11016
 - Interest rate per the loan file is 12%; interest rate per the loan system is 6.5%.
 - Maturity date per the loan file is 1996; maturity date per the loan system is January 5, 2001.
- 6) Loan Number: 11017
 - Maturity date per the loan system is March 5, 1990, which predates the open date per the loan file of October 14, 1990.
- 7) Loan Number: 11019
 - Borrower per the loan documents is the individual business owners; borrower per the loan system is the business entity.
 - Maturity date per the loan file is October 11, 2000; maturity date per the loan system is February 29, 2000.
 - Interest rate per the loan file is 10%; interest rate per the loan system is 6.5%.

MARSHALL ISLANDS DEVELOPMENT BANK

Schedule of Findings and Questioned Costs, Continued Nine Months Ended September 30, 2002

Loans Receivable, Continued

Finding No. 2002-3, Continued

Condition, Continued:

- 8) Loan Number: 11020
 - Maturity date per the loan file is 2000; maturity date per the loan system is September 13, 2001.
 - Term per the loan file is 10 years; term per the loan system is zero years.
- 9) Loan Number: 11021
 - Term was reduced to 149 months; term per the loan system is 180 months.
 - Maturity date per the loan file is December 30, 2005; maturity date per the loan system is February 18, 2002.
- 10) Loan Number: 11022
 - Maturity date per the loan file is 2006; maturity date per the loan system is August 31, 2007.
- 11) Loan Number: 11024
 - Maturity date per the loan file is 1996; maturity date per the loan system is July 28, 1997.
- 12) Loan Number: 11025
 - Maturity date per the loan file is September 30, 1997; maturity date per the loan system is December 30, 1997.
- 13) Loan Number: 11026
 - Maturity date per the loan file is February 28, 1998; maturity date per the loan system is May 31, 1998.
- 14) Loan Number: 11027
 - Borrower per the loan agreement and loan system is the business entity; borrowers per the promissory note and chattel mortgage security agreement are the individual business owners.
 - Maturity date per the loan file is December 1997; maturity date per the loan system is February 29, 2000.
 - Term per the promissory note is 54 months; term per the loan system is 60 months.
 - Borrower has three different holder #s (101413, 101426, and 101457).
- 15) Loan Number: 11028
 - Loan was assumed by another business entity; however, the borrower per the loan system was not updated.
 - Loan term was reduced to 177 months; term per the loan system is 120 months.
- 16) Loan Number: 11029
 - Maturity date per the loan file is May 1998; maturity date per the loan system is January 30, 1999.

MARSHALL ISLANDS DEVELOPMENT BANK

Schedule of Findings and Questioned Costs, Continued
Nine Months Ended September 30, 2002

Loans Receivable, Continued

Finding No. 2002-3, Continued

Condition, Continued:

- 17) Loan Number: 11030
 - Borrower per the loan agreement is the individual business owners; borrower per the loan system is the business entity.
 - Maturity date per the loan file is April 2003; maturity date per the loan system is February 27, 2002.
- 18) Loan Number: 11031
 - Maturity date per the loan file is October 1998; maturity date per the loan system is May 31, 2000.
- 19) Loan Number: 11035
 - Term per the loan agreement is 9 months; term per the loan system is 60 months.
- 20) Loan Number: 11036
 - Maturity date per the loan file is 1998; maturity date per the loan system is October 30, 1993.
- 21) Loan Number: 11037
 - Interest rate per the loan file is 9%; interest rate per the loan system is 6.5%.
 - Maturity date per the loan file is 2004; maturity date per the loan system is April 20, 2000.
- 22) Loan Number: 10676
 - Maturity date per the loan system is January 1, 3100.
- 23) Loan Number: 11003
 - Loan file could not be located for examination.
- 24) Loan Number: 11004
 - Interest rate per the loan file is 9%; interest rate per the loan system is 6.5%.
 - Maturity date per the loan file is May 1997; maturity date per the loan system is February 29, 2000.
- 25) Loan Number: 11006
 - Term was increased to 113 months; term per the loan system is 60 months.
- 26) Loan Number: 11008
 - Term was increased to 60 months; term per the loan system is 36 months.
- 27) Loan Number: 11010
 - Maturity date per the loan file is December 30, 1997; maturity date per the loan system is December 30, 1998.

MARSHALL ISLANDS DEVELOPMENT BANK

Schedule of Findings and Questioned Costs, Continued
Nine Months Ended September 30, 2002

Loans Receivable, Continued

Finding No. 2002-3, Continued

Condition, Continued:

- 28) Loan Number: 13099
- Maturity date per the loan file is June 30, 2007; maturity date per the loan system is October 28, 2002.
- 29) Loan Number: 13939
- Interest rate per the loan system is 24%, which exceeds the maximum rate of 14%.

Cause: The cause of the above condition is that loans and interest receivable are not periodically reviewed for collectibility and the assessment of loan losses is not being performed on a timely basis.

Effect: The effect of the above condition is that loans and interest receivable were overstated.

Recommendation: We recommend that MIDB adopt policies and procedures on determining the adequacy of the allowance for loan and interest receivable losses and that all loans receivable be reviewed on a monthly basis to determine collectibility. This assessment should include management judgments incorporating micro- and macro-economic factors; past, current, and anticipated events based on facts in evidence at the balance sheet date; and realistic courses of action it expects to take.

Prior Year Status: Lack of periodic review and adjustment of the allowance for loan receivable losses was reported as a finding in the Single Audits of MIDB for fiscal years 1994 through 2001.

Auditee Response and Corrective Action Plan: MIDB's Management in coordination with the Loans Department and Finance Department have come up with a policy on grading loans in order to identify and measure allowance for loan losses both for performing and non-performing loans. The following will show how much should be provided for probable losses on loans based on number of days outstanding:

a.	Current	0-30 days	1.5%
b.	Non-current	31-90 days	5%
c.	Sub-standard	91-180 days	30%
d.	Doubtful	181-270 days	50%
e.	Charged-off	270 days and above	100%

MARSHALL ISLANDS DEVELOPMENT BANK

**Schedule of Findings and Questioned Costs, Continued
Nine Months Ended September 30, 2002**

Loans Receivable, Continued

Finding No. 2002-3, Continued

On specific loan accounts where deficiencies were noted, such discrepancy between loan files and loan system information were due to the following:

- a. Discrepancies between the borrower indicated on the loan documents and the loan system were due to more than one (1) loan of the borrower who were at the same time applying for a project or business loan. MIDB opted to encode the project name over the borrower's name since the borrower had several loans. The current borrower name in the loan system is more convenient for MIDB in order to identify the loan project and purpose.
- b. In 1989 the RMI Cabinet, acting in the capacity of the board of directors during that time, approved that the interest of all loans that have higher interest rates than 6.5% be all reduced to 6.5%. Thus the reason of the discrepancies on interest rates in the loan documents and loan system.

MARSHALL ISLANDS DEVELOPMENT BANK

Schedule of Findings and Questioned Costs, Continued
Nine Months Ended September 30, 2002

Loans Receivable

Finding No. 2002-4

Criteria: Foreclosed properties should be transferred out of loans receivable and be classified as foreclosed assets.

Condition: A property that was foreclosed during the nine months ended September 30, 2002 was transferred to foreclosed assets at the appraised value of \$350,000; however, the remaining loan balance of \$418,422 remained in loans receivable as of September 30, 2002. Audit adjustments were proposed to remove the remaining loan balance.

Cause: The cause of the above condition is the incorrect recording of foreclosed properties.

Effect: The effect of the above condition is the overstatement of loans receivable.

Recommendation: We recommend that MIDB ensure that foreclosed properties are properly recorded.

Prior Year Status: Incorrect recording of foreclosed properties was reported as a finding in the Single Audit of MIDB for fiscal year 2001.

Auditee Response and Corrective Action Plan: Management has discussed the subject matter with the Finance Department. Corrections have been made transferring foreclosed accounts to Repossessed Properties.

MARSHALL ISLANDS DEVELOPMENT BANK

Schedule of Findings and Questioned Costs, Continued Nine Months Ended September 30, 2002

External Financial Reporting

Finding No. 2002-5

Criteria: An entity's chart of accounts should be structured so that financial statements can present useable information.

Condition: MIDB currently segregates its loan portfolio between funds received from Compact of Free Association funding and the Republic of the Marshall Islands (RepMar). More useable information could be derived if MIDB's chart of accounts classified loans by industry type (i.e., agriculture, fisheries, tourism, forestry, small industries, handicraft, construction and services).

Cause: The cause of the above condition is the current configuration of MIDB's chart of accounts.

Effect: The effect of the above condition is that information on the types of industries for which MIDB is promoting economic development is not presented either in the financial statements or footnotes of MIDB.

Recommendation: We recommend that MIDB begin classifying loans receivable by industry type.

Prior Year Status: Lack of a structure determining industry type loans within the chart of accounts was reported as a finding in the Single Audits of MIDB for fiscal years 1994 through 2001.

Auditee Response and Corrective Action Plan: The Accounting System (MIP) is currently structured to classify Loans Receivable by Fund. MIDB has contacted its MIP Business Partner to find a way to set up MIP System and enable it to classify loan receivables by Industry. Classifying loan receivables by Industry would only be a sub classification under classification by Fund, this is because MIDB is a Government Entity and its initial capital was funded by the US Government and the RMI Government. MIDB uses the Fund Accounting System, since funds are importantly accounted as to usage, therefore, chart of accounts should be classified by Fund.

MARSHALL ISLANDS DEVELOPMENT BANK

Schedule of Findings and Questioned Costs, Continued
Nine Months Ended September 30, 2002

External Financial Reporting

Finding No. 2002-6

Criteria: Adequate accounting controls necessitate that journal entries and adjustments be approved and recorded in the general ledger by separate individuals to ensure accuracy and authorization.

Condition: Journal entries and adjustments during the nine months ended September 30, 2002 were initiated and recorded by the same accounting personnel with no independent review.

Cause: The cause of the above condition is the lack of policies and procedures to ensure adequate segregation of duties pertaining to journal entries and adjustments.

Effect: The effect of the above condition is the possible misstatement of the financial statements.

Recommendation: We recommend that MIDB adopt policies and procedures to ensure adequate segregation of duties pertaining to journal entries and adjustments.

Auditee Response and Corrective Action Plan: Management has discussed the subject matter with the Finance Department to ensure segregation of duties on recording and approval of journal entries.

MARSHALL ISLANDS DEVELOPMENT BANK

Schedule of Findings and Questioned Costs, Continued
Nine Months Ended September 30, 2002

External Financial Reporting

Finding No. 2002-7

Criteria: Approved audit adjustments should be properly recorded in the general ledger.

Condition: The approved audit adjustments for fiscal year 2001 were not recorded in the general ledger. As a result, receivables, equipment, accrued expenses, notes payable, revenues, and expense balances were significantly misstated at year-end. Audit adjustments were proposed to reconcile the general ledger with fiscal year 2001's audited balances.

Cause: The cause of the above condition is that approved audit adjustments were not recorded.

Effect: The effect of the above condition is the misstatement of the financial statements.

Recommendation: We recommend that MIDB ensure that approved audit adjustments are properly recorded in the general ledger.

Auditee Response and Corrective Action Plan: Management has brought the subject matter to the attention of the Finance Department to ensure that the recommendation be carried out.

MARSHALL ISLANDS DEVELOPMENT BANK

Unresolved Prior Year Findings and Questioned Costs
Nine Months Ended September 30, 2002

Questioned Costs

There are no unresolved questioned costs or matters of noncompliance from prior year Single Audits of MIDB.

Findings

The status of unresolved prior year findings is disclosed within the Schedule of Findings and Questioned Costs section of this report (pages 6 through 17).

United States Department of the Interior, Office of the Inspector General, Marshall Islands Development Bank, Republic of the Marshall Islands - Report dated August, 1999

Questionable loans:	\$12,410,148
Questionable loans converted to equity:	\$ 2,933,321