

March 12, 2019

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, 2018 (on which we have issued our report dated March 12, 2019), 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, a deficiency related to MISGLB's internal control over financial reporting and other matters as of September 30, 2018, that we wish to bring to your attention.

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

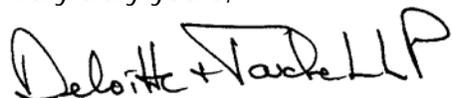
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with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



## SECTION I – DEFICIENCY

We identified, and have included below, a deficiency involving MISGLB's internal control over financial reporting as of September 30, 2018, that we wish to bring to your attention:

### (1) Void Checks

We noted one \$2,675 check (check no. 10995) that was physically voided but not void in the accounting system. We recommend that management consider establishing a policy over the processing, reconciliation, monitoring and disposition of voided checks.

## SECTION II – OTHER MATTERS

Our observations concerning other matters related to operations, compliance with law 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) Lease agreement

A signed renewal of the office lease is not available. We recommend management require timely lease renewals.

### (2) Student files

Various signed Student Loan Agreements were not on file. We recommend that management verify the filing and safekeeping of documents supporting student assistance awards.

### (3) Students on probation

Section A of MISGLB's Policies and Procedures Manual states that to be eligible for consideration in the scholarship program, students graduating high school, should meet below minimum score results on any of the following:

- Test of English as a Foreign Language (TOEFL)- 550
- Intermediate Score for the Revised Paper-delivered Test (15-21 for Reading and Listening components and 17-23 for Writing component)
- American College Testing (ACT)- 20
- Scholastic Aptitude Test (SAT)- 1010

Of 57 awards tested, 4 students were accepted in the program on probation even though student test results did not meet eligibility requirements specified in the Policies and Procedures Manual.

We recommend management consider revisiting MISGLB's Policies and Procedures Manual to include the probationary status of newly accepted scholars with scores below the minimum requirement.

### (4) Quarterly Reports

MISGLB's scholarship assistance reported quarterly to the Ministry of Finance did not agree with the underlying financial records. The net difference during the year amounted to \$2,040. We recommend that management agree quarterly reports with underlying financial records.

**SECTION II – DEFINITIONS**

The definition of a deficiency is as follows:

A *deficiency* in internal control over financial reporting 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.