

MARSHALL ISLANDS NATIONAL  
TELECOMMUNICATIONS AUTHORITY

INDEPENDENT AUDITORS' REPORT ON  
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2001



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, 2001, and have issued our report thereon dated November 23, 2001. 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 2001-5.

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 2001-1 through 2001-4.

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, we consider the reportable conditions described above in items 2001-1 through 2001-3 to be material weaknesses. We also noted other matters involving the internal control over financial reporting, which we have reported to management of NTA in a separate letter dated November 23, 2001.

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 23, 2001

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Schedule of Findings  
Year Ended September 30, 2001

Revenue/Receipts

Finding No. 2001-1

Criteria: Internal control procedures relating to daily collection activities should be set in place to ensure proper accounting of collections.

Condition: Of twenty-five daily collections tested, we noted the following exceptions:

- Ten Cash Collection Breakdown/Deposit Reports did not indicate verification by the customer service supervisor.

<u>Cash Receipt Date</u>	<u>Cash Receipt Date</u>
10/02/00	05/23/01
10/09/00	05/24/01
11/06/00	09/02/01
12/21/00	09/03/01
12/22/00	09/04/01

- One Daily Cash Report for collections made on December 22, 2000 and August 2, 2001 and two on August 6, 2001 did not indicate verification by relieving cashiers that the change fund was intact.
- Three Cash Collection Breakdown/Deposit Reports (July 12, 2001, September 2, 2001 and September 4, 2001) did not indicate verification by the preparer for completeness of collections. In addition, the Cash Collection Breakdown/Deposit Reports for September 2, 2001 and September 4, 2001 did not indicate verification by the customer service supervisor.
- Of the three Daily Cash Reports reviewed for October 9, 2000, one indicated no verification from the outgoing cashier while two had no verification from both the outgoing and relieving cashiers.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is noncompliance with established internal control procedures.

Recommendation: We recommend management perform periodic reviews of collection reports to ensure controls are operating as established.

Auditee Response and Corrective Action Plan: We concur with the recommendation. The internal control procedures did discover irregularities in the cash receipt process in November and December 2000 that alerted management to perform an independent fraud audit covering the period of July 2000 through February 2001. Upon completion of the review, auditors' recommendations for changes in the internal controls were immediately implemented for fiscal year 2001.

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Schedule of Findings, Continued  
Year Ended September 30, 2001

Revenue/Receipts

Finding No. 2001-2

Criteria: International settlement revenue and expenses are based on established accounting rates with international carriers applied to incoming and outgoing minutes.

Condition: During the year ended September 30, 2001, total incoming and outgoing minutes amounted to 2,571,519 and 1,019,025, respectively, resulting in net incoming minutes of 1,552,494. The monthly statements sent to/received from each carrier were used to compare to net revenues recorded.

Based on the above, our expectation of net revenues earned from international carriers amounted to approximately \$862,989. However, NTA recorded net revenues from international carriers of \$491,704. No explanation was made available concerning the remaining unreconciled variance of \$371,285.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is the possible understatement of revenues.

Recommendation: We recommend that NTA ensure that international settlement revenue is properly recorded in the general ledger and based on established accounting rates.

Auditee Response and Corrective Action Plan: We concur with the recommendation. Management will review open receivables and payables for each international carrier with their administration representative to ensure that all settlement documents were processed according to our service agreements.

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Schedule of Findings, Continued  
Year Ended September 30, 2001

Telecommunication Accounts Receivables

Finding No. 2001-3

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

Condition: As of September 30, 2001, the aged accounts receivable-telecommunications subsidiary ledger indicated that customer accounts with balances greater than sixty days represented seventy (70) percent of the total balance of \$2,929,429. A provision for uncollectible accounts of \$1,684,319 has been recorded to offset this balance.

In addition, of twenty-four customers selected for accounts receivable confirmation, we noted two customers with past due balances. These customers did not appear to have been disconnected in accordance with NTA's disconnection policy of payment within ten days after month end.

Cause: The cause of the above condition is the lack of enforcement of collection proceedings for the past five years and noncompliance with the disconnection policy.

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 audits of NTA for fiscal years 1999 and 2000.

Auditee Response and Corrective Action Plan: We concur with the recommendation. As stated in the Cause, 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. As stated in the Condition of this finding, we applied a bad debt allowance (charging expenses for the loss) to accounts deemed uncollectible. In addition, the General Manager hired an in-house attorney in November 1998 who remained with the Company through June 2000; then retained any outside attorney on a retainer basis to assist the in-house collection efforts. It should also be noted that balances greater than sixty days dropped nine (9%) percent from prior year.

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Schedule of Findings, Continued  
Year Ended September 30, 2001

Other Liabilities and Accruals

Finding No. 2001-4

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

Condition: As of September 30, 2001, 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 overstatement of \$44,007. Due to immateriality, no audit adjustment was proposed.

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 audits of NTA for fiscal years 1999 and 2000.

Auditee Response and Corrective Action Plan: We concur with the recommendation. The Deputy General Manager of Finance and Accounting 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, 2001

Tariffs

Finding No. 2001-5

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 2002, the resulting ratio was 1.17.

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 2002 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 2000.

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 2002. 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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Unresolved Prior Year Comments  
Year Ended September 30, 2001

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