

August 22, 2022

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, 2021 (on which we have issued our report dated August 22, 2022), 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, 2021 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated August 22, 2022, 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.

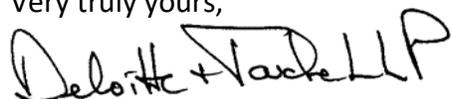
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with 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, 2021 that we wish to bring to your attention:

1) Telecommunication Receivables

Comment: As of September 30, 2021, the NTA billing system is unable to produce an accurate aging report for analysis. Instead, the CFO manually creates an aging report based on system generated invoices and collection details.

Recommendation: We recommend management work with the software company to prioritize a solution.

2) Credit Card Purchases

Comment: During the year ended September 30, 2021, the following credit card transactions were noted:

- a. Transactions totaling \$298 lacked approved Purchase Orders (PO), invoices and/or travel authorizations.
- b. Finance charges of \$1,217 were incurred due to late payments.
- c. Transactions totaling \$1,444 were dated prior to the PO.

This matter was discussed in our previous audits for fiscal years 2018 through 2020.

Recommendation: We recommend management establish internal control policies and procedures over credit card charges and timely payments.

3) Purchase Orders (PO)

Comment: NTA does not have a formal written policy concerning the approval of POs in the absence of the required signatories. This matter was discussed in our previous audit for fiscal year 2020.

Recommendation: We recommend management establish written internal control policies and procedures over the PO approval process.

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. This matter was discussed in our previous audits for fiscal years 2016 through 2020.

Recommendation: We recommend 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.

5) Customer Deposits

Comment: As of September 30, 2021, NTA recorded customer deposits of \$336,162. Two deposits (ID#s 1626 and 3932) tested totaling \$2,879 indicated that both accounts were classified as inactive.

Recommendation: We recommend management examine customer deposits for inactive accounts no longer considered refundable.

SECTION I - DEFICIENCIES, CONTINUED6) Allowance for Doubtful Accounts

Comment: As of September 30, 2021, NTA recorded a \$828,045 allowance for doubtful debts, which included a proposed audit adjustment of \$403,071. Additional accounts receivable balances of \$125,486 were considered uncollectible; however, no audit adjustment was proposed as management determined that such was not material to the financial statements. This matter was discussed in our previous audits for fiscal years 2018 through 2020.

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

7) Materials and Supplies Inventory

Comment: As of September 30, 2021, the inventory valuation report was understated by \$97,916 due to certain items being identified with quantity on hand without a corresponding unit cost. No audit adjustment was proposed as management determined that such was not material to the financial statements.

Recommendation: We recommend management adjust the inventory valuation report to actual counts with corresponding unit cost.

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 does not have a formal written procurement policies and procedures. Small purchases did not evidence quotations from qualified vendors to facilitate the competitive procurement process. This matter was discussed in our previous audits for fiscal years 2016 through 2020.

Recommendation: We recommend management implement written procurement policies and procedures to facilitate competitive procurement processes and that NTA comply with applicable procurement requirements.

2) Board Sitting Fees

Comment: During the year ended September 30, 2021, NTA paid sitting fees of \$9,800 to Board members. These fees may constitute wages under the Income Tax Act 1989 and thus would be subject to withholding taxes. No taxes were withheld by NTA. This matter was discussed in our previous audits for fiscal years 2019 and 2020.

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.