



Deloitte & Touche LLP  
361 South Marine Corps Drive  
Tamuning, GU 96913-3973  
USA

Tel: +1 (671) 646-3884  
Fax: +1 (671) 649-4265

[www.deloitte.com](http://www.deloitte.com)

April 30, 2019

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, 2018 (on which we have issued our report dated April 30, 2019), 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, 2018 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated April 30, 2019, 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,

**SECTION I – DEFICIENCIES**

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

1) Bank Reconciliations

Comment: The July 2018 BOG Depository bank reconciliation lacks a reviewer's signature to support that independent review occurred.

Recommendation: We recommend management document independent review of bank reconciliations.

2) Journal Vouchers

Comment: Various journal vouchers pertaining to inventory and revenue adjustments reflected no evidence of review and approval.

Recommendation: We recommend journal vouchers be prepared, reviewed, and approved by an appropriate level of management before posting.

3) Local Cellular Network Service Revenues

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

NTA's signed memo for local mobile call rate effective January 6, 2016 approved \$0.15 per minute. However, the actual rate used to charge a mobile prepaid card is \$0.03 per 12-second increments.

Recommendation: We recommend management document the basis of the 5.36% reduction and implement call rates consistent with the application of approved tariff rates.

4) Inventory

Comment: At September 30, 2018, NTA recorded a \$389,314 adjustment to reconcile the year-end physical inventory with the general ledger.

Recommendation: We recommend management perform periodic reconciliation of physical inventory and the general ledger.

5) Long Distance Calls

Comment: Executive management 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.

**SECTION I – DEFICIENCIES, CONTINUED**

6) Credit Card transactions

The following credit card payments were not supported by valid invoices, purchase orders, and/or travel authorizations:

<u>Document date</u>	<u>Posting Sequence</u>	<u>General Ledger Account</u>		
		<u>115100- Travel Advances</u>	<u>621200- Digital Electronic Expense</u>	<u>672800- Other General and Admin Expense</u>
10/10/17	17617	\$ 2,553	\$ -	\$ -
11/02/17	17714	178	-	-
12/28/17	17909	-	-	67
01/23/18	18025	-	288	-
02/21/18	18117	-	-	29
04/10/18	18280	-	-	195
04/20/18	18328	-	-	289
06/20/18	18513	189	690	-
07/26/18	18714	1,625	-	118
09/14/18	18895	-	1,101	-
		\$ <u>4,545</u>	\$ <u>2,079</u>	\$ <u>698</u>

Furthermore, NTA incurred and paid \$1,596 of credit card finance fees during the year.

Recommendation: We recommend management file adequate supporting invoices and implement internal control and policies governing use of credit cards.

7) Allowance for Doubtful Accounts

Comment: No documentation was available to support that NTA assesses and monitors past due receivables. A written accounting policy covering the provision for doubtful accounts is not available. During the year ended September 30, 2018, the audit identified a \$354,347 understatement of the allowance for doubtful accounts. Of the total misstatement, \$177,799 was subsequently corrected and the remaining \$176,548 was uncorrected.

Recommendation: We recommend management perform periodic assessments of past due receivables to ascertain the adequacy of the allowance.

**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) 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.