

September 27, 2021

Ms. Diane Peter
Executive Director
Marshall Islands Scholarship, Grant and Loan Board

Dear Ms. Peter:

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, 2020 (on which we have issued our report dated September 27, 2021), 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, 2020 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated September 27, 2021, 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.

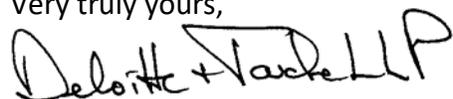
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with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

We identified, and have included below, deficiencies involving MISGLB’s internal control over financial reporting as of September 30, 2020 that we wish to bring to your attention:

(1) Student Files

During the year ended September 30, 2020, we noted the following:

- a. Ten student check vouchers that require two board member signatories either lack both signatures or only one director signed the document.
- b. Twenty-eight student check vouchers lack the signature of or evidence of Fiscal Officer (preparer) and/or Director (reviewer/approver) approvals.
- c. Two student check vouchers could not be located.

We recommend management to ensure completeness of required document review or approval for student files.

(2) Student Loan Agreement

During the year ended September 30, 2020, we noted the following:

- a. Two student loan agreements contained an amount higher than that approved by the Board of Directors.
- b. Two students were disbursed \$1,199 more than as approved by the Board of Directors.

We recommend management ensure accuracy of details of student loan agreements.

(3) Student Loan Approval

During the year ended September 30, 2020, we noted three of 78 samples were not included in the minutes of meetings evidencing approval by the Board of Directors. Such approvals were included in a reconfirmation approval in January 2021.

We recommend management ensure the accuracy and completeness of minutes for the approval of student loans.

(4) Prepayment

During the year ended September 30, 2020, we noted prepayment of fuel to be used in the subsequent period amounting to \$1,941. Charges and invoices indicated that the frequency of refueling the official vehicle or charges for authorized use of personal vehicles appears to be excessive.

In addition, Section 146 (Subsection 1) of Financial Management Act of 1990 states that for vendors located in Republic of Marshall Islands, checks for bills of materials, supplies and incidentals of every kind and character, shall be made payable to the order of each individual person to whom the Republic is indebted, except for assignment of monies approved by the Secretary of Finance per Section 148 of the same Act, but only after an invoice and purchase order have been presented and certified that the materials, supplies, and incidentals have been received.

MISGLB appears non-compliant with the Act as the transaction does not represent payment of indebtedness.

We recommend management implement internal control policies and procedures over advance payments to vendors and determine specific documentation requirements relative to fuel charges for authorized use of personal vehicles designated for specific business purpose. In addition, we recommend that management comply with the Financial Management Act.

SECTION II - 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) Unexpended Subsidies

During the year ended September 30, 2020, we noted reconciling item amounting to \$1,998 was recorded as an expense was actually a bank transfer for unexpended subsidies. The memorandum of agreement require that appropriations be returned for unexpended subsidies at end of fiscal year.

We recommend management to communicate with and report to Ministry of Finance the unexpended subsidies at end of fiscal year.

(2) Board Sitting Fees

During the year ended September 30, 2020, MISGLB paid sitting fees of \$35,000 to Board members. These fees may constitute wages under the Income Tax Act 1989 and thus be subject to withholding taxes. No withholding taxes were withheld by MISGLB.

We recommend management obtain an interpretation from the Ministry of Finance, Banking and Postal Services Chief of Revenue and Taxation concerning the applicability of withholding taxes on sitting fees paid to Board members.

(3) Quarterly Reports

MISGLB's scholarship assistance reported quarterly to the Ministry of Finance did not agree with underlying financial records. The net difference during the year amounted to \$335. We recommend that management agree quarterly reports with underlying financial records.

SECTION III – 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.