Deloitte.

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

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

www.deloitte.com

May 14, 2021

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, 2020 (on which we have issued our report dated May 14, 2021), 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, 2020 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated May 14, 2021, 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, 2020 that we wish to bring to your attention:

1) Account Reconciliations

Condition: As of September 30, 2020, the following account reconciliation matters were noted:

- Outstanding projects recorded within the Plant under Construction account were not timely monitored and completed projects were not timely transferred to capital assets in service. As these amounts were not considered material to the financial statements, no audit adjustments were proposed.

- Net travel advances had an outstanding balance of $57,889. 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 $44,530 misstatement was subsequently identified and expensed during the audit process.

- An overstatement of net allotments payable amounting to $137,418 existed. Such was corrected during the audit process.

Recommendation: We recommend that management establish internal control policies and procedures to facilitate timely reconciliation, independent monitoring of general ledger account balances, and timely financial reporting.

Management Response: Most reconciliations are now being done and management ensured that the major ones was prepared before audit. The Plant in construction accounts were delayed because a coordination with the outer island project team was required to ensure that the details are accurately classified by type. For net travel advances, during the year the Accounts Payable (AP) officer suddenly left work due to an illness hence the replacement AP officer has been trying to liquidate the travel reports and manage the day to day business operations.

2) Telecommunication Receivables

Comment: As of September 30, 2020, statements of account for 2,441 NTA customers included overbillings aggregating $375,750 for which no credit adjustment has been effectuated. There is no impact on the financial statements as the impact of the overbillings has been taken into account. Furthermore, the following matters were noted based on scrutiny of the telecommunication receivables subledger:

1. 505 customer accounts with credit balances aggregating $180,095 pertained to customer utility billing overpayments. As the amount was not considered material to the financial statements, no audit adjustment was proposed.

2. The aging schedule appeared to incorrectly present customer billings whereby negative amounts were reported within certain aging groups.

3. The aging schedule reported one $25,300 customer billing per month for July 2020 to September 2020, totaling $75,300, and one $78,916 customer billing for July 2020 as current under 30 days.

Recommendation: We recommend that management establish internal control policies and procedures to: (1) facilitate timely and accurate customer statements of account; (2) facilitate timely resolution of customer billing overpayments; and (3) require accurate aging schedule reporting.

SECTION I - DEFICIENCIES, CONTINUED

2) Telecommunication Receivables, Continued

Management Response: There is no impact on the financial statements. The appropriate adjustment has been made to ensure that the GL is correct. The migration from the old billing system to the new billing system resulted in the September bill being processed in October. This is the normal processing in the new billing system as the recurring and voice charges are billed for the same period by the 1st of the subsequent month. However, the old billing system billed recurring in advance and voice charges in delay (a month late) and so during migration this process in inevitable. Management knows about this and have made adjustments on major customer accounts. The remaining customer accounts were adjusted in January 2021 so in the January bill dated 2/1/2021 these adjustments are evident. This is a one-off case as this was a direct result of the migration. The manual aging schedule that is being referred to in points 2 and 3 are the rough working paper by Finance, this is not used by management this was just an attempt to do the aging based on the available information for year-end purposes. For business operations, management is working with the billing system provider to automate the aging and ensure correct allocation. Management know customers who have outstanding accounts and are working with them on ensuring that their accounts are brought up to date.

3) Capital Asset Acquisitions

Comment: As of September 30, 2020, NTA recorded a $57,601 advance representing a down payment for a Radio Access Network, which was received in FY2020. The capital asset acquisition was not transferred to the capital asset register. Such was corrected during the audit process.

Recommendation: We recommend that management establish internal control policies and procedures requiring capital assets be transferred to the capital asset register upon acquisition.

Management Response: This issue has been addressed and the financial statements updated for the same. This advance is linked to the same issue raised in the first point under Plant in Construction. A delay in coordination with the outer island project team led to this delay but there is no financial statement impact.

4) Credit Card Purchases

Comment: During the year ended September 30, 2020, the following credit card transactions were noted:

a. $1,780 of credit card transactions lacked approved Purchase Orders (PO), invoices and travel authorizations.
b. $6,804 of credit card transactions lacked approved POs.
c. $1,627 of credit card finance charges were incurred due to late payments.

Recommendation: We recommend that management establish internal control policies and procedures over credit card use including the requirement for adequate documentation supporting credit card charges. Furthermore, we recommend that management require timely payment of credit card billings to minimize the opportunity of incurring finance charges.

Management Response: As raised earlier, there are two credit card holders - the CEO & President and the Vice President of NTA. Before any use of credit card, the CEO is consulted prior for permission and use of the card. All credit card transactions are approved prior to the use. There is no formal policy on ensuring that every credit card purchase needs to have a purchase order. A purchase order is used by NTA for vendors whom NTA has credit terms with to ensure that the goods or services are released for use and payment made within the agreed payment terms. The credit cards are only used for services or goods that need to be paid up front with vendors whom NTA does not have credit terms with. Credit cards are also used for hotel or travel bookings online. The travel in question raised in point (a.) has an approved travel authorization and ticket.

SECTION I - DEFICIENCIES, CONTINUED

4) Credit Card Purchases, Continued

Management Response, Continued: The NTA personnel travelled out of the RMI to Fiji to attend a conference and stayed at the Mercure hotel. Management was able to get Mercure hotel to confirm the booking of the NTA personnel however because there was only one staff at the hotel due to the COVID-19 impact in Fiji, NTA was not able to get a reprint of the receipt to give to the auditors. This travel was known by the CEO and approved by the CEO hence the use of the credit card. Other uses of credit card are online subscriptions which are budgeted and once paid the CEO would just sign off on the online invoices/receipt generated. The late finance charges are due to the statements being received late from the credit card provider and the checks being received late by the credit card provider. Management is trying to engage with the credit card provider to allow payment and access of statements online.

5) Payroll

Comment: Of 16 payroll expense items tested, the following exceptions were noted:

- A $210 payroll expense for 1 employee (Check # 68091) was recorded twice. No adjustment was proposed as the amount was not considered material to the financial statements.
- Hours paid for 1 employee (Check # 68557) of 78 exceeded hours reported of 53 on the approved timesheet.
- Hours paid for 1 employee (Check # 65458) of 76 exceeded hours reported of 56 on the approved timesheet.
- A timesheet for 1 employee (Check # 68065) was not approved.
- $1,243 payroll expense for 1 employee (Check # 68405) was not supported by a Personnel Action Form.

Recommendation: We recommend that management establish internal control policies and procedures over the processing and payment of payroll transactions.

Management Response: The hours paid are as signed off by the Supervisors. These are summarized on a timesheet for all employees in a department. The timesheet for employee that was not approved was not intentional. The timesheet was already reviewed and only the head of department's signature was missing as the payroll had to be processed. There are no disputes by management on the hours worked by the employee. The personnel action form for the employee could not be found in the file however management has verified that in August 2009 the board had approved the current salary of the employee whose personnel action form was not found in file.

6) GSM Unlimited Plan Revenue

Comment: During the year ended September 30, 2020, NTA recognized GSM Unlimited Plan revenue upon receipt of prepayment from customers. No consideration was made at year end for the unused portion of GSM service. Such was corrected during the audit process.

Recommendation: We recommend that management establish internal control policies and procedures requiring the recognition of deferred revenue for the unused portion of GSM service.

Management Response: There is no impact in the financial statements as the adjustment has been made, this is just a timing difference that would be accounted for at year end once a year. In FY20, this amounted to about $18k which was recorded as deferred revenue on the balance sheet. This is at least two weeks of unlimited time for customers who bought their plans in the middle of September 2020 which would expire October 2020, however the money has been collected and banked it is only a book entry which will not affect management's decision making.

SECTION I - DEFICIENCIES, CONTINUED

7) Debit Card Bank Account

Comment: As of September 30, 2020, NTA maintained a bank account for debit card sales in the amount of $23,777 that was not recorded in the general ledger and was not supported by monthly bank reconciliations. Such was corrected during the audit process.

Recommendation: We recommend that management establish internal control policies and procedures requiring bank accounts be recorded upon opening and be timely reconciled to the general ledger.

Management Response: The bank account for debit card sales existed for years but was never picked up in audit, this debit card account is where all the merchant card BOMI sales are settled. Usually every month or two after the amount builds up to around $80-100k the cash is transferred to the Bank of Guam Checking or Depository account for vendor payments. This year FY20 the amount had not accumulated enough to be transferred. The amounts are recorded in the GL however in the credit card sales GL account as these are treated like clearing accounts to account for timing differences (when a batch is settled it takes at least 3 business working days to be cleared in the bank). As the balance on the account was more than previous years, a GL code was created and the BOMI balances in the credit card clearing account was moved to the new GL code to be tracked separately. This was then reconciled to the bank statement. No impact to the financial statements as this has been addressed and adjusted in the books.

8) Purchase Orders (PO)

Comment: NTA has no formal written policy concerning the approval of POs in the absence of the required signatories.

Recommendation: We recommend that management establish internal control policies and procedures over the PO approval process and formalize in a written policy.

Management Response: In the absence of the CEO and President, the Vice President and Chief Operating Officer will sign off. The Vice President will first call or email to discuss with the CEO then proceed to sign. When the CEO is officially on leave, the delegated approval is transferred to the Vice President via a memorandum signed by the CEO. There is a budget whereby the Board approves expenses according to the different cost centers and the purchase orders are prepared in line with the budget cost codes. These are approved by the Board and CEO and is circulated to Finance for verification of the cost code. In terms of having a Finance Policy and Procedures Manual, the management team will take this on as a project.

9) Long Distance Calls

Comment: Executive management has direct access to long distance calls; however, control policies and procedures do not include monitoring long distance calls to verify that transactions are business related.

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

Management Response: This will be considered in the future.

SECTION I - DEFICIENCIES, CONTINUED

10) Customer Deposits

Comment: As of September 30, 2020, NTA recorded customer deposits of $336,662. Two deposits (ID#s 1626 and 3932) tested totaling $2,879 indicated that both accounts were classified as inactive. Furthermore, the subledger did not include customer details for a $2,333 deposit.

Recommendation: We recommend management examine customer deposits for inactive accounts no longer considered refundable. Furthermore, we recommend management establish internal control policies and procedures requiring timely update of the customer deposits subledger.

Management Response: Although the accounts are inactive, the deposits remain the property of the customers and as such will be maintained. The $2,333 is not in the subsidiary ledger generated from sage 300 (accounting system) but it is in the Alepo billing system under customer account number P_ 23435 detailed in the July 2020 invoice generated on the 1st of August 2020 invoice # 366352.

11) Allowance for Doubtful Accounts

Comment: As of September 30, 2020, NTA recorded a $80,705 allowance for doubtful debts associated with accounts receivable. An audit adjustment was proposed to increase the allowance by $423,107 for receivables considered uncollectible. Furthermore, an additional allowance of $160,209 for accounts receivable balances considered uncollectible was identified; however, no audit adjustment was proposed as management determined that such was not material to the financial statements.

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

Management Response: Most outstanding debtors are government agencies and local government who have budget allocated for communications but the delay in processing of paperwork has resulted in delay in making on-time payments. The management team is working closely with the ministries to monitor this.

12) Capital Assets

Comment: In September 2020, NTA capitalized and placed into service a $73,000 diesel generator; however, the asset was not operational due to missing parts. An audit adjustment was proposed to reclassify this asset as plant under construction.

Recommendation: We recommend that management establish internal control policies and procedures requiring that plant assets placed in service are operational.

Management Response: For FY21 and moving forward, we will get all department managers to send in a physical verification of assets on operability and good condition.

13) Local Cellular Network Service Revenues

Comment: NTA provides a 5% discount for every $1,000 of cell card sales to wholesalers; however, NTA does not incorporate this factor in the calculation of mobile GSM revenues. During the year ended September 30, 2020, a potential $78,449 overstatement of revenues was noted; however, no adjustment was proposed as NTA determined that this misstatement was not material to the financial statements.

Recommendation: We recommend management incorporate discounts in recognizing GSM revenues.

Management Response: This will be considered moving forward.

SECTION I - DEFICIENCIES, CONTINUED

14) Payroll Allotment

Comment: Management does not maintain a subsidiary ledger for allotment liabilities by creditor.

Recommendation: We recommend management maintain a subsidiary ledger for allotment liabilities by creditor that is periodically reconciled to the general ledger.

Management Response: There is a detailed listing from the payroll module under payroll register where there is a payroll allotment list by creditor. The payroll allotment clearing account GL code should just have one period allotment listing which is paid in the same or subsequent month.

15) Materials and Supplies Inventory

Comment 1: As of September 30, 2020, the inventory valuation report identified certain items with quantity on hand without a corresponding unit cost. Such was corrected during the audit process. In addition, the report did not include details on “Last Dates of Sales/Purchases”.

Comment 2: During inventory tests, we noted the following:

a. Of 6 inventory items tested, unit costs per the inventory valuation report for 3 items differed from invoice costs. Such was corrected during the audit process.

b. Of 10 inventory items tested, quantities on hand per the inventory valuation report for 4 items differed from actual count. Such was corrected during the audit process.

Recommendation: We recommend that management establish internal control policies and procedures requiring that inventory valuation reports include unit costs based on purchase invoice costs and details on “Last Dates of Sales/Purchases”. Furthermore, we recommend that management perform periodic inventory counts and adjust the inventory valuation report to actual counts.

Management Response: Monthly stocktakes are performed and the procurement supervisor now does a reconciliation of the valuation report to GL.

16) Accounts Payable

Comment: Accounts payable general ledger balances (Acct #s 401065, 401200, 402000 and 436100), totaling $594,908 were not reconciled to the $758,180 subledger balance resulting in a $163,272 variance. No audit adjustments were proposed as it was determined that adjustments were made directly to the general ledger including credit memos of $172,086 relating to circuit rental expense issued by an external carrier. Furthermore, the subledger included $25,010 representing GRT payable for quarters ended December 31, 2018, March 31, 2019, June 30, 2019, December 31, 2019, March 31, 2020 and June 30, 2020 that was presented as current within the subledger.

Recommendation: We recommend management establish internal control policies and procedures requiring timely monitoring and reconciling of the accounts payable subledger.

Management Response: The GL to subsidiary ledger was reconciled and the difference is not an exception the GL was corrected to match the supplier statement which is the third-party document. The subsidiary ledger was corrected in subsequent month. The GL is correct at year end. The aging issue raised for taxes is not seen as a value adding matter, the main objective is to ensure that all liabilities and taxes are booked in the month of September to ensure that all taxes are captured. These were paid subsequent month and no other matters noted.

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 management implement procurement policies and procedures to facilitate competitive procurement processes and that NTA comply with applicable procurement requirements.

Management Response: As stated in previous audits, the RMI is a small economy and there are limited vendors providing services or goods. The Procurement team together with the management knowledge of the vendors and quality of services and goods are relied on to ensure that quality services and goods are procured for NTA use. The various departments have budgets and the heads of departments ensure that they are spending within the budget limits for maximum output.

2) Board Sitting Fees

Comment: During the year ended September 30, 2020, NTA paid sitting fees of $6,600 to Board members. These fees may constitute wages under the Income Tax Act 1989 and thus subject to withholding taxes. No withholding taxes were withheld by NTA.

Recommendation: 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.

Management Response: Management will consider this.

3) Minutes of Board Meetings

Comment: Complete Board minutes of meetings held during FY2020 were not available for inspection.

Recommendation: We recommend that minutes of Board Meetings be formally documented by the Secretary and be approved by the Board of Directors.

Management Response: Noted.

4) Employee Withholding Taxes

Comment: NTA filed and paid income taxes withheld for the year ended September 30, 2020 in a manner inconsistent with the Income Tax Act of 1989, specifically, withholding taxes of $14,797 for the four-week PPE 9/26/2020 were not timely remitted.

Recommendation: We recommend management establish internal control policies and procedures requiring timely remittance of withholding taxes in compliance with the Income Tax Act.

Management Response: All taxes have been paid and filed no issues noted.

SECTION II - OTHER MATTERS, CONTINUED

5) Business Gross Revenue Taxes (GRT)

Comment: NTA filed and paid GRT for the year ended September 30, 2020 in a manner inconsistent with the Income Tax Act of 1989, specifically, GRT of $25,010 for the quarters ended December 31, 2018, March 31, 2019, June 30, 2019, December 31, 2019, March 31, 2020 and June 30, 2020 was not timely remitted.

Recommendation: We recommend management establish internal control policies and procedures requiring timely remittance of GRT in compliance with the Income Tax Act.

Management Response: All taxes have been paid and filed no issues noted.

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.