

MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD
(AN EXPENDABLE TRUST FUND)

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2002

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED UPON THE 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, 2002, and have issued our report thereon dated May 19, 2003. 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.

Compliance

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 (pages 7 through 11) as item 2002-4.

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 as items 2002-1 through 2002-3.

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, of the reportable conditions described above, we consider item 2002-2 to be 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 May 19, 2003.

This report is intended solely for the information and use of management, federal awarding agencies, 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.

Deloitte & Touche

May 19, 2003



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, 2002. 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 11). 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, 2002.

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, 2002, and have issued our report thereon dated May 19, 2003. 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, federal awarding agencies, 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.



May 19, 2003

MARSHALL ISLANDS SCHOLARSHIP
GRANTS AND LOAN BOARD
(AN EXPENDABLE TRUST FUND)

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2002

	<u>Total</u> <u>Authorization</u>	<u>Fund</u> <u>Balance</u> <u>Beginning</u> <u>of Year</u>	<u>Funds</u> <u>Received</u>	<u>Earnings</u> <u>on Funds</u>	<u>Funds</u> <u>Expended</u>	<u>Earnings</u> <u>(Deficit)</u> <u>End of Year</u>
<u>U.S. Department of the Interior</u>						
CFDA #15.875						
Funds passed through the Republic of the Marshall Islands:						
Title II, Article I, Section 216(a)(3) of the Compact of Free Association						
	\$ <u>720,962</u>	\$ <u>(307,868)</u>	\$ <u>720,962</u>	\$ <u>10,342</u>	\$ <u>680,502</u>	\$ <u>(257,066)</u>
<u>U.S. Department of Education</u>						
CFDA #84.185A						
Robert C. Byrd Honors Scholarship Program - fiscal year 2000						
	\$ <u>60,000</u>	\$ <u>1,500</u>	\$ <u>60,000</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,500</u>
Robert C. Byrd Honors Scholarship Program - fiscal year 2001						
	\$ <u>30,000</u>	\$ <u>30,000</u>	\$ <u>30,000</u>	\$ <u>-</u>	\$ <u>25,500</u>	\$ <u>4,500</u>

See accompanying notes to schedule of expenditures of federal awards.

MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD
(AN EXPENDABLE TRUST FUND)

Notes to Schedule of Expenditures of Federal Awards
September 30, 2002

(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 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
(AN EXPENDABLE TRUST FUND)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2002

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 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>
2002-1	Cash	8
2002-2	Loans Receivable	9
2002-3	External Financial Reporting	10
2002-4	Local Noncompliance	11

Section III - Federal Award Findings and Questioned Costs

No federal award findings are reported for the year ended September 30, 2002.

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

Cash

Finding No. 2002-1

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

Condition: As of September 30, 2002, MISGLB's bank reconciliation was not completed in a timely manner and no evidence of management review was available.

Cause: The cause of the above condition is the 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 that errors will not be detected on a timely basis.

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 2001.

Auditee Response and Corrective Action Plan: Bank reconciliations were not properly made. We agree that bank reconciliations should be made on a timely basis and will do so in the future.

MARSHALL ISLANDS SCHOLARSHIP
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Loans Receivable

Finding No. 2002-2

Criteria: General ledger control accounts for loans receivable should be supported by a reconciled subsidiary loan ledger to facilitate the preparation of supervisory review reports.

Condition: As of September 30, 2002, MISGLB recorded loans receivable in the general ledger relating to scholarship assistance loans, totaling \$9,695,969, for which a reconciled subsidiary loan ledger was not made available for loans issued prior to October 1, 1997. Furthermore, we noted the following matters on loan disbursements:

- An amount of \$25,500 related to the Byrd grant disbursements and an amount of \$13,500 related to liabilities to the Byrd Scholarship program were not recorded;
- An amount of \$60,666 relating to a Nitijela disbursement was recorded as a Compact fund expenditure;
- An amount of \$9,321 relating to student loan disbursements was improperly recorded as a Compact fund expenditure; and
- An amount of \$88,207 relating to a Nitijela student loan disbursement was recorded as a Nitijela expenditure.

Audit adjustments were proposed to reclassify these loan balances.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is inadequate control over MISGLB's loan portfolio.

Recommendation: We recommend that MISGLB establish a subsidiary loan ledger application to facilitate the preparation of supervisory review reports. Records within the subsidiary loan ledger should contain all pertinent student information relating to a loan.

Prior Year Status: Lack of maintenance of a reconciled subsidiary loan ledger was reported as a finding in the Single Audits of MISGLB for fiscal years 1997 through 2001.

Auditee Response and Corrective Action Plan: A loan subsidiary ledger was not kept. We will prepare a loan subsidiary ledger.

MARSHALL ISLANDS SCHOLARSHIP
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

External Financial Reporting

Finding No. 2002-3

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

Condition: The Board of Directors' minutes were not signed by the Chairman and the Secretary.

Cause: The cause of the above condition is lack of policies and procedures over documentation of Board minutes.

Effect: The effect of the above condition is a lack of evidence of approval of minutes.

Recommendation: We recommend that the Board minutes be signed by the Chairman and the Secretary.

Prior Year Status: Lack of evidence of approval of Board minutes was reported as a finding in the Single Audits of MISGLB for fiscal years 1997 through 2001.

Auditee Response and Corrective Action Plan: We have started a filing system that will allow us to keep good records. Board's minutes will be reviewed and signed by the Chairman and Secretary and these minutes will be kept in this filing system.

MARSHALL ISLANDS SCHOLARSHIP
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Local Noncompliance

Finding No. 2002-4

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, 2002, 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, 2002. An audit adjustment was proposed to increase the allowance for uncollectible accounts in the amount of \$864,851.

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 2001.

Auditee Response and Corrective Action Plan: We will make sure that loan repayments are made when a subsidiary loan ledger is established. We will also approve the conversion of scholarship assistance loans to grants.

MARSHALL ISLANDS SCHOLARSHIP
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Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2002

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, 2002:

Questioned costs of MISGLB, as previously reported	\$ 15,000
Questioned costs for fiscal year 2002 Single Audit	<u> -</u>
Unresolved questioned costs of MISGLB at September 30, 2002	\$ <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 11).