

**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, 2018**

## **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, 2018, 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 April 30, 2019. In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2019, 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, 2018, NTA achieved a 1.18 average TIER ratio.

Auditee Response: Management agrees with the Finding. As explained in previous audits, compliance with the RUS TIER requirement of 1.5 will continue to be a challenge for the company given the size of its market. For NTA to meet this requirement, it must continue to explore areas of efficiencies in its delivery of service to keep costs low, and look for growth opportunities where possible.

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 subsidiary ledgers and that reconciliations be timely performed and independently reviewed.

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

1. Deferred credits were not timely reconciled during the year. A \$159,587 misstatement was subsequently identified and corrected.
2. 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. This matter was subsequently corrected.
3. As of September 30, 2018, net travel advances reflected an outstanding balance of \$84,914. 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 \$65,752 misstatement was subsequently identified and corrected.
4. As of September 30, 2018, NTA reported an unreconciled cash credit balance of \$70,539.
5. For the year ended September 30, 2018, the accounts payable general ledger balance was understated by \$446,214 in comparison with the subsidiary ledger. This misstatement was subsequently identified and corrected.

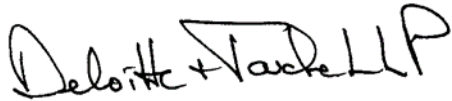
Finding No. 2, Continued

6. Accrued MISSA employer contributions reflected a debit balance of \$11,148 at September 30, 2018. A \$104,439 audit adjustment was subsequently proposed.
7. NTA recorded a \$67,832 accrued external carrier settlement receivable which covers September 2017 to September 2018 call transactions. The invoicing process occurred in March 2019.

Auditee Response: NTA Management agrees with the Finding and will continue to work to strengthen our finance department to bring the staff up to a level where proper reconciliations would be the norm and not the exception. Management continue to recruit for the company's new CFO and also plans to hire another qualified accountant in the very near future.

\* \* \* \* \*

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.



April 30, 2019