

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

**(A GOVERNMENTAL FUND OF THE
REPUBLIC OF THE MARSHALL ISLANDS)**

**FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION AND
INDEPENDENT AUDITOR'S REPORT**

YEARS ENDED SEPTEMBER 30, 2021 AND 2020

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

Years Ended September 30, 2021 and 2020
Table of Contents

	<u>Page No.</u>
I. INDEPENDENT AUDITOR'S REPORT	1
II. FINANCIAL STATEMENTS:	
Balance Sheets	3
Statements of Revenues, Expenditures, and Changes in Fund Balance	4
Notes to Financial Statements	5
III. OTHER SUPPLEMENTAL INFORMATION	
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	11
IV. INDEPENDENT AUDITOR'S REPORTS ON COMPLIANCE WITH LAWS AND REGULATIONS	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	12
Independent Auditor's Report on Compliance For the Sole Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	14
Schedule of Expenditures of Federal Awards	16
Notes to Schedule of Expenditures of Federal Awards	17
Schedule of Findings and Questioned Costs	18
V. CORRECTIVE ACTION PLAN AND SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	20

INDEPENDENT AUDITOR'S REPORT

Chairman
Marshall Islands Scholarship Grant and Loan Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the Marshall Islands Scholarship Grant and Loan Board (MISGLB), a governmental fund of the Republic of the Marshall Islands, which comprise the balance sheets as of September 30, 2021 and 2020, and the related statements of revenues, expenditures, and changes in fund balance for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MISGLB as of September 30, 2021 and 2020, and the results of its operations for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Reporting Entity

As discussed in Note 1 to the financial statements, the financial statements referred to above present only MISGLB and are not intended to present fairly the financial position and results of operations of the Republic of the Marshall Islands in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information:

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The combining financial statement information on page 11 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of MISGLB's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standard generally accepted in the United States of America. In our opinion, the combining financial statement information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2022, 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 purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MISGLB's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MISGLB's internal control over financial reporting and compliance.



November 17, 2022

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

Balance Sheets
September 30, 2021 and 2020

	2021	2020
<u>ASSETS</u>		
Cash	\$ 402,094	\$ 441,517
Time certificate of deposit	229,994	241,933
Interest receivable	10,904	15,569
Prepayment	-	21,115
	\$ 642,992	\$ 720,134
<u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:		
Accounts payable	\$ 28,993	\$ 35,470
Contingency and commitment		
Fund balance:		
Restricted	1,500	477,085
Committed	612,499	207,579
Total fund balance	613,999	684,664
	\$ 642,992	\$ 720,134

See accompanying notes to financial statements.

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

Statements of Revenues, Expenditures, and Changes in Fund Balance
Years Ended September 30, 2021 and 2020

	2021	2020
Revenues:		
Nitijela appropriation	\$ 1,004,047	\$ 757,661
Compact of Free Association	786,800	792,202
Interest	9,636	21,271
Other income	-	18,932
Total revenues	1,800,483	1,590,066
Expenditures:		
Scholarship assistance	1,653,829	1,742,669
Salaries and wages	111,839	128,169
Communications	28,973	30,737
Sitting fees	21,400	35,000
Office rental	15,840	15,840
Capital outlays	10,672	8,493
Training and travel	8,747	9,463
Office supplies	6,859	12,451
Printing and reproduction	3,729	2,303
Meetings	3,595	3,522
POL	2,856	2,506
Miscellaneous	2,809	4,069
Total expenditures	1,871,148	1,995,222
Net change in fund balance	(70,665)	(405,156)
Fund balance at the beginning of the year	684,664	1,089,820
Fund balance at the end of the year	\$ 613,999	\$ 684,664

See accompanying notes to financial statements.

MARSHALL ISLANDS SCHOLARSHIP GRANT AND LOAN BOARD

Notes to Financial Statements
September 30, 2021 and 2020

(1) Organization

The Marshall Islands Scholarship Grant and Loan Board (MISGLB), a governmental fund of the Republic of the Marshall Islands (RepMar), was established pursuant to the Scholarship Assistance Act of 1997 (the Act), as amended. MISGLB was established to develop and administer a financial assistance program for those qualified applicants who cannot pursue educational and training opportunities because of financial inability. In accordance with the Act, RepMar established the Scholarship Fund Account, a governmental fund accounted for within RepMar's Treasury. This Fund accounts for funds appropriated by the Nitijela (the RepMar Legislature) for scholarship assistance, including funding under the Compact of Free Association, as Amended (the Compact).

The accompanying financial statements relate solely to those accounting records maintained by MISGLB, and do not incorporate any accounts related to RepMar's Scholarship Fund Account or any other departments or agencies of RepMar that may be accounted for by RepMar's Treasury. MISGLB is considered to be a blended component unit (a governmental fund) of RepMar and is governed by a nine-member Board appointed by the Cabinet of RepMar.

(2) Summary of Significant Accounting Policies

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of MISGLB's accounting policies are described below.

Measurement Focus and Basis of Accounting

MISGLB reports its financial position and the results of its operations in one special revenue fund. A fund is a separate accounting entity with a self-balancing set of accounts. They are concerned only with the measurement of financial position and are not involved with measurement of results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain MISGLB functions or activities.

Governmental funds are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds).

MISGLB's special revenue fund consists of the following:

- i. Compact Scholarship Fund - This fund was established to account for monies received by MISGLB that were appropriated by RepMar under the Compact.
- ii. Byrd Grant Scholarship Fund - This fund was established to account for monies received by MISGLB under the Robert C. Byrd Honors Scholarship Program sector grant.
- iii. Nitijela Fund - This fund was established to account for monies received by MISGLB that were appropriated by the Nitijela as well as other grants, gifts and donations received for scholarship assistance.

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

Notes to Financial Statements
September 30, 2021 and 2020

(2) Summary of Significant Accounting Policies, Continued

Basis of Presentation

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in fund balance.

The modified accrual basis of accounting is used by all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Significant revenues susceptible to accrual include federal grants and Nitijela appropriations. Miscellaneous revenues from gifts and donations are recognized when received in cash because they are generally not measurable until actually received. Expenditures are recorded when the related fund liability is incurred.

Cash and Time Certificate of Deposit

The deposit and investment policies of MISGLB are governed by 3 MIRC 7, *Investments of Public Funds*, and 11 MIRC 1, *Financial Management*. Custodial credit risk is the risk that in the event of a bank failure, MISGLB's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. MISGLB does not have a deposit policy for custodial credit risk.

For the purpose of the balance sheets, cash is defined as cash in demand accounts. Deposits maintained in time certificates of deposit with an original maturity date greater than ninety days are separately classified. As of September 30, 2021 and 2020, the carrying amounts of MISGLB's total cash and time certificate of deposit were \$632,088 and \$683,450, respectively, and the corresponding bank balances were \$861,857 and \$686,884, respectively. Of the bank balances, \$631,863 and \$444,951, respectively, were maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance with the remaining amounts of \$229,994 and \$241,933, respectively, being maintained in a financial institution not subject to depository insurance. As of September 30, 2021 and 2020, bank deposits in the amount of \$487,551 and \$444,951, respectively, were FDIC insured. MISGLB does not require collateralization of its cash deposits; therefore, deposits levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Receivables

MISGLB lends money to students, who are citizens of the Republic of the Marshall Islands, based on meeting certain criteria. These loans are interest free, uncollateralized and have no set repayment terms. These loans may be converted to grants at a later date if the recipients meet a further set of criteria. Loans receivable are stated net of an estimated allowance for uncollectible accounts.

The allowance for uncollectible accounts is established through direct scholarship assistance charged to expenditures. Loans receivable are charged against the allowance for uncollectible accounts when management has determined that the scholarship recipients have met the criteria for conversion to grants.

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

Notes to Financial Statements
September 30, 2021 and 2020

(2) Summary of Significant Accounting Policies, Continued

Fund Balance

Fund balance classifications are based on the extent to which MISGLB is bound to honor constraints on the specific purposes for which amounts in those funds can be spent and are reported under the following fund balance classifications:

- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision-making authority and does not lapse at year-end.

MISGLB has a general policy to first use restricted resources for expenditures incurred for which both restricted and unrestricted (committed and unassigned) resources are available. When expenditures are incurred for which only unrestricted resources are available, the general policy of MISGLB is to use committed resources first followed by unassigned. The use of restricted/committed resources may be deferred based on a review of the specific transaction.

A formal minimum fund balance policy has not been adopted.

Taxes

The Government of RepMar imposes a gross receipts tax of 3% on revenues. MISGLB is specifically exempt from this tax.

Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

New Accounting Standards

In 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed the effective dates of GASB Statement No. 84, 89, 90, 91, 92 and 93 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. In accordance with GASB Statement No. 95, management has elected to postpone implementation of these statements.

During the year ended September 30, 2021, MISGLB implemented the following pronouncements:

- GASB Statement No. 84, *Fiduciary Activities*, which improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

Notes to Financial Statements
September 30, 2021 and 2020

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61*, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units.
- GASB Statement No. 93, *Replacement of Interbank Offered Rates*, which establishes accounting and reporting requirements related to the replacement of Interbank Offered Rates such as the London Interbank Offered Rate (LIBOR) for hedging derivative instruments. The provision removing LIBOR as an appropriate benchmark interest rate for the evaluation of the effectiveness of derivative instruments is effective for the year ending September 30, 2022.

The implementation of these statements did not have a material effect on the accompanying financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. Management believes that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 87 will be effective for the fiscal year ending September 30, 2022.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 89 will be effective for the fiscal year ending September 30, 2022.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 91 will be effective for the fiscal year ending September 30, 2023.

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

Notes to Financial Statements
September 30, 2021 and 2020

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports, the terminology used to refer to derivative instruments and the applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefits. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. The requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reissuance recoveries and terminology used to refer to derivative instruments are effective upon issuance. In accordance with GASB Statement No. 95, the remaining requirements of GASB Statement No. 92 are effective for the fiscal year ending September 30, 2022.

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 94 will be effective for the fiscal year ending September 30, 2023.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 96 will be effective for the fiscal year ending September 30, 2023.

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 97 will be effective for the fiscal year ending September 30, 2022.

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

Notes to Financial Statements
September 30, 2021 and 2020

(3) Risk Management

MISGLB is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. MISGLB has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed with respect to the use of motor vehicles. For other risks of loss to which it is exposed, MISGLB has elected not to purchase commercial insurance. Instead, MISGLB believes it is more economical to manage its risks internally. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. No material losses have resulted from MISGLB's risk management activities for the past three years.

(4) Receivables

Receivables as of September 30, 2021 and 2020, including the applicable allowance for uncollectible accounts, are as follows:

	<u>2021</u>	<u>2020</u>
Loans receivable	\$ 14,082,436	\$ 13,271,968
Less allowance for uncollectible accounts	<u>(14,082,436)</u>	<u>(13,271,968)</u>
	\$ _____	\$ _____

During the years ended September 30, 2021 and 2020, MISGLB converted \$841,444 and \$964,538, respectively, in loans receivable to grants as the recipients met the criteria for conversion. Furthermore, MISGLB wrote off \$5,473,974 in loans receivable during the year ended September 30, 2020 for loans considered no longer collectible due to the statute of limitations. The effect of loan conversions and write-offs have been reflected in loans receivable balances as of September 30, 2021 and 2020.

(5) Related Party Transactions

MISGLB is a governmental fund of RepMar and is therefore affiliated with all RepMar-owned and affiliated entities, including all governmental funds of RepMar and the Marshall Islands Development Bank (MIDB). During the years ended September 30, 2021 and 2020, MISGLB recognized certain on-behalf payments as contributions from RepMar, totaling \$121,689 and \$128,169, respectively, representing certain payroll and related expenditures that RepMar paid directly on behalf of MISGLB.

During the years ended September 30, 2021 and 2020, the operations of MISGLB were funded by appropriations from RepMar, totaling \$1,669,158 and \$1,411,844, respectively.

MISGLB entered into an office lease with MIDB for a term of five years commencing February 25, 2010. In 2017, MISGLB renewed the lease for an additional five years with annual rent of \$15,840, payable in quarterly installments of \$3,960.

(6) Contingency

MISGLB receives a substantial amount of its revenue from annual RepMar appropriations. If a significant reduction in the level of budgetary support from RepMar were to occur, MISGLB's scholarship programs and activities may be impacted. For the year ending September 30, 2022, RepMar appropriated funding to MISGLB in the amount of \$1,809,088 for the purpose of funding scholarship activities.

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
Year Ended September 30, 2021

	Compact Scholarship Fund	Other Grant Scholarship Fund	Nitijela Fund	Total
Revenues:				
Nitijela appropriation	\$ -	\$ -	\$ 1,004,047	\$ 1,004,047
Compact of Free Association	786,800	-	-	786,800
Interest	-	-	9,636	9,636
Total revenues	<u>786,800</u>	<u>-</u>	<u>1,013,683</u>	<u>1,800,483</u>
Expenditures:				
Scholarship assistance	1,262,385	-	391,444	1,653,829
Salaries and wages	-	-	111,839	111,839
Communications	-	-	28,973	28,973
Sitting fees	-	-	21,400	21,400
Office rental	-	-	15,840	15,840
Capital outlays	-	-	10,672	10,672
Training and travel	-	-	8,747	8,747
Office supplies	-	-	6,859	6,859
Printing and reproduction	-	-	3,729	3,729
Meetings	-	-	3,595	3,595
POL	-	-	2,856	2,856
Miscellaneous	-	-	2,809	2,809
Total expenditures	<u>1,262,385</u>	<u>-</u>	<u>608,763</u>	<u>1,871,148</u>
Net change in fund balances	(475,585)	-	404,920	(70,665)
Fund balances at the beginning of the year	<u>475,585</u>	<u>1,500</u>	<u>207,579</u>	<u>684,664</u>
Fund balances at the end of the year	<u>\$ -</u>	<u>\$ 1,500</u>	<u>\$ 612,499</u>	<u>\$ 613,999</u>

See accompanying independent auditor's report.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Chairman
Marshall Islands Scholarship Grant and Loan Board:

We have audited, in accordance with the 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, the financial statements of the Marshall Islands Scholarship Grant and Loan Board (MISGLB), which comprise the balance sheet as of September 30, 2021, and the related statements of revenues, expenditures, and changes in fund balance for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 17, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MISGLB's internal control over financial reporting (internal control) as the basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MISGLB's internal control. Accordingly, we do not express an opinion on the effectiveness of MISGLB's internal control.

A *deficiency in internal control* 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 *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MISGLB's financial statements are free from 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 financial statements. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2021-001.



MISGLB's Response to Findings

MISGLB's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. MISGLB's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Deloitte & Touche LLP".

November 17, 2022

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE SOLE MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

Chairman
Marshall Islands Scholarship Grant and Loan Board:

Report on Compliance for the Sole Major Federal Program

We have audited the Marshall Islands Scholarship Grant and Loan Board's (MISGLB) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on MISGLB's sole major federal program for the year ended September 30, 2021. MISGLB's sole major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for MISGLB's sole major federal program based on our audit of the types of compliance requirements referred to above. 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; the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 on compliance for the sole major federal program. However, our audit does not provide a legal determination of MISGLB's compliance.

Opinion on the Sole Major Federal Program

In our opinion, MISGLB complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the sole major federal program for the year ended September 30, 2021.

Report on Internal Control Over Compliance

Management of MISGLB is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered MISGLB's internal control over compliance with the types of requirements that could have a direct and material effect on the sole major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the sole major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of MISGLB's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of MISGLB as of and for the year ended September 30, 2021, and have issued our report thereon dated November 17, 2022, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.



November 17, 2022

**MARSHALL ISLANDS SCHOLARSHIP
GRANTS AND LOAN BOARD**

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2021

	<u>Fund Balance Beginning of Year</u>	<u>Federal Funds Received</u>	<u>Funds Expended</u>	<u>Fund Balance End 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>				
Economic, Social and Political Development of the Territories:				
Compact of Free Association, As Amended, Sector Grants:				
Section 211(a)(1)				
Education Sector	\$ 449,302	\$ 586,800	\$ 1,036,102	\$ -
Section 211(b)(1)				
Kwajalein Special Needs	<u>26,283</u>	<u>200,000</u>	<u>226,283</u>	<u>-</u>
	<u>\$ 475,585</u>	<u>\$ 786,800</u>	<u>\$ 1,262,385</u>	<u>\$ -</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
Year Ended September 30, 2021

(1) Organization and Compact of Free Association

The Marshall Islands Scholarship Grant and Loan Board (MISGLB) is a subrecipient of funds received through Sections 211(a) and 211(b) of the Compact of Free Association, As Amended (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 (the Schedule) includes the federal grant activity of MISGLB under a program of the federal government for the year ended September 30, 2021 and is presented on the modified accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of MISGLB, it is not intended to and does not present the financial position, changes in net position, or cash flows of MISGLB.

Indirect Cost Rate

MISGLB has not elected to use the 10% de minimis cost rate.

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2021

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

- | | |
|---|---------------|
| 1. Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: | Unmodified |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | No |
| 3. Significant deficiency(ies) identified? | None reported |
| 4. Noncompliance material to financial statements noted? | Yes |

Federal Awards

Internal control over major federal programs:

- | | |
|---|---------------|
| 5. Material weakness(es) identified? | No |
| 6. Significant deficiency(ies) identified? | None reported |
| 7. Type of auditors' report issued on compliance for major federal programs | Unmodified |
| 8. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | No |
| 9. Identification of the sole major federal program: | |

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
15.875	Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants

- | | |
|--|------------|
| 10. Dollar threshold used to distinguish between Type A and Type B Programs: | \$ 750,000 |
| 11. Auditee qualified as low-risk auditee? | No |

SECTION II - FINANCIAL STATEMENTS FINDINGS

<u>Reference Number</u>	<u>Findings</u>
2021-001	Local Noncompliance

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2021

Local Noncompliance

Finding No. 2021-001

Criteria: Section 6(e) of the Scholarship Assistance 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, 2021, MISGLB converted \$841,444 of loans to grants as recipients met conversion criteria. Further, \$14,082,436 of loans as of September 30, 2021 included \$5,874,586 that are more than six years old, which exceeds statutory limitations. Due to the lack of collection of these loans, a corresponding allowance for uncollectable loans has been recorded.

In addition, the cost of student airplane tickets is added to the student's loan balance for which no agreement was executed that requires repayment of such.

Cause: The cause of the above condition is lack of enforcement of MISGLB policies and procedures requiring the repayment of scholarship assistance loans. Also, there is lack of written policies and procedures to include the cost of student airplane tickets in the total scholarship assistance loans.

Effect: The effect of the above condition is the lack of loan repayments and a possibility that converted loans may not be complete.

Recommendation: We recommend that MISGLB enforce established policies and procedures requiring the repayment of scholarship assistance loans. Also, we recommend that MISGLB establish written policies and procedures to include the cost of student airplane tickets in the total scholarship assistance loans. Additionally, we recommend that MISGLB include the cost of student airplane tickets in the total amount of scholarship assistance reflected on the Student Loan Agreement.

Prior Year Status: The lack of loan repayments and the possibility that converted loans may not be complete was reported as a finding in the Single Audits of MISGLB for fiscal years 1997 through 2020.

Views of Auditee and Planned Corrective Actions: MISGLB agrees with the finding and describes corrective action in the Corrective Action Plan.

Auditor Response: We appreciate management's proposed corrective action but note that it is similar to prior year proposed actions, but the finding remains unresolved.



MARSHALL ISLANDS Scholarship, Grant and Loan Board

P.O. Box 1436
Majuro, MH 96960
(692) 625-3108 / 5770
misglb@pss.edu.mh
www.misglb.com

CORRECTIVE ACTION PLAN 2 CFR § 200.511(c) Year Ended September 30, 2021

October 25, 2022

Deloitte & Touche (Marshall
Islands), Inc. Certified Public
Accountant
P.O Box 1288
Majuro, Marshall Islands 96960

Dear Deloitte & Touche,

The Marshall Islands Scholarship, Grant & Loan Board (MISGLB), strongly agree with your finding for Fiscal Year 2021.

1. Finding No. 2021-001:

Marshall Islands Scholarship, Grant and Loan Board will take full measurement of enforcing the MISGLB Policies and Procedures regarding payment of the outstanding loans. The MISGLB will continue to to convert student loans every year along with take the necessary steps to solve this issue.
Actions

already taken to assist this issue;

- a list of student names in our Account Receivables has been sent out to PSC, PSS and other government agencies to identify any individual on the list that is working with them and
- open a position for a Collector's post to solely focus on our Account Receivables list. This person will began working this fiscal year (2023).

In addition, MISGLB will establish a written policy to include the cost of student's airplane ticket in the total amount of scholarship assistance reflected on the Student Loan Agreement.

Should you have any further questions, please let us know.

Sincerely,

Suemina Bohanny
Acting Director
MISGLB

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
2 CFR § 200.511(b)
Year Ended September 30, 2021

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Questioned Costs</u>	<u>Status</u>
2020-001	N/A	\$ -	Not resolved. Refer to CAP Finding 2021-001.