

November 17, 2022

Ms. Suemina Bohanny
Acting Executive Director
Marshall Islands Scholarship, Grant and Loan Board

Dear Ms. Bohanny:

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, 2021 (on which we have issued our report dated November 17, 2022), 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, 2021 that we wish to bring to your attention.

We have also issued a separate report to the Chairman of the Board of Directors, also 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 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, 2021 that we wish to bring to your attention:

(1) Bank Reconciliations

The September 2021 bank reconciliation included the following exceptions:

- a. Two items (check #s 4955 and 5164 for \$2,659 and \$2,406, respectively) representing invalid reconciling items, which were corrected during the audit process.
- b. \$3,822 of uncleared checks, including one unreleased item (check # 4719 for \$1,078) and \$7,725 of uncleared deposits that have been outstanding for more than one year.
- c. One item (check # 11630) was incorrectly recorded in the general ledger as check # 11632.

We recommend management establish internal control policies and procedures over the bank reconciliation review process requiring timely identification and correction of errors and the timely release of check payments.

(2) Converted Scholarship Assistance Loans to Grants

Tests of 22 converted scholarship assistance loans included the following exceptions:

- a. Two students with combined loan agreement balances of \$112,058 were converted at a combined balance of \$112,128 representing a \$70 discrepancy.
- b. One student Verification of Employment was incomplete/blank.
- c. Two Student Loan Waiver Forms lacked the signature of the Executive Director as reviewer.
- d. One student did not meet the minimum required number of years to work in the Marshall Islands.

Further, per Student Loan Waiver Form, the following requirements must be provided by the students to MISGLB prior to approval of loan conversion: 1) a degree or certification that shows completion of studies; and 2) official transcripts from the school attended. Current practice of MISGLB is to obtain either one of the two requirements mentioned above, which is inconsistent with established policies and procedures.

We recommend management establish internal control policies and procedures over scholarship assistance loan conversions to grants. Further, we recommend management require current practices be consistent with established policies and procedures.

(3) Student Files

Tests of student loans receivable included the following exceptions:

- a. Two student check vouchers (check #s 11422 and 11435 for \$6,000 and \$8,924, respectively) lacked evidence of the Fiscal Officer and/or the Executive Director approvals.
- b. One student check voucher (check # 11509 for \$6,555) lacked evidence of a Board member signatory.
- c. One student check voucher (check # 5128 for \$5,717) was not on file.

SECTION I - DEFICIENCIES, CONTINUED

(3) Student Files, Continued

- d. Three Student Loan Agreements (check #s 4899, 5119 and 11572 for \$4,136, \$6,983 and \$8,825, respectively) were not on file.
- e. One student check voucher (check # 11524 for \$6,300) lacked a file copy of the student applicant's valid Republic of the Marshall Islands passport.

We recommend management establish internal control policies and procedures requiring the completeness of student file document review and approval.

(4) Student Loan Disbursements

During the year ended September 30, 2021, we noted the following:

- a. One student loan disbursement (check # 11484 for \$4,567) exceeded the Student Loan Agreement amount of \$3,400.
- b. One student loan disbursement (check # 5061 for \$7,909) was not included within the Board approved listing.
- c. One student loan disbursement (check # 11440 for \$5,200) was less than the approved amount per student check voucher of \$6,200.

We recommend management establish internal control policies and procedures requiring student loan disbursements be consistent with Board approved amounts.

(5) Student Loan Approval

A list of Board approved student loans for a July 22, 2021 meeting was not made available. We recommend management establish internal control policies and procedures requiring that all Board approved loans be supported by a listing of approved student awards by School Year.

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 are as follows:

(1) Local Noncompliance - RMI Procurement Code

The purchase of a laptop computer (check # 5185 for \$3,387) was not adequately documented to evidence compliance with applicable procurement requirements set forth in the RMI Procurement Code. We recommend management require that procurement documentation comply with applicable procurement requirements. Specifically, documentation should indicate the history of procurement, including the rationale for contractor or vendor selection.

(2) Board Sitting Fees

During the year ended September 30, 2021, MISGLB paid sitting fees of \$21,400 to Board members. These fees may constitute wages under the Income Tax Act 1989 and thus may 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.

SECTION II - OTHER MATTERS, CONTINUED

(3) Reporting

Section 6 of the Memorandum of Agreement (MOA) with the Ministry of Finance, Banking and Postal Services requires the submission of periodic reports, including Form SG1. During the year ended September 30, 2021, Form SG1-Subgrant Objectives and Budget Proposal report for the quarter ended December 31, 2020 was not made available. We recommend management require evidence of reporting in compliance with applicable MOA reporting requirements.

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.