

**MARSHALL ISLANDS NATIONAL
TELECOMMUNICATIONS AUTHORITY**

**(A COMPONENT UNIT OF THE REPUBLIC OF
THE MARSHALL ISLANDS)**

**INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE WITH ASPECTS OF CONTRACTUAL
AGREEMENTS AND REGULATORY REQUIREMENTS**

YEAR ENDED SEPTEMBER 30, 2019

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH ASPECTS OF CONTRACTUAL AGREEMENTS AND REGULATORY REQUIREMENTS

Board of Directors
Marshall Islands National Telecommunications Authority:

We have audited, 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, the financial statements of the Marshall Islands National Telecommunications Authority (NTA), which comprise the statement of net position as of September 30, 2019, the related statements of revenue, expenses and changes in net position, and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 1, 2020. In accordance with *Government Auditing Standards*, we have also issued our report dated June 1, 2020, 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. No reports other than the reports referred to above and our Schedule of Findings and Responses related to our audit have been furnished to management.

In connection with our audit, we noted that NTA failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers*, §1773.33 and clarified in the Rural Utilities Service (RUS) policy memorandum dated February 7, 2014, insofar as they relate to accounting matters as enumerated below:

Finding No. 1

Criteria: Section 5.12, *TIER Requirement*, of the RUS Loan Agreements stipulates that NTA shall maintain a TIER rate of 1.5 from December 31, 2012 until maturity of the loans.

Condition: For the year ended September 30, 2019, NTA achieved a 1.13 average TIER ratio.

Auditee Response: Management has put in place plans to increase revenue sources for instance the 4G revenue stream. Management has also taken steps to minimise purchases and expenses to critical needs only in order to reduce cost.

Our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding NTA's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters.

In connection with our audit, we noted certain matters regarding NTA's accounting and records to indicate that NTA did not:

- Maintain adequate and effective accounting procedures;
- Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;
- Reconcile continuing property records to the controlling general ledger plant accounts;

- Clear construction accounts and accrue depreciation on completed construction;
- Record and properly price the retirement of plant;
- Seek approval of the sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;
- Maintain adequate control over materials and supplies;
- Prepare accurate and timely Financial and Operating Reports;
- Obtain written RUS approval to enter into any contract for the management, operation, or maintenance of the borrower's system if the contract covers all or substantially all of the telecommunications system;
- Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;
- Record depreciation in accordance with RUS requirements (See RUS Bulletin 183-1, Depreciation Rates and Procedures);
- Comply with the requirements for the detailed schedule of deferred debits and deferred credits; and
- Comply with the requirements for the detailed schedule of investments.

These matters are enumerated below:

Finding No. 2

Criteria: Effective internal control over financial reporting necessitates that general ledger balances agree to underlying sub ledgers and that reconciliations be timely performed and independently reviewed.

Condition: During the year ended September 30, 2019, we noted the following:

1. Deferred revenues were not timely reconciled. A \$177,185 misstatement was subsequently identified and corrected during the audit process.
2. Outstanding projects recorded within Plant under Construction account were not timely monitored and completed projects were not timely transferred to capital assets in service. This matter was subsequently corrected.
3. Net travel advances had an outstanding balance of \$65,231. NTA employees and officers are required to submit travel liquidation reports within 30 days upon return from official travel. However, the lack of travel report submission causes a delay in the liquidation process. A \$53,782 misstatement was subsequently identified and corrected.
4. NTA reported an unreconciled cash credit balance of \$70,539. This amount was corrected during the audit process.
5. Accounts receivable general ledger (GL) balance was not timely reconciled with the subsidiary ledger. Reconciliation was subsequently performed during the audit process.
6. Due from external carriers was not timely reconciled and collected. Reconciliation subsequently occurred during the audit process.

Finding No. 2, Continued

Condition, Continued:

7. NTA recorded \$465,047 to reconcile the difference between the inventory general ledger balance and the actual inventory count report. The adjustment arose from a failure to record inventory withdrawals. Due to time constraints, the initial inventory valuation report provided for audit was incomplete which resulted in subsequent adjustments. The inventory valuation report included certain items that were incorrectly valued and were subsequently corrected during the audit process.
8. Accounts payable GL balance was not timely reconciled with the subsidiary ledger. Reconciliation subsequently occurred during the audit process.
9. NTA provided 13 additional post-closing adjusting entries during the course of the audit process, approximately seven months after fiscal year-end.

Auditee Response: Management will implement as recommended. The internal control policies and procedures will be designed reviewed and implemented with continuous monitoring from the Management team. This internal control deficiency relating to the timely reconciliation of key control accounts resulted from having an inadequate finance team.

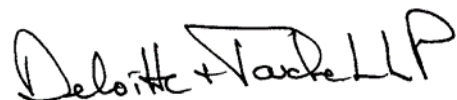
Management considers this deficiency serious and has resourced the Finance team with additional human resource.

Due to the lack of time and the pressing current needs of finalising the FY2020 budget, deploying a new billing system, closing audit, preparing a COVID-19 response plan, deploying the POS system, warehouse management and normal operational business activities Management is committed to performing reconciliations every month beginning from March 2020. End of March a stocktake was carried out to bring the inventory records up to date and with draws are now being tracked on a daily basis.

Revenue and cash payments for the months of December to April 2020 have been processed into the Financial Accounting system SAGE 300, however by the end of May reconciliations for the months of March and April are due for review and filing. Reconciliation for the month of May and other months are now planned to be completed by the second week of each subsequent month.

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This report is intended solely for the information and use of the Board of Directors, management, and the RUS and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



June 1, 2020