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February 27, 2018

Mr. Thomas Kijiner Jr.
President/CEO
Marshall Islands National Telecommunications Authority

Dear Mr. Kijiner:

In planning and performing our audit of the financial statements of the Marshall Islands National Telecommunications Authority (NTA) as of and for the year ended September 30, 2017 (on which we have issued our report dated February 27, 2018), 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, and 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service (RUS) Borrowers*, we considered NTA'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 NTA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of NTA'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 NTA's internal control over financial reporting and other matters as of September 30, 2017 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated February 27, 2018, on our consideration of NTA'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 NTA for their cooperation and assistance during the course of this engagement.

Very truly yours,

Deloitte & Touche LLP

SECTION I – DEFICIENCIES

We identified, and have included below, deficiencies involving NTA's internal control over financial reporting as of September 30, 2017 that we wish to bring to your attention:

1) Bank reconciliations

Comment: June 2017 BOMI bank reconciliation lacks a reviewer's signature to support that an independent review was performed.

Recommendation: We recommend management document reviews of bank reconciliations.

2) Inventory

Comment: A $93,563 difference existed between the September 30, 2017 inventory general ledger (GL) balance and the inventory valuation report. Such was adjusted during the audit process.

Recommendation: We recommend management perform timely reconciliation of the GL and subsidiary ledgers and timely review of associated financial reports.

3) Local cellular network services revenues

Comment: Management determined that a 5.36% reduction of the allowances shall be applied when recognizing GSM revenues. However, documentation supporting the determination of that percentage was not available.

Recommendation: We recommend management document determinations of reduction allowances.

4) Operating expenses

Comment:

- Check no. 42689 in the amount of $8,764 for purchase of air conditioners lacks a formal invoice on file.
- Check no. 43481 amounting to $477 was paid for credit charges that include $182 that was without supporting invoices or approved purchase orders.
- Recommendation: We recommend management file adequate supporting invoices and implement internal control and policies governing use of credit cards.

5) Long Distance Calls

Comment: Management officers have direct access to long distance calls on their respective landlines; however, no control policies and procedures govern the monitoring of long distance calls to verify that transactions are business related.

Recommendation: We recommend management establish appropriate internal control policies and procedures (e.g. logsheet of long distance calls naming personnel called and receiving party contacted) to monitor and reconcile internal usage of long distance calls.

6) Allowance for Doutbful Accounts

Comment: Documentation that supports management's assessment of the allowance for doubtful accounts for past due receivables was not available. A written accounting policy governing the provision for doubtful accounts was not available.

Recommendation: We recommend management perform a periodic assessment of the allowance for doubtful accounts. Written related accounting policies should be on file.

SECTION I – DEFICIENCIES, CONTINUED

7) Private line access revenue

Comments: On October 31, 2016, a collection received on September 22, 2016 was improperly reversed from a customer's account. A correction occurred in the September 2017 account reconciliations. However, adequate documentation was not available to support the authorization process of account reversals and the voiding of customer transactions.

An amount of $168 was voided in November 2016 for account no. 9327. Adequate documentation to support independent review prior to reversal was not available.

Recommendation: We recommend management perform independent review and document the authorization process of account reversals.

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) Local Noncompliance

Comment: The Ministry of Finance's Division of Revenue and Taxation requires employers to file and remit employee withholding taxes within two weeks following the preceding four-week period. For the quarter ending and for the pay period ending September 30, 2017, NTA did not timely file.

Recommendation: We recommend management comply with requirements stipulated by governing legislation regarding employee withholding taxes.

2) Procurement

Comment: NTA has no formal written procurement policies and procedures. Small purchases did not evidence quotations from qualified vendors to facilitate the competitive procurement process.

Recommendation: We recommend NTA implement adequate internal control to facilitate competitive procurement processes and that it comply with applicable procurement requirements.

SECTION III – 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

NTA'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.