

MARSHALL ISLANDS NATIONAL  
TELECOMMUNICATIONS AUTHORITY

INDEPENDENT AUDITORS' REPORT ON  
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2000



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING BASED UPON THE AUDIT PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Chairman  
Board of Directors  
Marshall Islands National Telecommunications Authority:

We have audited the financial statements of the Marshall Islands National Telecommunications Authority (NTA) as of and for the year ended September 30, 2000, and have issued our report thereon dated November 28, 2000. We conducted our audit 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.

### Compliance

As part of obtaining reasonable assurance about whether NTA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings (pages 3 through 7) as item 2000-5. We also noted certain immaterial instances of noncompliance that we have reported to the management of NTA in a separate letter dated November 28, 2000.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered NTA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect NTA's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 2000-1 through 2000-4.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2000-1 through 2000-4 to be material weaknesses. We also noted other matters involving the internal control over financial reporting that we have reported to the management of NTA in a separate letter dated November 28, 2000.

This report is intended solely for the information and use of the Board of Directors, management, the Rural Utilities Service, supplemental lenders, the cognizant audit and other federal agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

*Deloitte & Touche*

November 28, 2000

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Schedule of Findings  
Year Ended September 30, 2000

Telecommunication Accounts Receivables

Finding No. 2000-1

Criteria: The aged accounts receivable-telecommunications subsidiary ledger should be monitored and used in credit control.

Condition: As of September 30, 2000, the aged accounts receivable-telecommunications subsidiary ledger indicated that customer accounts with balances greater than sixty days represented seventy-nine (79) percent of the total balance of \$3,511,981. A provision for uncollectible accounts of \$1,223,341 has been recorded to offset this balance.

Cause: The cause of the above condition is the lack of enforcement of collection proceedings for the last four years.

Effect: The effect of the above condition is the possibility of uncollectible accounts receivable.

Recommendation: We recommend that management continue to review overdue accounts on a timely basis.

Prior Year Status: The lack of enforcement of collection proceedings was reported as a finding in the audit of NTA for fiscal year 1999.

Auditee Response and Corrective Action Plan: We concur with the recommendation. As stated above, the forfeiture of available legal services has severely damaged the collection process. Management did utilize the only business recourse left in a situation created by the government. In addition, we applied a bad debt allowance (charging expenses for the loss) to accounts deemed uncollectible. The General Manager also hired an in-house attorney in November 1998 who remained with NTA through June 2000; then retained outside attorneys on a retainer basis to assist the in-house collection efforts.

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Schedule of Findings, Continued  
Year Ended September 30, 2000

Prepayments

Finding No. 2000-2

Criteria: Prepayments should represent actual payments to vendors for services that will benefit future periods.

Condition: As of September 30, 2000, NTA recorded prepayments (A/c # 1330) and deferred charges (A/c # 1439), totaling \$(102,678) and \$(143,585), respectively, of which \$124,661 and \$158,158, respectively, related to journal entries to record accruals. The remaining balance included a payment for fixed assets, totaling \$21,983, that was received in fiscal year 2000. Audit adjustments were proposed to correctly record the accruals and fixed assets.

Cause: The cause of the above condition is the lack of reconciliation of prepaid accounts and recording accruals in the correct general ledger account.

Effect: The effect of the above condition is the understatement of prepayments, deferred charges and accounts payable.

Recommendation: We recommend that management ensure that accruals are recorded in the correct general ledger account and that prepayment and deferred charges accounts represent actual payments to vendors for services that will benefit future periods.

Prior Year Status: The lack of recording accruals in the correct general ledger account and the reconciliation of the prepayment account was reported as a finding in the audit of NTA for fiscal year 1999.

Auditee Response and Corrective Action Plan: We concur with the recommendation. Accruals will be applied to the correct general ledger account for fiscal year 2001.

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Schedule of Findings, Continued  
Year Ended September 30, 2000

Other Liabilities and Accruals

Finding No. 2000-3

Criteria: Accrued payroll liabilities should be reconciled to the general ledger on a timely basis.

Condition: As of September 30, 2000, the general ledger accounts for accrued payroll (A/c # 401090), social security (A/c # 408010), withholding taxes (A/c # 408020), and other liabilities (A/c # 412020) were not reconciled. Subsequent reconciliations of these accounts resulted in a net understatement of \$106,795. Audit adjustments were proposed to correctly record these accrued liability accounts.

Cause: The cause of the above condition is the lack of timely reconciliation of accrued payroll liabilities and the lack of independent review by management.

Effect: The effect of the above condition is the overstatement of accrued payroll liabilities.

Recommendation: We recommend that management ensure that accrued payroll liability accounts are reconciled to the general ledger on a monthly basis and that the reconciliations are independently reviewed.

Prior Year Status: The lack of timely reconciliation of accrued payroll liabilities and the lack of independent review by management was reported as a finding in the audit of NTA for fiscal year 1999.

Auditee Response and Corrective Action Plan: We concur with the recommendation. The Deputy General Manager of Finance and the General Accounting Manager will review processes to ensure that accrued liabilities are recorded in the proper accounting year.

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Schedule of Findings, Continued  
Year Ended September 30, 2000

Revenues

Finding No. 2000-4

Criteria: The toll and billing registers should be reviewed and reconciled on a monthly basis to the general ledger.

Condition: During the year ended September 30, 2000, revenues per the monthly toll registers, totaling \$1,512,194, (excluding January 2000 and March 2000 for which no monthly toll registers were available) did not agree to revenues per the corresponding monthly billing registers amounting to \$2,709,893. Furthermore, toll revenues recorded in the general ledger for the months of October 1999 through June 2000, totaling \$2,011,379, did not agree to the corresponding billing registers amounting to \$2,407,849.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is the lack of adequate support for entries made to the general ledger.

Recommendation: We recommend that management establish policies and procedures to ensure that monthly reconciliations of the toll register and billing register to the general ledger are performed.

Auditee Response and Corrective Action Plan: We concur with the recommendation. The monthly billing procedures will ensure a review and reconciliation of the toll detail report, the billing register, and the billing summary to the general ledger.

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Schedule of Findings, Continued  
Year Ended September 30, 2000

Tariffs

Finding No. 2000-5

Criteria: Section 2.9 of the RUS loan agreement states that NTA should maintain a tariff designed to produce net income or margins, before interest but after taxes, in such amounts that when divided by the amount of interest requirements on all of the borrower's outstanding and proposed loans, produces a ratio of at least 1.25.

Condition: Utilizing budgeted net earnings and interest requirements for fiscal year 2001, the resulting ratio was 1.21.

Cause: The cause of the above condition is that NTA has not increased tariffs to provide for the increased ratio.

Effect: The effect of the above condition is noncompliance with the loan agreement.

Recommendation: We recommend that management review projections for the fiscal year 2001 to ensure compliance with loan requirements.

Prior Year Status: Noncompliance with Section 2.9 of the RUS loan agreement was reported as a finding in the audits of NTA for fiscal years 1997 through 1999.

Auditee Response and Corrective Action Plan: We concur with the recommendation. Management has presented new tariffs that were approved by the Board of Directors for fiscal year 2001. In addition, the General Manager has discussed this ongoing finding with the RUS representative at each RUS/NTA Project meeting since January 1998.

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Schedule of Findings, Continued  
Year Ended September 30, 2000

Unresolved Prior Year Comments

The status of unresolved prior year findings are disclosed within the Schedule of Findings section of this report (pages 3 through 7).