

June 1, 2009

Mr. James Myazoe
Chairman
Marshall Islands Scholarship Grant and Loan Board

Dear Mr. Myazoe:

In planning and performing our audit of the financial statements of the Marshall Islands Scholarship Grant and Loan Board (MISGLB) as of and for the year ended September 30, 2008 (on which we have issued our report dated June 1, 2009), 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, we considered MISGLB's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, 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 was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to MISGLB's internal control over financial reporting and other matters as of September 30, 2008 that we wish to bring to your attention.

MISGLB's responses to the other matters identified in our audit are described in the accompanying Appendix I. We did not audit MISGLB's responses and, accordingly, we express no opinion on them.

We have also issued a separate report to the Board of Directors and management, also dated June 1, 2009, on our consideration of MISGLB's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The definition of a deficiency is also set forth in the attached Appendix I.

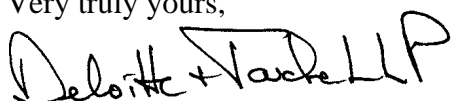
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of the Board of Directors, management, others within the organization, and the Office of the Auditor-General and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of MISGLB for their cooperation and assistance during the course of this engagement.

Very truly yours,



SECTION I — OTHER MATTERS

Our observations concerning other matters related to operations, compliance with laws and regulations, and best practices involving internal control over financial reporting that we wish to bring to your attention at this time are as follows:

(1) Student Loan Receivable

We examined seventy-five student loans issued during the year and noted the following:

- For check #s 1787, 7117, 7186 and 7206, the related student loan agreements were not signed by the recipients.
- For check #s 7155 and 7321, the related memo requests were not completely signed prior to check issuance.
- Check #7121 was issued to a student whose grades did not meet policy manual requirements.

We also noted certain exceptions to MISGLB's policies and procedures that have not been formally adopted.

We recommend that management ensure compliance with MISGLB's policies and procedures over required documents and grade point average (GPA). Additionally, we recommend that formal written policies and procedures regarding exceptions be adopted. Adherence with policies and procedures over required documents and GPA was discussed in our previous letters for the audits of fiscal years 2006 and 2007.

Auditee Response:

These exceptions to the MISGLB's policies and procedures have been incorporated into the revised Program Policy Manuel which is currently under review by the MISGLB.

The MISGLB tries as much as possible to comply with its set policies and procedures, however, at times, may unintentionally overlook some as in these cases. MISGLB will ensure future compliance and enforcement of these rules and regulations are strictly followed.

(2) Student Loan Receivable

We examined supporting recipient files pertaining to six converted loans and noted the following:

- Two files were missing final school transcripts or diplomas.
- One file did not include adequate evidence to indicate that the recipient satisfied employment requirements.

We recommend that management ensure compliance with MISGLB's policies and procedures over final school transcripts or diplomas and employment.

Auditee Response:

MISGLB will ensure reception of official final transcript and copy of diploma before closing of a student's file upon completion. MISGLB will ensure no return airline ticket is provided unless final official transcript and copy of diploma are received.

Furthermore, MISGLB will ensure no loan conversion is made unless confirmation from former recipient's employer is received. MISGLB will ensure future compliance with these set policies and guidelines is strictly followed.

(3) Representation Fees

During the year ended September 30, 2008, MISGLB paid \$500 to a board member to cover expenses incurred in meetings held with off-island students. MISGLB currently has not adopted formal policies governing such payments. We recommend that MISGLB adopt policies for such representation activities.

Auditee Response:

It is always been a practice to allow \$500 representation fees for MISGLB members when representing the Program in meetings with students and school officials abroad.

SECTION II – DEFINITIONS

The definition of a deficiency that is established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, is as follows:

A *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 and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

MISGB's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.