

**MARSHALL ISLANDS SCHOLARSHIP  
GRANT AND LOAN BOARD**

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

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**YEAR ENDED SEPTEMBER 30, 2005**

**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, 2005, and have issued our report thereon dated May 2, 2006. 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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 2005-1.

We also noted certain additional matters that we reported to management of MISGLB in a separate letter dated May 2, 2006.

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

Deloitte + Tatchell LLP

May 2, 2006

**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, 2005. 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 8). 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, 2005.

Internal Control Over Compliance

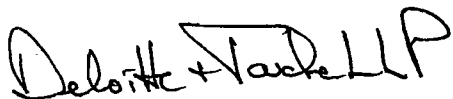
The management of MISGLB is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered MISGLB's internal control over compliance 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 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 noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud 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, 2005, and have issued our report thereon dated May 2, 2006. 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.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

May 2, 2006

**MARSHALL ISLANDS SCHOLARSHIP  
GRANTS AND LOAN BOARD**

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2005

	<u>Total</u> <u>Authorization</u>	<u>Fund</u> <u>Balance</u> <u>Beginning</u> <u>of Year</u>	<u>Federal</u> <u>Funds</u> <u>Received</u>	<u>Other</u> <u>Funds</u> <u>Received</u>	<u>Funds</u> <u>Expended</u>	<u>Fund</u> <u>Balance</u> <u>End</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)(1) Compact of Free Association, as amended, Education Sector	\$ 983,211	\$ 28,707	\$ 988,836	\$ 934	\$ 1,089,546	\$ (71,069)
<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>12,000</u>	<u>-</u>	<u>12,000</u>	<u>1,500</u>
	\$ <u>995,211</u>	\$ <u>30,207</u>	\$ <u>1,000,836</u>	\$ <u>934</u>	\$ <u>1,101,546</u>	\$ <u>(69,569)</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, 2005

(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) 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 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, 2005

**Section I - Summary of Auditor's Results**

1. The Independent Auditors' Report on the financial statements expressed an unqualified opinion.
2. No reportable conditions in internal control over financial reporting were identified.
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>
2005-1	Local Noncompliance	8

**Section III - Federal Award Findings and Questioned Costs**

No federal award findings are reported for the year ended September 30, 2005.

**MARSHALL ISLANDS SCHOLARSHIP  
GRANT AND LOAN BOARD**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2005

Local Noncompliance

Finding No. 2005-1

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, 2005, we noted that there were no loan repayments received from students, including students who had withdrawn from school. Furthermore, we noted that MISGLB converted a total of \$2,006,089 in loans receivable for students who had completed school and have fulfilled the requirements of the Board, however, we noted that the balances converted were obtained solely from the students' files as there was 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 supporting 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 the established policies and procedures requiring the repayment of scholarship assistance loans. Furthermore, we recommend that MISGLB reconstruct the loan subsidiary ledger to tie out the general ledger in order that converted loans are complete and accurate.

Auditee Response and Corrective Action Plan: MISGLB admits that we have not been able to collect any student loan payments, and our student loan subsidiary ledger is not complete yet. However, as of today, all student loan records from FY2001 to the present date are complete and available in our computer system. We are currently working on our student loan records prior to FY2001 in order to have a complete student loan subsidiary ledger. Please note that this will be a long process.

Furthermore, on February 27, 2005, we submitted a letter to the Attorney General's Office asking their legal advice concerning student loan payments. We were told that we would receive their advice in writing as soon as it was ready. We intend to keep follow-ups.

It is MISGLB's intention to have a clean audit with no findings. Therefore, we are giving our best efforts toward this purchase.

**MARSHALL ISLANDS SCHOLARSHIP  
GRANT AND LOAN BOARD**

**Unresolved Prior Year Findings and Questioned Costs  
Year Ended September 30, 2005**

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, 2005:

Questioned costs of MISGLB, as previously reported	\$ 15,000
Questioned costs for fiscal year 2005 Single Audit	_____ - _____
Unresolved questioned costs of MISGLB at September 30, 2005	\$ <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 8).