

MARSHALL ISLANDS NATIONAL
TELECOMMUNICATIONS AUTHORITY

INDEPENDENT AUDITORS'
MANAGEMENT LETTER

YEAR ENDED SEPTEMBER 30, 2000



INDEPENDENT AUDITORS' MANAGEMENT LETTER

Chairman
Board of Directors
Marshall Islands National Telecommunications Authority:

We have audited the financial statements of the Marshall Islands National Telecommunications Authority (NTA), 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; 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*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of NTA for the year ended September 30, 2000, we considered its internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

A description of the responsibility of management for establishing and maintaining the internal control over financial reporting and the objectives of and inherent limitations in such control is set forth in our Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based Upon the Audit Performed in Accordance with *Government Auditing Standards* dated November 28, 2000, and should be read in conjunction with this report.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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. We noted certain matters, involving the internal control over financial reporting and its operation that we considered to be material weaknesses as defined above, which are described in our Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based Upon the Audit Performed in Accordance with *Government Auditing Standards* dated November 28, 2000.

7 CFR Part 1773.33 requires comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and other additional matters. We have grouped our comments accordingly. In addition to obtaining reasonable assurance about whether the financial statements are free from material misstatements, at your request, we performed tests of specific aspects of the internal control over financial reporting, of compliance with specific RUS loan and security instrument provisions, and of additional matters. The specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and additional matters tested include, among other things, the accounting procedures and records, materials control, compliance with specific RUS loan and security instrument provisions set forth in 7 CFR Part 1773.33(e)(2), and related party transactions. In addition, our audit of the financial statements also included the procedures specified in 7 CFR Part 1773.38-.45. Our objective was not to provide an opinion on these specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, or additional matters, and accordingly, we express no opinion thereon.

No reports (other than our Independent Auditors' Report on Financial Statements, our Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based upon the Audit Performed in Accordance with *Government Auditing Standards*, and our separate letter regarding recommendations concerning certain matters related to the internal control, all dated November 28, 2000) or summary of recommendations related to our audit have been furnished to management.

Our comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and other additional matters as required by 7 CFR Part 1773.33 are presented below.

COMMENTS ON CERTAIN SPECIFIC ASPECTS OF THE INTERNAL CONTROL OVER FINANCIAL REPORTING

We noted no matters, other than the matters described in the fourth paragraph of this report, regarding NTA's internal control over financial reporting and its operation that we consider to be a material weakness as previously defined with respect to:

- . The accounting procedures and records;
- . The process for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts; and
- . The materials control.

COMMENTS ON COMPLIANCE WITH SPECIFIC RUS LOAN AND SECURITY INSTRUMENT PROVISIONS

Management's responsibility for compliance with laws, regulations, contracts, and grants is set forth in our Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based Upon the Audit Performed in Accordance with *Government Auditing Standards* dated November 28, 2000, and should be read in conjunction with this report. At your request, we have performed the procedures enumerated below with respect to compliance with certain provisions of laws, regulations, contracts, and grants. The procedures we performed are summarized as follows:

- Procedure performed with respect to the requirement to maintain all funds in institutions whose accounts are insured by an agency of the Federal government:
 1. Obtained information from financial institutions with which NTA maintains funds that indicated that the institutions are insured by an agency of the Federal government.
- Procedures performed with respect to the requirement for a borrower to obtain written approval of the mortgagee to enter into any contract for the operation or maintenance of property, for the use of mortgaged property by others, or for services pertaining to toll traffic, operator assistance, or switching for the year ended September 30, 2000 of NTA:
 1. Obtained and read a borrower-prepared schedule of new written contracts entered into during the year for the operation or maintenance of its property, for the use of its property by others, or for services pertaining to toll traffic, operator assistance, or switching as defined in 7 CFR Part 1773.33(e)(2)(i).
 2. Reviewed Board of Director minutes to ascertain whether board-approved written contracts are included in the borrower-prepared schedule.
 3. Noted the existence of written RUS approval of each contract listed by the borrower.
- Procedure performed with respect to the requirement to submit RUS Form 479 to the RUS:
 1. Agreed amounts reported in Form 479 to NTA's records.

The results of our tests indicate that, with respect to the items tested, NTA complied, in all material respects, with the specific RUS loan and security instrument provisions referred to below. The specific provisions tested include the requirements that:

- The borrower maintains all funds in institutions whose accounts are insured by an agency of the Federal government; and
- The borrower has submitted its Form 479 to the RUS and the Form 479, Financial and Statistical Report, as of December 31, 1999, represented by the borrower as having been submitted to RUS, appears reasonable based upon the audit procedures performed.

NTA did not enter into any contract during the year ended September 30, 2000 for the operation or maintenance of property, for the use of mortgaged property by others, or for services pertaining to toll traffic, operator assistance, or switching as defined in 1773.33(e)(2)(i).

COMMENTS ON OTHER ADDITIONAL MATTERS

In connection with our audit of the financial statements of NTA, except as set forth below, nothing came to our attention that caused us to believe that NTA failed to comply with respect to:

- The reconciliation of subsidiary plant records to the controlling general ledger plant accounts addressed at 7 CFR Part 1773.33(c)(1);
- The clearing of the construction accounts and the accrual of depreciation on completed construction addressed at 7 CFR Part 1773.33(c)(2);

- The retirement of plant addressed at 7 CFR Part 1773.33(c)(3) and (4);
- Sales of plant material, or scrap addressed at 7 CFR Part 1773.33(c)(5); and
- The disclosure of material related party transactions, in accordance with Statement of Financial Accounting Standards (SFAS) No. 57, *Related Party Transactions*, for the year ended September 30, 2000, in the financial statements referenced to in the first paragraph of this report addressed at 7 CFR Part 1773.33(f).

(1) Depreciation Rates

Depreciation rates reported to the RUS on Form 479 should reflect those utilized by NTA. We reviewed the depreciation rates reported by NTA to the RUS for the year ended December 31, 1999, and noted the following exceptions:

<u>Asset Class</u>	<u>Per Form 479</u>	<u>Per NTA</u>
Motor vehicles	33%	20.0%
Buildings	4%	2.5%
General purpose computers	13%	16.7%
Central office switching - Digital	8%	6.7%
Other terminal equipment	20%	14.3%
Buried cable - Metal	7%	5.0%
Buried cable - Fiber	5%	4.0%
Conduit systems	7%	5.0%

We recommend that management ensure that depreciation rates reported to the RUS are based on those utilized by NTA.

Auditee Response:

NTA reported the depreciation rates in effect as of fiscal year ended September 30, 1999 on the RUS Report 479 for December 1999. Rates were reassessed for fiscal year ended September 30, 2000.

(2) Tariffs

Section 2.9 of the 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. Based on our calculation, utilizing budgeted net earnings and interest requirements for fiscal year 2001, the resulting ratio was 1.21. We recommend that management review projections for fiscal year 2001 to ensure compliance with loan requirements.

Auditee Response:

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.

(3) Reporting

Rural Utilities Service (RUS) Form 479, Financial and Statistical Report for Telecommunications Borrowers (FSR), requires NTA to report financial status of NTA for the twelve months ended December 31, 1999. The FSR for the year ended December 31, 1999 indicated a prepayment balance, totaling \$22,002, which did not agree to the corresponding balance in the general ledger of \$(70,975). We recommend that management ensure that information reported on the FSR is in agreement with balances recorded in the general ledger.

Auditee Response:

The December 31, 1999 FSR was out of balance and adjusted to prepayment for report. Management will ensure that information agrees with balances recorded in the general ledger.

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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