

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

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

YEAR ENDED SEPTEMBER 30, 2003



REPUBLIC OF THE MARSHALL ISLANDS
OFFICE OF THE AUDITOR GENERAL
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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, 2003, and have issued our report thereon dated June 6, 2005. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance 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 MISGLB'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 7 through 10) as items 2003-1 and 2003-2.

A material weakness is a 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 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, we believe that none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to management of MISGLB in a separate letter dated June 6, 2005.

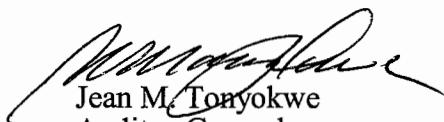
Compliance and Other Matters

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 grants, 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 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 2003-3. We also noted one immaterial instance of noncompliance, which we have reported to management of MISGLB in a separate letter dated June 6, 2005.

Pursuant to the Auditor-General Act of 1986, we provided the management with a draft of this report so that MISGLB could respond to our findings in writing. We appreciated MISGLB's prompt response which we have incorporated into the body of this report.

This report is intended solely for the information and use of management, the Republic of the Marshall Islands, federal awarding agencies, pass-through entities 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. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the Republic of the Marshall Islands, is a matter of public record.

June 6, 2005



Jean M. Tonyokwe
Auditor-General



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**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, 2003. 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 10). 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, 2003.

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 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.

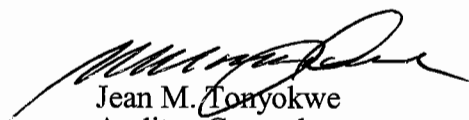
Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants 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 MISGLB as of and for the year ended September 30, 2003, and have issued our report thereon dated June 6, 2005. 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 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. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the Republic of the Marshall Islands, is a matter of public record.

June 6, 2005



Jean M. Tonyokwe
Auditor-General

**MARSHALL ISLANDS SCHOLARSHIP
GRANTS AND LOAN BOARD**

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2003

	<u>Total</u>	<u>Deficit</u>	<u>Federal</u>	<u>Other</u>	<u>Funds</u>	<u>Deficit</u>
	<u>Authorization</u>	<u>Beginning</u>	<u>Funds</u>	<u>Funds</u>	<u>Expended</u>	<u>End</u>
		<u>of Year</u>	<u>Received</u>	<u>Received</u>		<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>						
Title II, Article I, Section 216(a)(3) of the Compact of Free Association	\$ 797,400	\$ (257,066)	\$ 828,455	\$ 8,681	\$ 607,950	\$ (27,880)
<u>U.S. Department of Education</u>						
<u>CFDA #84.185A</u>						
Robert C. Byrd Honors Scholarship Program	<u>120,000</u>	<u>-</u>	<u>121,500</u>	<u>-</u>	<u>121,500</u>	<u>-</u>
	<u>\$ 917,400</u>	<u>\$ (257,066)</u>	<u>\$ 949,955</u>	<u>\$ 8,681</u>	<u>\$ 729,450</u>	<u>\$ (27,880)</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, 2003

(1) Organization and Compact of Free Association

The Marshall Islands Scholarship Grant and Loan Board (MISGLB) is a subrecipient of funds received through Section 216(a)(3) of the Compact of Free Association (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 United States accredited post-secondary institutions in the United States, its territories and possessions, the Federated States of Micronesia, or the Marshall Islands. It has been determined that these funds are not subject to general U.S. federal requirements such as OMB Circulars A-102 and A-87, but rather must be expended in compliance with local laws and regulations and Compact intent.

(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, 2003

Section I - Summary of Auditor's Results

1. The Independent Auditors' Report on the financial statements expressed an unqualified opinion.
2. Reportable conditions in internal control over financial reporting were identified, none of which are considered to be material weaknesses.
3. One instance of noncompliance considered material to the financial statements was disclosed by the audit.
4. No reportable conditions in internal control over compliance with requirements applicable to the one major federal award program were identified.
5. The Independent Auditors' Report on compliance with requirements applicable to the one major federal award program expressed an unqualified opinion.
6. The audit disclosed no findings required to be reported by 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, Title II, Article I, Section 216(a)(3)	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.

Section II - Financial Statement Findings

<u>Reference Number</u>	<u>Findings</u>	<u>Refer Page #</u>
2003-1	Cash	8
2003-2	Journal Entries	9
2003-3	Local Noncompliance	10

Section III - Federal Award Findings and Questioned Costs

No federal award findings are reported for the year ended September 30, 2003.

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Cash

Finding No. 2003-1

Criteria: Proper internal control over cash requires that bank reconciliation be prepared on a timely basis and evidenced as to review by management.

Condition: As of September 30, 2003, MISGLB's bank reconciliations were not completed in a timely manner and no evidence of management review was available.

Cause: The cause of the above condition is lack of policies and procedures requiring the timely reconciliation and review by management of MISGLB bank accounts.

Effect: The effect of the above condition is the possibility of unauthorized entries to the general ledger.

Recommendation: We recommend that MISGLB ensure that bank reconciliations are prepared on a timely basis and be evidenced as to review by management.

Prior Year Status: Timely reconciliation of bank accounts and management review was reported as a finding in the Single Audits of MISGLB for fiscal years 1997 through 2002.

Auditee Response and Corrective Action Plan: MISGLB recognizes the importance of having its bank accounts reconciled on a timely manner and has already taken the necessary corrective steps toward this problem. As of FY 2005, all MISGLB bank accounts are being reconciled on a monthly basis and reviewed by the MISGLB chairman.

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Journal Entries

Finding No. 2003-2

Criteria: Internal Controls should be established to ensure all posting to the general ledger through journal entries are authorized by appropriate officials before they are posted. In addition, there should be a standard form used for all entries made.

Condition: MISGLB did not use journal voucher forms and journal vouchers entries to the general ledger were not supported. In addition, journal entries are not approved by appropriate official.

Cause: The cause of the above condition is lack of standard forms for journal voucher.

Effect: The effect of the above condition is the possibility of unauthorized entries to the general ledger.

Recommendation: We recommend that management ensure that all journal entries be approved before entries are posted to the general ledger. Management should develop a journal entry form that indicates the date, journal voucher number, descriptions, account codes, and sign off for the preparer and the authorized officials. This standard form should be used to document all journal entries. Supporting documents of a journal entry should be attached to the form for appropriated officials to review and approve.

Auditee Response and Corrective Action Plan: MISGLB office has now taken necessary measures to make sure all Journal entries are documented, supported and approved before any posting to the General Ledger is done.

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Local Noncompliance

Finding No. 2003-3

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, 2003, we noted that no loan repayments were received from students, including students who had withdrawn from school. Furthermore, we noted that MISGLB did not authorize any scholarship assistance loans to be converted to grants during the year ended September 30, 2003. An audit adjustment was proposed to increase the allowance for uncollectible accounts in the amount of \$651,187.

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

Effect: The effect of the above condition is the lack of loan repayments.

Recommendation: We recommend that MISGLB enforce established policies and procedures requiring the repayment of scholarship assistance loans. Furthermore, we recommend that the Board members of MISGLB formally approve the conversion of scholarship assistance loans to grants.

Prior Year Status: Lack of enforcement of MISGLB policies and procedures requiring the repayment of scholarship assistance loans was reported as a finding in the Single Audits of MISGLB for fiscal years 1997 through 2002.

Auditee Response and Corrective Action Plan: MISGLB realizes that this finding has been repeatedly cited in our previous years' audit reports. Therefore, in compliance with your recommendations and MISGLB's own policies, we have been gradually converting student loans to grant where due. As of July 2005, a total of \$ 1,998,208.54 student loans have been converted to grants.

As to the student loans repayments, the Scholarship office had already started to provide the Attorney General's Office with names of students with overdue loan payments. Also, we are in the process of compiling a list of all the student loans ready for collection. In conjunction with that, the Board has set aside a legal fee with the idea of hiring someone to do the collecting. However, before doing that, MISGLB still needs to take into consideration a collection plan that would be fair and effective to all concerned.

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2003

Questioned Costs

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs that were unresolved at September 30, 2003:

Questioned costs of MISGLB, as previously reported	\$ 15,000
Questioned costs for fiscal year 2003 Single Audit	<u>-</u>
Unresolved questioned costs of MISGLB at September 30, 2003	\$ <u>15,000</u>

Unresolved Findings

The status of unresolved prior year findings is discussed within the Schedule of Findings and Questioned Costs section of this report (pages 7 through 10).

Marshall Islands Scholarship Grant and Loan Board
Independent Auditors' Report on
Internal Control and on Compliance
September 30, 2003

ACTIONS OR DOCUMENTATIONS REQUIRED TO CLEAR
AUDIT FROM OAG FOLLOW-UP SYSTEM

In order for this audit to be cleared from the OAG Follow-Up system, written confirmation and/or documentation indicating action has been taken, as detailed below, should be submitted no later than September 12, 2005 at 5:00 p.m.

<u>RECOMMENDATION NO:</u>	<u>ACTION TO BE TAKEN:</u>
1. Bank reconciliation be performed on a timely basis and evidenced as review by management.	No further action required.
2. Management to ensure that all journal entries be approved prior to posting to to the general ledger, and to develop a standard form that indicates date, JV No. descriptions, account codes, and sign off for preparer and authorized official.	No further action required.
3. MISGLB to enforce establish policies and procedures requiring the repayment of scholarship loans assistance, and Board members to formally approve the conversion of scholarship assistance loans to grant.	Partially implemented. Provide written confirmation by the Attorney Generals' Office that action has been taken to address the over due loan payments that MISGLB submitted to them.

We consider that it is the responsibility of MISGLB to obtain/provide required documentations, etc.

Marshall Islands Scholarship Grant and Loan Board
Independent Auditors' Report on
Internal Control and on Compliance
September 30, 2003

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3. MISGLB to enforce establish policies and procedures requiring the repayment of scholarship loans assistance, and Board members to formally approve the conversion of scholarship assistance loans to grant.	Partially implemented. Provide written confirmation by the Attorney Generals' Office that action has been taken to address the over due loan payments that MISGLB submitted to them.

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