

June 26, 2017

Ms. Brenda Alik-Maddison  
Chairperson  
Marshall Islands Scholarship, Grant and Loan Board

Dear Ms. Alik-Maddison:

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, 2016 (on which we have issued our report dated June 26, 2017), 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 the 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 as of September 30, 2016, that we wish to bring to your attention.

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

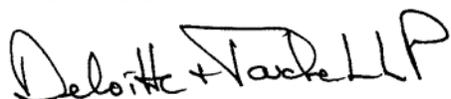
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with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

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

**SECTION I – DEFICIENCIES**

We identified, and have included below, deficiencies involving MISGLB's internal control over financial reporting as of September 30, 2016, that we wish to bring to your attention:

(1) Update General Ledger Balances

The beginning fund balance was understated by \$702,809 in comparison with the FY15 audited ending balance. This exception resulted in a proposed audit adjustment. We recommend management properly and timely reconcile general ledger accounts.

*Nonaccrual of interest income on money market*

Examination of a time deposit statement revealed that \$18,697 of interest income was received on 12/31/16 for the calendar year 2016. However, no accrual of such occurred during the fiscal year. This exception resulted in a proposed audit adjustment.

We recommend that all necessary adjustments be recorded in the general ledger prior to commencement of the annual audit.

(2) Bank Reconciliation

Examination of the bank reconciliation revealed the following exceptions:

*Deposit in transit*

Check no. 2317 dated 08/02/16 in the amount of \$8,363 was reflected as a bank reconciling item. Examination revealed that such has been erroneously recorded against the Bank of Hawaii GL account instead of against AR-Loan. This exception resulted in a proposed audit adjustment.

*Unidentified deposit in transit*

An unidentified 2008 deposit in transit of \$1,461 in the bank reconciliation was not available.

*Voided transactions*

Voided transactions were included as outstanding checks and deposits in transit in the bank reconciliations. In addition, bank reconciliations did not contain a signature of the reviewer.

Monitoring of reconciling items and review of bank reconciliations does not appear to be occurring. We recommend management strengthen and improve internal control policies over the review process of bank reconciliations.

(3) Student loan disbursements

Of sixty-one student loan disbursements tested, two (check nos. 10125 (\$4,898) and 10231 (\$3,260)) were tagged as void. However, they were not cancelled/voided in the books and were reflected as bank reconciling items. This exception resulted in a proposed audit adjustment.

**SECTION I – DEFICIENCIES, CONTINUED**

(3) Student loan disbursements, Continued

*Loan receivable - Maintenance of file*

Student files such as student loan agreement and guarantor statement were not on file.

We recommend management strengthen and improve internal control policies over the review of student loan disbursements to facilitate timely identification of errors. Further, student files and supporting documentation should be kept on file for future reference.

(4) Converted loans

Examination of student files for converted loans revealed the following missing documents at the time of our inspection:

- a) Transcripts of records/diplomas evidencing that students completed their studies.
- b) Student loan waiver forms did not reflect a program director signature evidencing that review took place.
- c) Signed BOD minutes evidencing approval of loan conversion was not available.

We recommend management revisit and improve internal controls over the review of converted loans. Further, board minutes for approved scholarship awards should be formally documented by the Secretary and be timely approved by the Chairman of the Board.

**SECTION II – DEFINITIONS**

The definition of a deficiency 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**

MISGLB'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.