

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

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

YEAR ENDED SEPTEMBER 30, 2004



REPUBLIC OF THE MARSHALL ISLANDS
OFFICE OF THE AUDITOR GENERAL
POST OFFICE BOX 245
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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, 2004, and have issued our report thereon dated December 14, 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 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 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 2004-1 and 2004-2.

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 item 2004-2 to be 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 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 2004-3.

We also noted certain additional matters that we reported to management of MISGLB in a separate letter dated December 14, 2005.

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

December 14, 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, 2004. 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 grant agreements 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, 2004.

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 grant agreements 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, 2004, and have issued our report thereon dated December 14, 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.

December 14, 2005


Jean M. Tonyokwe
Auditor-General

**MARSHALL ISLANDS SCHOLARSHIP
GRANTS AND LOAN BOARD**

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2004

	<u>Total</u>	Fund	Federal	Other	Funds	Fund
	<u>Authorization</u>	<u>Balance</u>	<u>Funds</u>	<u>Funds</u>	<u>Expended</u>	<u>Balance</u>
		<u>Beginning</u>	<u>Received</u>	<u>Received</u>		<u>End</u>
		<u>Of Year</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>						
Section 211(a) Compact of Free Association, as amended, Education Sector	\$ 856,938	\$ -	\$ 856,938	\$ 759	\$ 828,990	\$ 28,707
<u>U.S. Department of Education</u>						
<u>CFDA #84.185A</u>						
Robert C. Byrd Honors Scholarship Program	<u>15,000</u>	<u>-</u>	<u>15,000</u>	<u>-</u>	<u>15,000</u>	<u>-</u>
	\$ <u>871,938</u>	\$ <u>-</u>	\$ <u>871,938</u>	\$ <u>759</u>	\$ <u>843,990</u>	\$ <u>28,707</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, 2004

(1) Organization and Compact of Free Association

The Marshall Islands Scholarship Grant and Loan Board (MISGLB) is a subrecipient of funds received through Section 211(a) (1) of the Compact of Free Association, as amended 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, 2004

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, one of which is considered to be a material weakness.
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 211(a) (1)	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>
2004-1	Accounting System	8
2004-2	External Financial Reports	9
2004-3	Local Noncompliance	10

Section III - Federal Award Findings and Questioned Costs

No federal award findings are reported for the year ended September 30, 2004.

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Accounting System

Finding No. 2004-1

Criteria: Sufficient controls over the accounting system should be in place to ensure reliability of the accounting records.

Condition: During our audit for the fiscal year ended September 30, 2004, we noted that entries were subsequently made after the initial financial statements were provided for audit.

Cause: The cause of the above condition is the lack of segregation of duties and the lack of internal control over the accounting system.

Effect: The effect of the above condition is that transactions may be changed without proper authorization.

Recommendation: We recommend that MISGLB establish adequate internal control policies and procedures through segregation of duties. Specifically, we recommend that MISGLB require the Coordinator to act as the administrator of the accounting system and require the Fiscal Officer to access the accounting system under another user name. Accordingly, the set of controls that are in MISGLB's accounting software can be utilized to ensure transactions are authorized by someone other than the Fiscal Officer before being changed or deleted and thereby implementing segregation of duties over control of the accounting system.

Auditee Response and Corrective Action Plan: As of 2005, at the closing of the fiscal year, our system is locked by the Scholarship Director so no changes would be made subsequently once the year has been closed. Only the Director has the password to open the previous year. Further, all Journal entries are authorized by the Director before entering the system. These will ensure that no transaction may be entered or changed without proper authorization.

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Financial Management System

Finding No. 2004-2

Criteria: Section 6 of the U.S. Compact Subaward Agreement between the Government of the Republic of the Marshall Islands and the Marshall Islands Scholarship Grant and Loan Board provides, in part, that the Board shall maintain an acceptable financial management system, such that it will permit the tracing of funds to a level of expenditure adequate to establish that such funds have been used in compliance with the provisions of the Fiscal Procedures Agreement (FPA), and that such a system shall provide accurate, current and complete disclosure of the financial activity of Compact funds, and separate accounts for the grant funds appropriated.

Condition: MISGLB has installed a Quick Books Accounting Software that utilizes the modified accrual basis of accounting, however, the system has not been fully implemented. During the year ended September 30, 2004, we noted that the accounting system was not structured so that financial statements can present useable information segregating the financial activity of Compact funds from non-Compact funds. MISGLB did not segregate its financial activities between the Compact funds, federal grants and Nitijela appropriations. This condition was resolved through alternative audit procedures.

Cause: The cause of the above condition is that MISGLB is not utilizing fund accounting even though the current accounting system has the capability to produce separate fund trial balances.

Effect: The effect of the above condition is that information on the types of funds, specifically the Compact funds are not readily available. Furthermore, it is a violation of the terms and conditions of the FPA which could result in questioned costs.

Recommendation: We recommend that management take the necessary steps to ensure that the accounting software is fully implemented in order to comply with the FPA.

Auditee Response and Corrective Action Plan: As stated, our QuickBooks Accounting Program has not been fully implemented. It is our intention now to utilize the services of TriPod Accounting and Allied Services to enable us to segregate the Compact funds from other funds into separate bank account to avoid the confusion between Compact funds and non-Compact funds.

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Local Noncompliance

Finding No. 2004-3

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, 2004, 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, 2004. An audit adjustment was proposed to increase the allowance for uncollectible accounts in the amount of \$1,012,342.

Cause: The cause of the above condition is the lack of supporting subsidiary loan ledgers and the 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 2003.

Auditee Response and Corrective Action Plan: Starting in FY 2005, MISGLB office has been converting student loans to grants and will continue to do so. As for payment of student loans, the scholarship office has already provided the Attorney General's Office with names of students with overdue loan payments. Also, 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 consider 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, 2004

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, 2004:

Questioned costs of MISGLB, as previously reported	\$ 15,000
Questioned costs for fiscal year 2004 Single Audit	_____ - _____
Unresolved questioned costs of MISGLB at September 30, 2004	\$ <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, 2004

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

RECOMMENDATION

ACTION TO BE TAKEN:

No. 1

Considered closed.

No. 2

Considered closed.

No. 3

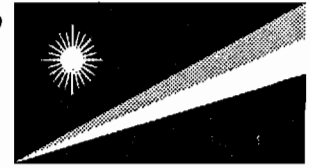
Partially implemented. Provide written confirmation from the Attorney General of the final disposition of the matter.

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



MARSHALL ISLANDS SCHOLARSHIP, GRANT AND LOAN BOARD
NATIONAL SCHOLARSHIP OFFICE

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February 10, 2006

OFFICE OF THE
AUDITOR - GENERAL
RECEIVED
FEB 14 06
REPUBLIC OF THE
MARSHALL ISLANDS

To: Auditor General
From: Marshall Islands Scholarship, Grant and Loan Board
Subject: Responses to Fiscal Year 2004 Findings

Followings are the MISGLB responses to the FY 2004 findings and recommendations:

Finding No. 2004-1

As of FY 2005, at the closing of the fiscal year, our system is locked by the Scholarship Director so no changes would be made subsequently once the year has been closed. Only the Director has the pass word to open the previous year. Further, all Journal entries are authorized by the Director before entering the system. These will ensure that no transaction may be entered or changed without proper authorization.

Finding No. 2004-2

As stated, our QuickBooks Accounting Program has not been fully implemented. It is our intention now to utilize the services of *TriPod Accounting and Allied Services* to enable us to segregate the Compact funds from other funds in our system. Also, starting in FY2006 we have segregated the Compact funds from other funds into a separate bank account to avoid the confusion between Compact funds and non-Compact funds.

Finding No. 2004-3

Starting in FY2005, MISGLB office has been converting student loans to grants and will continue to do so.

As for repayments of student loans, the scholarship office had already provided the Attorney General's Office with names of students with overdue loan payments. Also, 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 consider a collection plan that would be fair and effective to all concerned.

Sincerely,

Juliet Antok
Director, MISGLB

Concurred:
Amenta Matthew
Chairperson, MISGLB