

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

**(A GOVERNMENTAL FUND OF THE
REPUBLIC OF THE MARSHALL ISLANDS)**

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

YEAR ENDED SEPTEMBER 30, 2012

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

Chairman
Marshall Islands Scholarship Grant and Loan Board:

We have audited the financial statements of the Marshall Islands Scholarship Grant and Loan Board (MISGLB), a governmental fund of the Republic of the Marshall Islands (RepMar), as of and for the year ended September 30, 2012, and have issued our report thereon dated September 3, 2013. Our report includes an explanatory paragraph that the financial statements of MISGLB are not intended to present the financial position and results of operations of RepMar. 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

Management of MISGLB is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered MISGLB's internal control over financial reporting 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 MISGLB's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of MISGLB's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs (pages 7 through 9) as item 2012-2, which we consider to be significant deficiencies in internal control over financial reporting. *A significant deficiency* is a deficiency, or a 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.

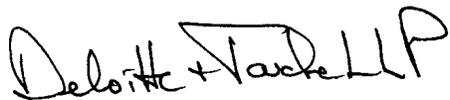
Compliance and Other Matters

As part of obtaining reasonable assurance about whether MISGLB'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2012-1.

We also noted certain matters that we reported to management of MISGLB in a separate letter dated September 3, 2013.

MISGLB's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit MISGLB's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies, and others within the entity 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 written in a cursive, stylized font.

September 3, 2013

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133 AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Chairman
Marshall Islands Scholarship Grant and Loan Board:

Compliance

We have audited the Marshall Islands Scholarship Grant and Loan Board's (MISGLB) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on MISGLB's major federal program for the year ended September 30, 2012. MISGLB's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 7 through 9). Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of MISGLB's management. Our responsibility is to express an opinion on MISGLB'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 MISGLB'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 MISGLB's compliance with those requirements.

In our opinion, MISGLB complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its Compact of Free Association Sector Grants (CFDA # 15.875) major federal program for the year ended September 30, 2012.

Internal Control Over Compliance

Management of MISGLB 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 MISGLB's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of MISGLB's internal control over compliance.

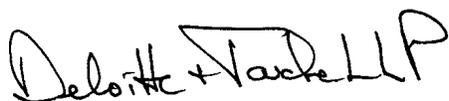
A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of MISGLB, a governmental fund of the Republic of the Marshall Islands (RepMar), as of and for the year ended September 30, 2012, and have issued our report thereon dated September 3, 2013, which contained an unqualified opinion on those financial statements. Our report includes an explanatory paragraph that the financial statements of MISGLB are not intended to present the financial position and results of operations of RepMar. Our audit was conducted for the purpose of forming an opinion on the financial statements 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditure of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of management, the Republic of the Marshall Islands, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.



September 3, 2013

**MARSHALL ISLANDS SCHOLARSHIP
GRANTS AND LOAN BOARD**

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2012

	<u>Fund Balance Beginning of Year</u>	<u>Federal Funds Received</u>	<u>Other Funds Received</u>	<u>Funds Expended</u>	<u>Fund Balance End of Year</u>
Funds passed through the Republic of the Marshall Islands:					
<u>U.S. Department of the Interior</u>					
<u>CFDA #15.875</u>					
Economic, Social and Political Development of the Territories:					
Compact of Free Association, As Amended, Sector Grants:					
Section 211(a)(1)					
Education Sector	\$ 580,435	\$ 471,925	\$ 16,442	\$ 607,658	\$ 461,144
Supplemental Education Grant	-	707,052	-	707,052	-
Section 211(b)(1)					
Kwajalein Special Needs	<u>288,488</u>	<u>100,000</u>	<u>-</u>	<u>235,431</u>	<u>153,057</u>
	<u>\$ 868,923</u>	<u>\$ 1,278,977</u>	<u>\$ 16,442</u>	<u>\$ 1,550,141</u>	<u>\$ 614,201</u>

See accompanying notes to schedule of expenditures of federal awards.

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

Notes to Schedule of Expenditures of Federal Awards
September 30, 2012

(1) Organization and Compact of Free Association

The Marshall Islands Scholarship Grant and Loan Board (MISGLB) is a subrecipient of funds received through Sections 211(a) and 211(b) and the Supplemental Education Grant of the Compact of Free Association, As Amended (the Compact), from the Republic of the Marshall Islands (RepMar). These funds are provided to support the post-secondary education of citizens of the Marshall Islands attending accredited post-secondary institutions.

(2) Summary of Significant Accounting Policies

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of MISGLB and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

A. SUMMARY OF AUDITORS' RESULTS SECTION

Financial Statements

- | | |
|--|-------------|
| 1. Type of auditors' report issued: | Unqualified |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | No |
| 3. Significant deficiency(ies) identified? | Yes |
| 4. Noncompliance material to financial statements noted? | Yes |

Federal Awards

Internal control over major programs:

- | | |
|---|---------------|
| 5. Material weakness(es) identified? | No |
| 6. Significant deficiency(ies) identified? | None reported |
| 7. Type of auditors' report issued on compliance for major programs | Unqualified |
| 8. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | Yes |
| 9. Identification of major programs: | |

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
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15.875	Economic, Social and Political Development of the Territories: Compact of Free Association, as amended, Sector Grants
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- | | |
|--|-----------|
| 10. Dollar threshold used to distinguish between Type A and Type B programs: | \$300,000 |
| 11. Auditee qualified as a low-risk auditee? | No |

B. FINANCIAL STATEMENTS FINDINGS SECTION

<u>Reference Number</u>	<u>Findings</u>	<u>Refer Page #</u>
2012-1	Local Noncompliance	8
2012-2	External Financial Reporting	9

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION

None

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Local Noncompliance

Finding No. 2012-1

Criteria: Section 6(e) of the Scholarship Assistance of 1979 (the Act), as amended, requires MISGLB to ensure timely repayment of scholarship assistance loans. MISGLB policies and procedures require the repayment of student loans within one year of completion or cessation of studies. Furthermore, Section 7(h) of the Act authorizes MISGLB to convert scholarship assistance loans to grants.

Condition: During the year ended September 30, 2012, MISGLB was not able to collect loan repayments from one scholarship recipient who completed studies but chose not to work in the Marshall Islands, and did not collect from students who withdrew from school. As of September 30, 2012, MISGLB recorded outstanding loans receivable of \$17,630,409. Due to the lack of collection of these loans receivable, a corresponding allowance for uncollectable loans has been recorded.

Cause: The cause of the above condition is lack of enforcement of MISGLB policies and procedures requiring the repayment of scholarship assistance loans and the lack of a reconciled subsidiary loan ledger.

Effect: The effect of the above condition is the lack of loan repayments and a possibility that converted loans may not be completed.

Recommendation: We recommend that MISGLB enforce established policies and procedures requiring the repayment of scholarship assistance loans. Furthermore, we recommend that MISGLB reconstruct the subsidiary loan ledger to reconcile and agree with the general ledger in order that converted loans are complete and accurate.

Prior Year Status: The lack of loan repayments and the possibility that converted loans may not be completed was reported as a finding in the Single Audits of MISGLB for fiscal years 1997 through 2011.

Auditee Response and Corrective Action Plan: Collection of outstanding loans was stalled due to a couple of reasons, listed below:

- 1) Two Fiscal Officers were hired during the FY 2012. Neither stayed long enough to oversee the collection of loans. Nonetheless, the latter managed to convert some loans.
- 2) The office is still pending response from the Attorney General regarding the hiring/ contracting of a collection agency.

However, MISGLB has not stopped seeking former recipients and informing returned & employed recipients (via radio station) to fill out their student waiver form, if they have met the requirement (work a year for every 2 years received financial assistance), to convert their loans to grants. Collecting is a very difficult case, which has to be dealt singly without other office disruptions, but we are continuously trying to find satisfactory ways to overcome this big deficit.

Alternate methods MISGLB will attempt in the future:

- 1) Seek MISSA's and PSC's assistance to find former recipients who had returned.
- 2) Seek Ministry of Foreign Affairs' assistance regarding those who are out of the country.

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

External Financial Reporting

Finding No. 2012-2

Criteria: Board minutes are a primary means by which regulatory agencies and independent auditors can evaluate the administration of MISGLB's operations.

Condition: Not all Board of Director minutes of meetings held during fiscal year 2012 were available for examination.

Cause: The cause of the above condition is the lack of adherence to established policies and procedures relating to documentation of Board of Director minutes.

Effect: The effect of the above condition is the possibility that directives of the Board are not properly disclosed or recorded in the financial statements.

Recommendation: We recommend that the Board of Directors require that all minutes of meetings are formally documented by the Secretary and approved by the Chairman in a timely manner.

Auditee Response and Corrective Action Plan: MISGLB will accept your recommendation and ensure that all Board minutes are completed and set before the next Board meeting, for approval.

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2012

The status of unresolved prior year findings is discussed within the Schedule of Findings and Questioned Costs section of this report (pages 7 through 9).