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June 1, 2020

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, 2019 (on which we have issued our report dated June 1, 2020), 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, 2019 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also 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.

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, 2019 that we wish to bring to your attention:

1) Capital Assets

Comment: During the year ended September 30, 2019, NTA retired certain capital assets with a total cost of $2,539,631 and a net book value of $67. However, no capital asset inventory documentation was available to support the retirement. NTA corrected this matter during the audit process.

A new waveguide was capitalized during the year ended September 30, 2019; however, the equipment had not been installed and remains in storage. NTA corrected this matter during the audit process.

Recommendation: We recommend a capital asset inventory be performed to account for assets that are no longer in use, are nonexistent, or are ready for retirement. In addition, independent review of journal entries supporting asset capitalization should be performed.

2) Customer Deposits

Comment: As of September 30, 2019, NTA recorded outstanding customer deposits of $334,429. The audit identified certain accounts that were classified as inactive and remain outstanding as of September 30, 2019.

Recommendation: We recommend a review of long outstanding customer deposits be performed to facilitate determination of accounts no longer refundable.

3) Local Cellular Network Service Revenues

Comment: During the year ended September 30, 2019, the following exceptions concerning local cellular network revenues were noted:

a. 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 GSM revenues. During the year ended September 30, 2019, a potential $53,600 overstatement of revenues was noted; however, no adjustment was proposed as NTA determined that this misstatement was not material to the financial statements.

b. On July 19, 2019, NTA transitioned its GSM revenue processing from a R4S switch to the Alepo billing system. July recorded revenues did not include GSM revenues from the Alepo system covering July 20 to 31 transactions amounting to approximately $47,500. No adjustment was proposed as NTA determined that this misstatement was not material to the financial statements.

c. NTA's memo for local mobile and inter-island mobile call rates effective January 6, 2016 approved $0.15 per minute. However, the actual rate used to charge a local prepaid mobile call is $0.03 per every 12-second increment and $0.015 per 6-second increment for inter-island mobile calls.

Recommendation: We recommend management incorporate discounts in recognizing GSM revenues and that independent review of revenues be performed on a monthly basis to ascertain completeness of revenues reported. Furthermore, we recommend management implement call rates consistent with the application of approved tariff rates.

SECTION I – DEFICIENCIES, CONTINUED

4) 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 management establish appropriate 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.

5) Local Taxes

Comment: During the year ended September 30, 2019, the following tax-related matters were identified:

a. NTA charges customers a 4% MALGOV sales tax on non-service revenues; however, remittance of collected taxes was not timely performed.

b. NTA self-declared and remitted to RepMar Finance $24,876 of Gross Receipts Tax (GRT) from non-service revenues for fiscal years 2016 and 2017; however, a $25,428 GRT accrual for fiscal years 2018 and 2019 was not recorded. NTA subsequently corrected this matter during the audit process.

Recommendation: We recommend management record and timely remit taxes.

6) Credit Card transactions

During the year ended September 30, 2019, the following credit card transactions were noted:

a. $10,538 of credit card transactions lacked approved Purchase Orders (PO), invoices and travel authorizations.
b. $334 of credit card transactions lacked approved POs and invoices.
c. $6,779 of credit card transactions lacked approved POs and travel authorizations.
d. $158 of credit card transactions lacked invoices.
e. $1,550 of credit card transactions lacked approved POs.
f. $1,733 of credit card finance charges were incurred due to late payments.

Recommendation: We recommend management maintain adequate supporting invoices on file and implement internal control and policies governing use of credit cards. Furthermore, we recommend management require timely payment of credit card billings to avoid finance charges.

7) Allowance for Doubtful Accounts

Comment: During the year ended September 30, 2019, a $185,368 understatement of the allowance for doubtful accounts was identified. No adjustment was proposed as NTA determined that this misstatement 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.

8) Materials and Supplies Inventory

Comment: Certain inventory listing items as of September 30, 2019 were determined to be obsolete and were subsequently written off by NTA during the audit process.

Recommendation: We recommend management perform periodic evaluations of the allowance for obsolescence.

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 it comply with applicable procurement requirements.

2) Board Sitting Fees

Comment: During the year ended September 30, 2019, NTA paid sitting fees of $5,800 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.

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.