

**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, 2007

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

Chairman
Marshall Islands Scholarship Grant and Loan Board:

We have audited the financial statements of the Marshall Islands Scholarship Grant and Loan Board (MISGLB) as of and for the year ended September 30, 2007, and have issued our report thereon dated May 14, 2008. 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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A *control 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2007-2 to be a significant deficiency in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is a material weakness.

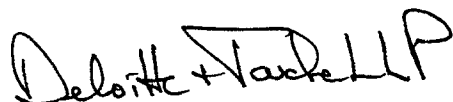
Compliance and Other Matters

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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2007-1.

We noted certain matters that we reported to management of MISGLB in a separate letter dated May 14, 2008.

MISGLB's response to the findings identified in our audit are 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.

May 14, 2008

**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**

Chairman
Marshall Islands Scholarship Grant and Loan Board:

Compliance

We have audited the compliance of the Marshall Islands Scholarship Grant and Loan Board (MISGLB) 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 year ended September 30, 2007. 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 one 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 of MISGLB's compliance with those requirements.

In our opinion, MISGLB complied, in all material respects, with the requirements referred to above that are applicable to its one major federal program for the year ended September 30, 2007.

Internal Control Over Compliance

The 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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

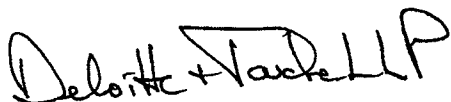
A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 basic financial statements of MISGLB as of and for the year ended September 30, 2007, and have issued our report thereon dated May 14, 2008. 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 MISGLB. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, 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 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.



May 14, 2008

**MARSHALL ISLANDS SCHOLARSHIP
GRANTS AND LOAN BOARD**

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2007

	<u>Total</u> <u>Authorization</u>	Fund Balance Beginning <u>of Year</u>	Federal Funds <u>Received</u>	Other Funds <u>Received</u>	Funds <u>Expended</u>	Fund Balance End <u>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>						
Compact of Free Association, As Amendment, Sector Grants:						
Section 211(a)(1) Education Sector	\$ 642,875	\$ 6,228	\$ 642,875	\$ 184	\$ 635,837	\$ 13,450
Supplemental Education Grant	225,825	-	225,825	-	225,825	-
Section 211(b)(1) Kwajalein Special Needs	<u>100,000</u>	<u>-</u>	<u>100,000</u>	<u>-</u>	<u>91,678</u>	<u>8,322</u>
Sub-total U.S. Department of the Interior	<u>968,700</u>	<u>6,228</u>	<u>968,700</u>	<u>184</u>	<u>953,340</u>	<u>21,772</u>
<u>U.S. Department of Education</u> <u>CFDA #84.185A</u>						
Robert C. Byrd Honors Scholarship Program	<u>12,000</u>	<u>1,500</u>	<u>-</u>	<u>13,500</u>	<u>-</u>	<u>15,000</u>
Sub-total U.S. Department of Education	<u>12,000</u>	<u>1,500</u>	<u>-</u>	<u>13,500</u>	<u>-</u>	<u>15,000</u>
	\$ <u>980,700</u>	\$ <u>7,728</u>	\$ <u>968,700</u>	\$ <u>13,684</u>	\$ <u>953,340</u>	\$ <u>36,772</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, 2007

(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 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, 2007

A. SUMMARY OF AUDITOR'S RESULTS

1. The Independent Auditors' Report on the financial statements expresses an unqualified opinion.
2. A significant deficiency in internal control was disclosed by the audit of the financial statements.
3. One instance of noncompliance considered material to the financial statements was disclosed during the audit.
4. No significant deficiencies in internal control were disclosed by the audit of the one major federal award program.
5. The Independent Auditors' Report on compliance for the one major federal award program expresses an unqualified opinion.
6. There were no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. MISGLB's one major program is as follows:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Compact of Free Association, as amended, Education Sector	15.875

8. A threshold of \$300,000 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. MISGLB did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

<u>Reference Number</u>	<u>Findings</u>	<u>Refer Page #</u>
2007-1	Local Noncompliance	8
2007-2	External Financial Reporting	9

C. FINDINGS AND QUESTIONED COSTS-MAJOR FEDERAL AWARD PROGRAMS AUDIT

No federal award findings are reported for the year ended September 30, 2007.

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Local Noncompliance

Finding No. 2007-1

Criteria: Section 6(e) of the Scholarship Assistance Act 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, 2007, no loan repayments were received from students, including students who had withdrawn from school. Furthermore, MISGLB converted a total of \$446,800 in loans receivable for students who completed school and fulfilled the requirements of the Board; however, the balances converted were obtained solely from the students' files as there exists no reconciled subsidiary loan ledger.

Cause: The cause of the above condition is the 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 the possibility that converted loans may not be complete.

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 complete was reported as a finding in the Single Audits of MISGLB for fiscal years 1997 through 2006.

Auditee Response and Corrective Action Plan: At its meeting on May 6, 2008, Marshall Islands Scholarship, Grant and Land Board established a subcommittee to develop an action plan for collecting overdue student loan repayments. Also, the Attorney General's office has advised us on the legal statute of limitation for collecting these student loans.

In our QuickBooks Accounting System, from FY2000 to FY2008 we keep a loan ledger of all student loans. For the prior years, in which no subsidiary loan ledger was properly kept, we are still working on that.

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

External Financial Reporting

Finding No. 2007-2

Criteria: The fund balance should be properly reconciled at the beginning of each fiscal year.

Condition: At September 30, 2007, MISGLB recorded a fund balance of \$5,394,989, which did not agree with the prior year audited balance of \$172,184. The variance of \$5,222,805 was corrected during the audit process.

Cause: The cause of the above condition is the lack of established policies and procedures requiring proper reconciliation of the fund balance.

Effect: The effect of the above condition is the misstatement of the beginning fund balance.

Recommendation: We recommend that management ensure that the fund balance is properly reconciled at the beginning of each fiscal year.

Prior Year Status: Lack of reconciliation of the fund balance at the beginning of the fiscal year was discussed in our letter to management dated April 26, 2007.

Auditee Response and Corrective Action Plan: This was an error in entering Year-End adjusting entries into the QuickBooks system. After consulting with the QuickBooks expert, Salvador Sumalabe, we have now properly posted the prior year's adjustments and our fund balance is now properly reconciled. We will continue to ensure that this is done at the beginning of each fiscal year.

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

Unresolved Prior Year Findings
Year Ended September 30, 2007

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).