

**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, 2017

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, 2017, 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 February 27, 2018. In accordance with *Government Auditing Standards*, we have also issued our report 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. 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, 2017, NTA achieved a 0.95 average TIER ratio.

Auditee Response: Management agrees with the finding, but as explained in last year's audit, compliance with the RUS TIER requirements will continue to be a challenge for NTA given market size and growth opportunities. NTA is currently working with consultants from the World Bank to look at opportunities for growth in the sector, as well as efficiencies that could be realized to make NTA better able to deliver services at sustainable levels.

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: Financial reporting necessitates adequate internal control over the review and timely performance of bank reconciliations.

Condition:

1. Monthly bank reconciliations were not timely performed. The September 2017 BOG savings account reconciliation indicated a \$28,646 reconciling item. As this amount was not considered material to the financial statements, no audit adjustment was proposed.
2. A transfer out of \$100,000 from the BOG savings account was improperly included as a reconciling item in the September 2017 account reconciliation. This misstatement was corrected during the audit process.
3. An \$8,162 check (#40826) was voided yet included in the September 2017 bank reconciliation as an outstanding check. This exception has been addressed in the prior year audit finding. As this amount was not considered material to the financial statements, no audit adjustment was proposed.
4. An unreconciled \$58,793 cash account was noted as of September 30, 2017. As this amount was not considered material to the financial statements, no audit adjustment was proposed.
5. Stale checks of \$58,976 were included in the September 2017 bank reconciliations. As this amount was not considered material to the financial statements, no audit adjustment was proposed.

Finding No. 2, Continued

Auditee Response: As stated in last year's audit, NTA management recognizes the problem of timely reconciliation of bank accounts as an ongoing concern for our finance department. Management agrees with the finding and is committed to continue to work with our finance staff to address the issue, including recruitment of an additional qualified accountant.

Finding No. 3

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

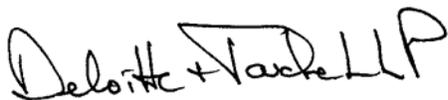
Condition: During the audit process, we noted the following:

- The September 2017 accounts receivable aging report was not reconciled with the general ledger balance.
- Outstanding projects recorded in the Plant under Construction account were not timely monitored and completed projects were not timely transferred to capital assets in service. Management subsequently identified completed projects in the amount of \$654,835. This matter was corrected during the audit process.
- The September 2017 customer deposits report was not reconciled with the general ledger balance that resulted in a \$41,000 variance. As this amount was not considered material to the financial statements, no audit adjustment was proposed.
- As of September 30, 2017, travel advances in the general ledger indicated a net outstanding balance of \$106,422. NTA's policy requires employees and officers to submit a travel report within thirty days upon return from official travel. However, delay in submission of travel reports causes a delay in travel advance liquidation. An amount of \$87,722 was adjusted during the audit process for this matter.

Auditee Response: NTA management will continue to work to strengthen our finance department to bring the staff up to a level where general ledger account balances are reconciled in a timely manner so as to facilitate timely financial reporting.

* * * * *

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.



February 27, 2018