

*Reports of Independent Auditors on Compliance and Internal Control*

**Guam Telephone Authority**  
(A Public Corporation)

*Year ended September 30, 2002*

Guam Telephone Authority  
(A Public Corporation)

Reports on Compliance and Internal Control

Year ended September 30, 2002

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# Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on the Audit Performed in Accordance with *Government Auditing Standards*

The Board of Directors  
Guam Telephone Authority

We have audited the financial statements of the Guam Telephone Authority (the "Authority") as of September 30, 2002 and for the year then ended, and have issued our report thereon dated December 26, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States 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 the Authority'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 as described in the accompanying Schedule of Findings and Questioned Costs in finding number 2002 – 4, that is required to be reported under *Government Auditing Standards*.

## Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority'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 operations of the internal control over financial reporting that, in our judgment, could adversely affect the Authority'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 and Questioned Costs in finding numbers 2002 – 1 through 2002 – 50.

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. We believe none of the reportable conditions described above is a material weakness.

This report is intended for the information of the Board of Directors and management of the Authority, the Rural Utilities Service, Rural Telephone Bank and Federal Financing Bank, federal awarding agencies, pass-through entities, 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.

*Ernst + Young LLP*

December 26, 2003

# Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance and on the Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133

The Board of Directors  
Guam Telephone Authority

## Compliance

We have audited the compliance of Guam Telephone Authority (the "Authority") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the ten months ended September 30, 2002. The Authority major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to one major federal program is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended September 30, 2002.

## Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Authority's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as Finding Number 2002-4.

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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 no matters involving internal control over compliance and its operation that we consider to be material weaknesses. Our consideration of the internal control over compliance 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 believe the reportable condition described above is not a material weakness.

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Authority as of and for the year ended September 30, 2002, and have issued our report thereon dated December 26, 2003. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133 and is not a required part of the combined financial statements. This schedule is the responsibility of the management of the Authority. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and in our opinion, is fairly stated, in all material respects, in relation to the combined financial statements taken as a whole.

This report is intended for the information of the Board of Directors and management of the Authority, the Rural Utilities Service, Rural Telephone Bank and Federal Financing Bank, federal awarding agencies, pass-through entities, 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.

*Ernst & Young LLP*

December 26, 2003

**Guam Telephone Authority  
(A Public Corporation)**

**Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2002**

<b>Federal grantor/program title/ project designation</b>	<b>Catalog of Federal Domestic Assistance Number</b>	<b>Account Number</b>	<b>Project Amount</b>	<b>Balance at beginning of year</b>	<b>Advances</b>	<b>Repayments</b>	<b>Adjustments</b>	<b>Balance at end of year</b>
Department of Agriculture, Rural Utilities Service:								
Rural Telephone loans:	10.851							
Guam 501 - A8, Tamuning		12010	\$ 5,285,000	\$ 2,589,776	\$ -	\$ 199,885	\$ -	\$ 2,389,891
Guam 501 - A8, Tamuning		12020	16,498,000	8,237,767	-	641,462	-	7,596,305
Guam 501 - A8, Tamuning		12021	217,000	113,552	-	8,775	-	104,777
Guam 501 - B8, Tamuning		12030	1,766,000	897,155	-	67,875	-	829,280
Guam 501 - B8, Tamuning		12031	3,683,000	1,994,399	-	145,482	-	1,848,917
Guam 501 - C8, Tamuning		12040	9,135,004	6,047,838	-	278,975	-	5,768,863
Guam 501 - C8, Tamuning		12041	621,996	429,714	-	19,809	-	409,905
Guam 501 - D4, Tamuning		12050	12,393,054	9,480,996	-	312,892	-	9,168,104
Guam 501 - D4, Tamuning		12051	8,176,946	6,510,238	-	216,159	-	6,294,079
Guam 501 - E4, Tamuning		12060	40,558,000	35,011,450	-	818,811	-	34,192,639
Guam 501 - E4, Tamuning		12061	7,964,000	7,136,752	-	179,062	-	6,957,690
			<u>106,298,000</u>	<u>78,449,637</u>	<u>-</u>	<u>2,889,187</u>	<u>-</u>	<u>75,560,450</u>
Rural Telephone Bank loans:								
Guam 501 - D7, Tamuning	10.852	S010	3,526,950	3,080,302	-	61,930	-	3,018,372
Guam 501 - E7, Tamuning		S020	3,021,000	2,775,385	-	53,794	-	2,721,591
Guam 501 - E7, Tamuning		S022	2,756,250	2,515,289	-	53,496	-	2,461,793
Guam 501 - E7, Tamuning		S023	2,031,750	1,779,020	-	51,842	-	1,727,178
Guam 501 - E7, Tamuning		S024	2,016,000	1,871,678	-	35,614	-	1,836,064
Guam 501 - E7, Tamuning		S025	296,100	270,531	-	5,500	-	265,031
Guam 501 - E7, Tamuning		S026	5,961,750	1,114,102	-	21,478	-	1,092,624
Guam 501 - E7, Tamuning		S027	1,365,000	1,247,752	-	25,129	-	1,222,623
Guam 501 - E7, Tamuning		S028	848,000	796,659	-	15,529	-	781,130
Guam 501 - E7, Tamuning		S520	1,193,850	1,143,991	-	21,617	-	1,122,374
Guam 501 - E7, Tamuning		S521	24,150	22,851	-	753	-	22,098
Guam 501 - E7, Tamuning		S522	188,623	175,911	-	(5,061)	-	180,972
			<u>23,229,423</u>	<u>16,793,471</u>	<u>-</u>	<u>341,621</u>	<u>-</u>	<u>16,451,850</u>
Federal Financing Bank loans:								
Guam 501 - F9, Tamuning	Not applicable	H0010	223,000	174,383	-	8,279	-	166,104
Guam 501 - F9, Tamuning		H0015	1,006,000	776,896	-	38,192	-	738,704
Guam 501 - F9, Tamuning		H0020	250,000	191,149	-	9,652	-	181,497
Guam 501 - F9, Tamuning		H0025	601,000	461,755	-	23,016	-	438,739
Guam 501 - F9, Tamuning		H0030	1,269,000	969,185	-	49,076	-	920,109
Guam 501 - F9, Tamuning		H0035	16,000	12,121	-	626	-	11,495
Guam 501 - F9, Tamuning		H0040	5,600,000	4,235,889	-	222,340	-	4,013,549
Guam 501 - F9, Tamuning		H0045	709,000	534,344	-	28,088	-	506,256
Guam 501 - F9, Tamuning		H0050	750,000	566,524	-	29,454	-	537,070
Guam 501 - F9, Tamuning		H0055	715,000	551,167	-	27,949	-	523,218
Guam 501 - F9, Tamuning		H0060	181,000	144,721	-	6,735	-	137,986
Guam 501 - F9, Tamuning		H0065	6,300,000	5,154,136	-	235,706	-	4,918,430
Guam 501 - F9, Tamuning		H0070	800,000	645,406	-	29,652	-	615,754
Guam 501 - F9, Tamuning		H0075	1,100,000	905,017	-	40,698	-	864,319
Guam 501 - F9, Tamuning		H0080	2,473,000	2,024,905	-	93,583	-	1,931,322
Guam 501 - F9, Tamuning		H0085	2,409,000	1,965,317	-	92,178	-	1,873,139
Guam 501 - F9, Tamuning		H0090	208,000	167,996	-	8,324	-	159,672
			<u>24,610,000</u>	<u>19,480,911</u>	<u>-</u>	<u>943,548</u>	<u>-</u>	<u>18,537,363</u>
			<u>\$ 154,137,423</u>	<u>\$ 114,724,019</u>	<u>\$ -</u>	<u>\$ 4,174,356</u>	<u>\$ -</u>	<u>\$ 110,549,663</u>

Note: Note: All loans are received in a direct recipient capacity.





Guam Telephone Authority  
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Part I - Summary of Auditors' Results, continued**

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.852	Rural Telephone Bank
10.851	Rural Utilities Service
N/A	Federal Financing Bank

Dollar threshold used to determine:

Type A programs: \$300,000

Yes

No

Auditee qualified as low-risk auditee?

**X**

Guam Telephone Authority  
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Part II - Financial Statement Findings Section**

This section identifies the reportable conditions, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with chapter 5.18 of *Government Auditing Standards*. These comments are classified into one of three risk categories as follows:

**High:**

A fundamental control issue exists which should be resolved immediately. If these issues are not resolved, unauthorized events may occur which can seriously compromise the reliability and integrity of financial information and may undermine basic internal control standards. Effective management of these issues is considered to be “a fundamental practice”. These comments should be addressed by Management as soon as possible.

**Moderate:**

Control issues exist that should be resolved, but which can be deferred until after action has been taken to resolve those control issues identified as “High”. Management should consider these comments for implementation.

**Low:**

Control issues exist which should be resolved, but which can be deferred until after action has been taken to resolve those control issues identified as “High and/or Moderate”. While it is unlikely that these issues would result in an event, which could compromise reliability and integrity of financial information and undermine basic internal control standards, action should be taken to mitigate them. These comments are included for Management’s consideration.

<u>Reference No.</u>	<u>Findings</u>	<u>Questioned Costs</u>
2002 - 1	Finance Manager/Controller	\$ ---
2002 - 2	Financial Statement Close Process - Analysis and Review of Accounting Information	\$ ---
2002 - 3	Internal Controls - Staff Utilization	\$ ---
2002 - 4	Long-Term Debt - TIER Requirements	\$ ---
2002 - 5	Cash - Monthly Bank Reconciliations	\$ ---
2002 - 6	Cash Receipts	\$ ---

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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Part II - Financial Statement Findings Section, Continued**

<u>Reference No.</u>	<u>Findings</u>	<u>Questioned Costs</u>
2002 - 7	Cash - Check Signatories	\$ ---
2002 - 8	Telecommunication Receivable - Monthly Reconciliations	\$ ---
2002 - 9	Telecommunication Receivable - Credit Balances	\$ ---
2002 - 10	Receivables - Allowance for Doubtful Accounts	\$ ---
2002 - 11	Telecommunication Receivable - Old Outstanding Balances	\$ ---
2002 - 12	Telecommunication Receivable - New Customer Accounts in Same Location	\$ ---
2002 - 13	Telecommunication Receivable - Futuristic	\$ ---
2002 - 14	Inventory - Obsolescence Policy	\$ ---
2002 - 15	Inventory - Cycle Count Procedures	\$ ---
2002 - 16	Inventory - Documentation of Goods Received	\$ ---
2002 - 17	Inventory - Receiving Report Copy of Purchase Order	\$ ---
2002 - 18	Inventory - Documentation of Unused Materials Returned to Inventory	\$ ---
2002 - 19	Inventory - Security / Physical Access	\$ ---
2002 - 20	Purchase Orders - Open Purchase Orders	\$ ---
2002 - 21	Telecommunication Plant - Physical Inventory	\$ ---
2002 - 22	Telecommunication Plant - Capitalization Policy	\$ ---
2002 - 23	Telecommunication Plant - Reasonableness of Useful Lives	\$ ---
2002 - 24	Telecommunication Plant - Reasonableness of Useful Lives Metallic Cables	\$ ---
2002 - 25	Plant Under Construction - Outstanding Work Orders	\$ ---
2002 - 26	Plant Under Construction - Repairs and Maintenance Expenses/Receivables	\$ ---
2002 - 27	Plant Under Construction - Calculation of Engineering Overhead	\$ ---
2002 - 28	Plant Under Construction - Allocation of Engineering and Vehicle Overhead	\$ ---
2002 - 29	Annual Leave	\$ ---
2002 - 30	Accrued Expenses - Reversals	\$ ---
2002 - 31	Guaranteed Deposits - Recording and Reconciliation	\$ ---
2002 - 32	E911 Remittance of Surcharge	\$ ---

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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Part II - Financial Statement Findings Section, Continued**

<u>Reference No.</u>	<u>Findings</u>	<u>Questioned Costs</u>
2002 - 33	Federal Discount Programs	\$ ---
2002 - 34	JDE - Fast Path Option	\$ ---
2002 - 35	JDE - Menu Lock	\$ ---
2002 - 36	AS/400 Password Expiration	\$ ---
2002 - 37	AS/400 Account Lockout	\$ ---
2002 - 38	AS/400 Password Composition	\$ ---
2002 - 39	Anonymous Reporting Mechanism	\$ ---
2002 - 40	Receivables – Government of Guam Wide Area Network (GGWAN)	\$ ---
2002 - 41	Procurement: Emergency Method - Purchase Order #5707	\$ ---
2002 - 42	Procurement: Emergency Method - Purchase Order #5708	\$ ---
2002 - 43	Procurement: Sole Source Method - Vendor No. 90165	\$ ---
2002 - 44	Procurement: Sole Source Method	\$ ---
2002 - 45	Procurement: Sole Source Method - Vendor No. 90896	\$ ---
2002 - 46	Procurement: Request For Proposal - Vendor No. 90741	\$ ---
2002 - 47	Procurement: Request For Proposal - Vendor No. 90655	\$ ---
2002 - 48	Procurement: Competitive Sealed Bid - Vendor No. 90266	\$ ---
2002 - 49	Procurement: Competitive Sealed Bid - Vendor No. 90555	\$ ---
2002 - 50	Procurement: Competitive Sealed Bids	\$ ---

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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Part III - Federal Awards Findings and Questioned Costs Section**

This section identifies the reportable conditions, material weaknesses, and instances of noncompliance, including questioned costs, related to the audit of major federal programs, as required to be reported by Circular A-133 section - .510.

<u>Reference No.</u>	<u>Findings</u>	<u>Questioned Costs</u>
2002 - 4	Long-Term Debt - TIER Requirements	\$ ---

Guam Telephone Authority  
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 1**  
**Finance Manager / Controller**

**High**

Criteria:

The role of a finance manager/controller is critical to the day-to-day operations of the Authority.

Condition:

The Authority's finance manager position was abolished subsequent to year-end and the position has not been filled.

Cause:

The cause of this condition is unknown. However, we understand that the Authority has advertised to fill a controller position.

Effect:

Although various personnel have knowledge of particular accounts or particular areas, no one has the requisite knowledge of that of a finance manager / controller.

Recommendation:

We recommend that the controller should be proactive in identifying and addressing financial concerns and control weaknesses and should provide reasonable assurances to management and the board of directors that the accounting records and monthly financial reports are free from material misstatements. In addition, to be effective the controller should be able to delegate detail test work to others, but should recognize the occasional need to verify information, as well as identify and correct problems that arise.

Auditee Response:

Interviews for the Controller position were completed last week. Selection has been made and anticipate new Controller to begin employment on March 8, 2004.

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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 2**

**High**

**Financial Statement Close Process - Analysis and Review of Accounting Information**

Criteria:

Financial statement close processes should be established to facilitate the effective and timely completion of monthly and year-end closing financial reports and analyses.

Condition:

Several general ledger account balances did not agree with the year-end subsidiary ledger balances. In addition, certain account balances particularly liability accounts consist of transactions which could not be verified for propriety.

Cause:

The Authority does not have a formal financial statement close process. In addition, the lack of supervisory review procedures contributed to the lack of independent analyses of various general ledger accounts.

Effect:

As of year-end, several of these accounts had not been reconciled for several months resulting in (1) a substantial amount of time and effort to reconcile these account balances and (2) numerous post-closing adjustments. Many of the adjustments related to transactions, which occurred months before the year-end.

Recommendation:

We recommend Management establish a checklist of procedures to be performed monthly and assign individual responsibility for each task. The checklist should be used as a guide for the procedures to be performed, and should be initialed and dated by both the person performing the procedures and the supervisory reviewer.

At a minimum the checklist should include:

1. The purpose for all closing procedures
2. A timetable outlining appropriate due dates
3. Sample formats (reconciling both general and subsidiary ledgers)
4. Instructions for specific schedules to be prepared

Specifically, monthly schedules and analyses should be prepared for major balance sheet and income statement accounts. These monthly schedules and analyses should be thoroughly reviewed for correctness and reasonableness by the Controller. Any unusual items should immediately be investigated with adjustments made to the general ledger in a timely manner.

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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 2**  
**Financial Statement Close Process - Analysis and**  
**Review of Accounting Information, *Continued***

**High**

Auditee Response:

We agree with E&Y's recommendation. However, due to the lack of qualified staff, in prior years the Accounting Dept has not been able to implement such process. We have recently acquired four new accountants enabling us to implement this process not later than May 2004.

As of December 2003, either an Accountant or Supervisor reviews manual journal entries for correctness prior to posting into the GL. Additionally, Accounting Supervisor will be working with the Accounting Administrative Officer and the various sections of Accounting to develop timelines and cut-off, reconciliation verification worksheets, etc. This process will be implemented not later than May 2004.



Guam Telephone Authority  
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 3**  
**Internal Controls – Staff Utilization**

**High**

Criteria:

Accountants should be responsible for reviewing and analyzing financial accounting transactions and documents for accuracy and propriety. In addition, they should prepare financial summaries, analyses and reports and advise management concerning financial problem areas.

Condition:

Two accountants and one accounting technician are currently responsible for the following:

- Posting bank payments from 12 customer collection bank accounts.
- Reconciling all bank accounts and the cashiers' reports.
- Making corrections to postings made by cashiers.
- Processing all direct debit and credit card payments.
- Processing all returned checks.
- Recording all cash transactions into the general ledger.

Cause:

The cause of this condition is unknown.

Effect:

Underutilization of professional personnel wherein their skills and knowledge would be best utilized in other internal accounting control related functions as opposed to data entry work.

Recommendation:

We recommend that Management consider reassigning the aforementioned data entry responsibilities. This should strengthen overall internal controls within the accounting department.

Auditee Response:

GTA agrees with E&Y's recommendation. Bank payments data will be shared between the Accounting Dept and ISD Dept. The data entry duties will be done two Accounting Technicians as well as ISD Computer Operators.

Accounting will continue to work with the Customer Service Manager develop a process wherein data entry can be performed by the cashiers during their slow periods. This should free up the Accountants time to better utilize their skills in other internal accounting control related functions as opposed to data entry work.

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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 4**  
**Long-Term Debt – TIER Requirement**

**High**

Criteria:

Article IV of the Rural Telephone Bank (RTB) Supplemental Indenture indicates that the Authority shall design its rates for telephone service and other services furnished by it to providing and maintaining reasonable working capital for the Authority to maintain an Average TIER on its outstanding indebtedness of not less than 1.50. Average TIER shall be determined on January 1 of each year during which any obligation secured the Indenture remains unsatisfied and shall mean the average of the two highest TIER ratios achieved by GTA during each of the three calendar years last preceding the various dates of its determination.

Condition:

Based on the September 30, 2002 audited financial statements the Authority's Average TIER is 1.14.

Cause:

The cause of this condition is unknown.

Effect:

This condition results in noncompliance with RTB debt covenants for the fiscal year ended September 30, 2002.

Recommendation:

We recommend Management review its future budget requirements to ensure compliance with the TIER requirement.

Auditee Response:

The Authority has recently secured a cash flow model to comply with this finding. Projections for FY2004, FY2005 and FY2006 ending show GTA's compliance to the 1.5 TIER requirement.

Guam Telephone Authority  
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 5**  
**Cash – Monthly Bank Reconciliations**

**Moderate**

Criteria:

Bank accounts should be reconciled on a monthly basis and should be reviewed by an individual independent of the reconciliation process.

Condition:

Several fiscal year 2002 reconciliations were completed during audit fieldwork in 2003. In addition, several of the reconciling items dated back to 1999.

Cause:

We understand that staffing constraints contributed to the delay in the preparation of the bank reconciliations.

Effect:

The efficiency and effectiveness of the bank reconciliation process as a control over recorded cash balances is greatly diminished when reconciliations are not prepared in a timely manner. As a result of the delay in the preparation of the reconciliations numerous post closing adjustments were recorded as of September 30, 2002.

Recommendation:

We recommend that Management develop procedures to ensure that:

- all bank accounts are reconciled on a monthly basis.
- reconciling items are identified and resolved each month.
- each reconciliation is reviewed by someone other than the preparer.
- proof of the review is documented by the reviewer initialing the reconciliations.

Monthly reconciliations are a strong internal control feature over cash and could indicate any potential misappropriation of cash. Timely reconciliations will also provide a more accurate accounting of the cash accounts, enhance the internal controls over the cash function and improve overall cash management.

Guam Telephone Authority  
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 5**

**Moderate**

**Cash – Monthly Bank Reconciliations, *Continued***

Auditee Response:

GTA agrees with E&Y's recommendation. Due to the loss of two qualified staffers, GTA has fallen behind in their bank reconciliations.

GTA has recently hired two Accountants whom have been assigned to bank reconciliations. They were able to bring the Authority's reconciliations to a current position as of October 1, 2003.

Reconciling items are identified and are resolved in a timely manner. All correspondence regarding reconciling items are documented. Monthly reconciliation's are reviewed and signed off by the Accounting Supervisor effective October 2003.

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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 6**  
**Cash Receipts**

**Moderate**

Criteria:

Proper segregation of duties dictates that employees opening payments via mail or drop box should not have a recording function of the collection to the system and should not prepare deposit slips.

Condition:

Customer payments received via mail and drop box is opened, accounted for and recorded by the same employee.

Cause:

We understand that this condition is due to staffing constraints.

Effect:

Although a proper segregation may not be feasible, the lack of proper segregation of duties and the liquidity of cash/checks exposes the Authority to the risk of fraud.

Recommendation:

We recommend implementation of proper segregation of duties such that (1) one employee will be responsible for opening all customer payments received via mail and drop box and preparing a list of the payments received while (2) another employee is tasked to process such payments.

Auditee Response:

Customer Service agrees with E&Y's recommendation and has taken steps to implement said recommendation. Effective January 28, 2004, all mail payments received on a daily basis will be forwarded to the Customer Service Supervisor assigned to central business office and/or designee for purposes of establishing a list of all payments received. Once the list is established, tallied and verified to the penny, all collected checks will be forwarded to a designated cashier for processing. At the end of the day, the supervisor or designee shall verify both list and the cashiers report to ensure the same number of transactions and amounts received do match. Drop box payments will follow the same process however handle within its respective location.

Guam Telephone Authority  
(A Public Corporation)

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 7**  
**Cash - Check Signatories**

**Low**

Criteria:

The establishment of dollar limits for check signatories would ensure that the appropriate approval level is attained for amounts disbursed.

Condition:

The Authority has not established dollar limits for its check signatories.

Cause:

The cause of this condition is unknown.

Effect:

Significant disbursements may not attain the approval of appropriate personnel while certain signatories may be inundated with smaller disbursements.

Recommendation:

We recommend Management consider establishing dollar limits for its check signatories.

Auditee Response:

GTA agrees with the recommendation. The Accounting Supervisor will be working with the in-coming Controller to establish a Board approved Accounts Payable Policy that will include establishing the appropriate approval level and dollar limits for its check signatories.

Guam Telephone Authority  
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 8**

**High**

**Telecommunication Receivable – Monthly Reconciliations**

Criteria:

The active aged telecommunications accounts receivable subsidiary ledgers should be reconciled to the general ledger balances on a monthly basis.

Condition:

As summarized below, the telecommunications accounts receivable subsidiary ledger balances do not agree with the general ledger balances as of September 30, 2002:

	<b>Ledger Balances</b>		
<u>Landline</u>	<u>General</u>	<u>Subsidiary</u>	<u>Difference</u>
Residential	\$ (67,846)	\$ 113,912	(181,758)
Business	2,781,698	1,925,650	856,048
Government	806,389	1,887,607	(1,081,218)
Federal	1,166,931	663,619	503,312
E911 Surcharge	18,503	-	18,503
	<u>4,705,675</u>	<u>4,590,788</u>	<u>114,887</u>

	<b>Ledger Balances</b>		
<u>Cellular</u>	<u>General</u>	<u>Subsidiary</u>	<u>Difference</u>
Individual	\$ 65,910	\$ 57,027	8,883
Business	1,142,790	1,174,856	(32,066)
Government	28,615	38,865	(10,250)
Federal	56,129	57,587	(1,458)
Prepaid Reseller	22,368	14,986	7,382
E911 Surcharge	121,563	-	121,563
	<u>1,437,375</u>	<u>1,343,321</u>	<u>94,054</u>

Cause:

We understand that the problem primarily extends from the fact that in some instances different phone services (i.e. residential vs. business lines) have been bundled under a single customer account, which further complicated the reconciliation between the general and subsidiary ledgers. Furthermore, we understand that the accounts receivable section of the accounting department is currently addressing this matter.

Effect:

Potential misstatement of revenue and telecommunications accounts receivable balances.

Guam Telephone Authority  
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 8**

**High**

**Telecommunication Receivable – Monthly Reconciliations, *Continued***

Recommendation:

We recommend that procedures be established to ensure that subsidiary ledger balances are reconciled to the general ledger balances monthly. This will allow the Authority to make educated decisions about collection and cash flow based upon current account balances. It will also ensure that any reconciling items such as duplicate entries, improper billings or cash applications are identified and corrected on a timely basis.

Auditee Response:

GTA agrees with the recommendation. The Accounting Supervisor and an Accountant has been working with the ISD Manager, Customer Service Managers and personnel from Product Development & Rates to identify and clean up the problem of bundled customer services in incorrect cycles and or Service & Equipment codes tied to incorrect accounts which makes reconciliation difficult and complicated.

Viola Cruz, Accountant II, is tasked to monitor and reconcile the General Ledger to the Accounts Receivable ledgers on a monthly basis. We do not anticipate clean receivable cycles until sometime in FY2004.



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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 9**

**Moderate**

**Telecommunication Receivable - Credit Balances**

Criteria:

Active telecommunications receivable accounts with credit balances should be reviewed on a monthly basis for propriety.

Condition:

As of September 30, 2002, the telecommunications accounts receivable subsidiary ledgers reflected numerous credit balances as summarized below.

<u>Landline</u>	<u>Current</u>	<u>&gt; 30 days</u>	<u>&gt; 60 days</u>	<u>&gt; 90 days</u>	<u>&gt; 120 days</u>	<u>Total Due</u>	<u>Number of Accounts</u>
Residential	(566,640)	(2,222)	(2,001)	(1,622)	(32,743)	(605,228)	17,611
Business	(126,549)	(330)	(762)	(367)	(18,067)	(146,075)	1,301
Federal	(12,938)	-	(45)	-	(376)	(13,359)	27
Government	(52,170)	(2,853)	(354)	-	(1,039)	(56,416)	34
	(758,297)	(5,405)	(3,162)	(1,989)	(52,225)	(821,078)	18,973

<u>Cellular</u>	<u>Current</u>	<u>&gt; 30 days</u>	<u>&gt; 60 days</u>	<u>&gt; 90 days</u>	<u>&gt; 120 days</u>	<u>Total Due</u>	<u>Number of Accounts</u>
Individual	(5,440)	(2)	(288)	(113)	(1,980)	(7,823)	257
Prepaid	(3,652)	-	-	-	-	(3,652)	1
Business	(782)	-	-	(87)	(337)	(1,206)	21
Federal	(262)	-	-	-	-	(262)	2
Government	(2)	-	-	-	-	(2)	1
	(10,138)	(2)	(288)	(200)	(2,317)	(12,945)	282

Cause:

We understand that credits are due primarily to advance payments by customers, the posting of payments to the wrong customer account and keypunch errors.

Effect:

Potential misstatement of customer account balances and improper disconnection of paid accounts.

Guam Telephone Authority  
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 9**

**Moderate**

**Telecommunication Receivable - Credit Balances, *Continued***

Recommendation:

Management should ensure that a separate listing of such credit balances are generated reviewed and adjusted on a monthly basis. In addition, since advance payments are made primarily by residential customers, the total amount and number of business, federal and government accounts with credit balances should be minimal.

Auditee Response:

Customer service agrees with E&Y's recommendation. Customer service acknowledges this as a longstanding issue and attributes the high number, in part, to a shortage in personnel to review and take the appropriate steps to refund, transfer, or offset overpayment in a timely manner. Customer service lists the following as main factors for existing credits: Overpayments made against terminated account, Credits pending to be refunded, possible mis-posting of customer payments, to include advanced customer payments. Customer service currently is in the process of reviewing all credit balance accounts to determine the cause/reasons why each credit balance exist and to ensure its validity before taking the necessary steps to refund and/or offset said amounts.

Customer service anticipates completion by end of FY2004.

Guam Telephone Authority  
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 10**  
**Receivables - Allowance for Doubtful Accounts**

**Moderate**

Criteria:

Standard procedures for the review of the allowance for doubtful accounts will result in a more accurate estimate of the allowance and improve periodic financial reporting by providing management with a consistent method of performing the review of accounts receivable.

Condition:

The Authority does not utilize a systematic method for the review of accounts receivable to determine the adequacy of the related allowance for doubtful accounts. Rather, a one-time review of the collectibility of accounts receivables is performed at year-end.

Cause:

The cause of this condition is unknown.

Effect:

Periodic, systematic reviews of the accounts for collectibility would help management avoid sudden increases in the allowance.

Recommendation:

We recommend Management establish standard procedures for the periodic review of accounts receivable. The procedures should include consideration of the aging of the account balance, payment history and extent of the customer deposit on an account. Guidelines for reserve percentages should also be established to facilitate the review.

Auditee Response:

GTA agrees with E&Y's recommendation. The Accounting Supervisor and Accountants (GL & A/R) will work with the Customer Service Manager and Business Office Manager to establish a standard procedure that will allow an adequate allowance be made on a monthly basis. We will take into consideration aging balances, payment history and deposit on hand.

Guam Telephone Authority  
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 11**

**High**

**Telecommunications Receivable – Old Outstanding Balances**

Criteria:

Old outstanding receivables should be investigated and disposed of in a timely manner.

Condition:

As noted below, as of September 30, 2002, a significant amount of active telecommunication accounts receivable balances primarily business and government accounts, were over 120 days outstanding.

<u>Landline</u>	<u>Aging Classification</u>					<u>Total Due</u>
	<u>Current</u>	<u>&gt; 30 days</u>	<u>&gt; 60 days</u>	<u>&gt; 90 days</u>	<u>&gt; 120 days</u>	
Residential	\$ (250,918)	\$ 38,660	\$ 27,234	\$ 20,021	\$ 278,915	\$ 113,912
Business	345,841	120,282	108,283	96,541	1,254,704	1,925,651
Federal	62,428	70,422	53,705	13,588	463,475	663,618
Government	304,341	187,582	154,074	123,421	1,118,189	1,887,607
	<u>\$ 461,692</u>	<u>\$ 416,946</u>	<u>\$ 343,296</u>	<u>\$ 253,571</u>	<u>\$ 3,115,283</u>	<u>\$ 4,590,788</u>
<u>Cellular</u>						
Individual	\$ 16,752	\$ 3,819	\$ 2,584	\$ 2,478	\$ 31,394	\$ 57,027
Prepaid	2,465	5,472	5,864	1,184	1	14,986
Reseller	105,770	103,646	106,962	95,951	753,833	1,166,162
Business	1,538	978	566	87	5,527	8,696
Federal	7,393	8,360	7,115	4,635	30,084	57,587
Government	(2)	-	-	-	38,867	38,865
	<u>\$ 133,916</u>	<u>\$ 122,275</u>	<u>\$ 123,091</u>	<u>\$ 104,335</u>	<u>\$ 859,706</u>	<u>\$ 1,343,323</u>

Cause:

The cause of this condition is unknown.

Effect:

These old outstanding balances may become uncollectible.

Recommendation:

The Credit and Collection Department should be more aggressive in following up on delinquent accounts. Timely follow-up of delinquent accounts receivable is critical to an effective cash management program. In addition to improving the timing of cash receipts, the amount of receivables that are ultimately charged to bad debt expense may be reduced.

Guam Telephone Authority  
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 11**

**High**

**Telecommunications Receivable – Old Outstanding Balances, *Continued***

Auditee Response:

Customer service agrees with E&Y's finding & recommendation. Customer service currently has mechanisms in place to alleviate such bad debts via the suspension process and when a customer applies for new and/or additional services. However, a lack of enforcement to existing collection policy and procedures, long overdue disputes pending reconciliation, increased bankruptcy cases, security deposit offsets pending processing, a shortage in personnel to include past management discretions all have contributed to our current dilemma.

As such, Audit & Credit, Customer Service and Cashiers will aggressively pursue collections against all accounts. Customer service will enforce existing collection policies and procedures governing new as well as terminated accounts and will ensure every customer is cleared of any indebtedness owed to the authority prior to service being provided and/or upon termination of account.

On a going forward basis, all suspension and reconnection controls against delinquent accounts will fall under the auspices of the Audit and Credit section only. This step will further put teeth to our enforcement and collection efforts. We anticipate to have reconciled / collected against most accounts by end of 2004.

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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 12**

**Moderate**

**Telecommunications Receivables – New Customer Accounts in Same Location**

Criteria:

Customers should be prevented from opening another account (in the same physical location) whenever the original account balance is deemed delinquent and remains outstanding.

Condition:

It is possible for an individual to open a new account while having an inactive account with unpaid balances.

Cause:

This may be due to the lack of enforcement of existing policy and the lack of integration of historical information.

Effect:

Receivable balances on both the inactive and newly established account may eventually become uncollectible.

Recommendation:

We recommend implementation of policies and procedures and computer system controls with regard to customers applying for a new account, in the same physical location, where a prior account with an outstanding balance exists.

Auditee Response:

Customer service disagrees with E&Y's recommendation and request legal interpretation before adhering to same. To the best of our knowledge, the Authority cannot deny phone service to a member of the same household in order to enforce collection of a debt against one of its own family member.

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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 13**  
**Telecommunication Receivable – Futuristic**

**High**

Criteria:

To avoid future collectibility problems the Authority should discontinue providing service to customers with old outstanding balances.

Condition:

The Authority continued to provide service to Futuristic while it was still in bankruptcy.

Cause:

The cause of this condition is unknown.

Effect:

Receivables arising from the rendering of such services may ultimately become uncollectible.

Recommendation:

We recommend Management emphasize the importance of discontinuing services to customers with old outstanding balances.

Auditee Response:

We agree that old outstanding balances be rectified and that all future outstanding account balances be processed and services discontinued. We are currently monitoring on a monthly basis all outstanding issues, such as billing disputes, with each of GTA's resellers. We have discussed with the Audit & Credit section on informing these companies of the outstanding bills. Also GTA is currently disconnecting other accounts on a monthly basis based on non-payments.

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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 14**  
**Inventory - Obsolescence Policy**

**Moderate**

Criteria:

Periodic analyses of excess, damaged, discontinued and obsolete inventory should be performed.

Condition:

The Authority does not perform periodic analyses of excess, damaged, discontinued and obsolete inventory for purposes of determining the adequacy of recorded reserves and for monitoring quantities on hand. Reserves are based on monthly accruals of \$2,000.

As of September 30, 2002, inventory obsolescence per books totaled \$723,720 and numerous inventory items had not moved for more than 1 year as follows:

Plant	\$1,846,485
Instrument	124,688
Consumer	59,405
Small tools	5,789
Automotive	<u>3,951</u>
	<u>\$2,040,318</u>

Of the \$2,040,318 above, approximately \$1,284,166 had not moved for more than 3 years.

Cause:

The cause of this condition is unknown.

Effect:

Failure to perform periodic analyses of excess, damaged, discontinued and obsolete inventory reduces management's ability to take timely corrective action to dispose of these items. This also increases the risk that inventory balances could be overstated as a result of recording such items at original cost rather than at net realizable value as required by generally accepted accounting principles.

In addition, an audit adjustment was recorded to increase the allowance for inventory obsolescence by \$560,446 as of September 30, 2002.

Recommendation:

Management should establish policies and procedures for monitoring excess, damaged, discontinued and obsolete inventory. In addition, should develop a methodology to determine the reserves necessary to reduce the carrying value of these items to net realizable value.



Guam Telephone Authority  
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 14**

**Moderate**

**Inventory - Obsolescence Policy, *Continued***

It should be noted, that during our audit a JD Edwards report was generated which reflected the age of the inventory items through the use of the last physical issuance date. In the interim, the Authority should consider using this report to assess/record a provision for inventory obsolescence.

Auditee Response:

As a result of FY01 audit finding 002 conducted by D&T, a memorandum dated 4/15/02 was addressed to identify obsolesce and recommendation for possible survey. Another memorandum dated 4/11/03 was addressed to review inventory item master in identifying stock items for possible deletion from stock.

Departments are currently reviewing inventory obsolescence recommended by Accounting Department for disposition/recommendation for survey on aged inventory items. A memorandum dated 1/27/04 was addressed to Department Heads to review/justify stock items on list provided by Accounting Dept for retention and projected issuance, and/or survey in the immediate future. Disposition of aged/slow moving items ongoing. Aggressive monitoring will be implemented FY04

Inventory Management has made several attempts to address the issue of obsolescence. Currently, there is an Inventory Management Policy in place pending GM/Board approval, which further addresses monitoring of stock for obsolescence. Additionally, current standard operating procedures have been updated. Menu in AS400 has been established in FY04 to access aged inventory items and slow moving items. Inventory Management Section and Accounting Department will develop a methodology in reducing reserve account balance on aged/slow moving items in Inventory after adjustment have been made to current project (RE: Memo dated 1/27/04).

Guam Telephone Authority  
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 15**  
**Inventory - Cycle Count Procedures**

**Low**

Criteria:

A comprehensively structured cycle count program, which ensures complete count coverage over the year and produces accurate accounting results could possibly eliminate the expense associated with shutting down the warehouse to take a complete year-end physical inventory count.

Condition:

Complete physical inventory counts were conducted during September 2002 and September 2003 although cycle counts were conducted during June and September 2002 and quarterly during 2003.

Cause:

A comprehensive structured cycle count program has not been established. Only randomly selected inventory items are counted during the quarterly cycle counts.

Effect:

The cost of performing complete year-end physical inventory counts can be eliminated if the accuracy rate meets the threshold limit.

Recommendation:

We recommend the Authority consider establishing a comprehensively structured cycle count program. Such a program may include the following:

1. Stratification of inventory items by dollar value based on three categories. Category A representing major and high priced inventory items, Category B representing slow moving and mid priced items, and Category C representing the slowest and lower priced items.
2. Creation of an inventory application program, which will randomly select Category “A”, “B” and “C” items to be counted during a particular cycle count. In addition, the program should be configured to a logic to ensure that all inventory items are counted as follows: “Category A” four times a year, “Category B” twice a year and “Category C” once a year.
3. If the accuracy rate of cycle counts is at least 97%, a year-end physical inventory will not be required. Any accuracy trend below the established tolerance level (also in dollar value expressed as a percentage of total inventory dollar counted) would require complete year-end physical inventory counts or extended cycle count procedures.

The cost of performing complete year-end physical inventory counts can be eliminated if the accuracy rate meets the threshold limit.

Guam Telephone Authority  
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 15**

**Low**

**Inventory - Cycle Count Procedures, *Continued***

Auditee Response:

GTA agrees with the recommendation. The Accounting Supervisor, Accountant and Accounting Technician will work with the ISD department to modify the current cycle count procedure to obtain a more comprehensive structured program in hopes of meeting a accuracy rate of 97% in hopes of eliminating the need for an annual physical inventory.

For the 1<sup>st</sup> quarter cycle count conducted in December 2004, a total of 300 line items or 1/3 of the inventory was counted.

Target implementation for the complete modification of cycle count procedures will be December 2004.

Guam Telephone Authority  
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 16**  
**Inventory – Documentation of Goods Received**

**High**

Criteria:

Inventory items ordered and received by the Authority should be physically counted and inspected for quality.

Condition:

Based on the September 2002 year-end physical inventory count the inventory subsidiary and general ledgers were adjusted to record approximately \$529,130 in additional unrecorded inventory items. However, upon further investigation it was determined that there were no supporting documents (purchase orders, receiving reports etc) for these items. As a result, such items were returned to the vendor and the subsidiary and general ledgers were adjusted to reflect the reduction in inventory.

Cause:

The cause of this condition is unknown.

Effect:

This condition may result in the misstatement of monthly financial statement information

Recommendation:

Control and management of inventory levels is critical to the operations of the Authority. We recommend that Management implement sufficient controls over inventory to ensure that they are provided with accurate information necessary to perform analyses and monitor overall inventory levels.

Auditee Response:

As a result of FY02 physical inventory, it was determined that there was receiving of unauthorized materials and supplies. Through internal investigation, it was evident and admittance to such wrongdoing, thereby as a result, proposed adverse action was imposed on previous Inventory Management Officer.

Insure strict adherence to Inventory Management Policy and SOP in place regarding receiving of materials and supplies. Implementation – ongoing.

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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 17**

**High**

**Inventory - Receiving Report Copy of Purchase Order**

Criteria:

Inventory items ordered and received by the Authority should be physically counted and inspected for quality.

Condition:

Quantities ordered are reflected on receiving reports, which are generated at the same time the purchase orders are generated.

Cause:

Receiving reports are not prepared apart from the purchase orders.

Effect:

Inclusion of quantities ordered on the receiving report copies of the purchase orders may result in the failure of warehouse personnel to physically count and inspect quantities received. Thus, resulting in the possible over or understatement of inventory balances.

Recommendation:

We recommend exclusion of quantities ordered from receiving reports. This should ensure that inventory quantities received are physically counted.

Auditee Response:

Disputing comment on effect of said finding. When items are being delivered to Warehouse, a copy of the purchase order with delivery ticket/invoice is attached to items. Warehouse personnel are instructed in the presence of delivery personnel to conduct physical inspection/count at the time of delivery, annotating on the quantity received on delivery ticket/invoice. Warehouse personnel are instructed to initial and date when delivery was made; delivery personnel will acknowledge by signing/dating of transaction. By validating the quantity received/delivered, this ensures refusal of items delivered in excess of quantity ordered. In addition, when items being delivered to Warehouse do not match with delivery ticket/invoice, Warehouse personnel immediately contact Purchasing to verify information, i.e., amendment has been processed. Furthermore, items received/invoiced is checked against purchase order copy to insure items received are the correct items orders as far as model numbers, specifications, etc.) Receipt documents at time of delivery is then forwarded to Inventory Management Officer, who then releases the Receiving Report copy of the purchase order, validating actual amount received. Receiving Report and invoice is then released and forwarded to Accounts Payable for processing of payment. Accounting Department will suspend payment of documents until receipt of original invoice have been received. Policy has been ongoing and instruction has been adhered to. Continuance of enforcement of Receiving policy and procedures in place.

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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 18**

**Moderate**

**Inventory - Documentation of Unused Materials Returned to Inventory**

Criteria:

Perpetual records should be updated in a timely manner for all inventory receipts and issuances.

Condition:

The quantities on hand for various items on the 9/30/02 inventory listing exceeded the quantities on hand as of 9/30/01. However, no purchases were made for these items during the year. Samples of these items are as follows:

<u>Item No.</u>	<u>Quantity at 9/30/02</u>	<u>Quantity at 9/30/01</u>	<u>Difference</u>
210026	5237	4835	402
300026	8104	6351	1753
X6140	3559	2599	960

Cause:

We understand that unused materials previously issued to jobs are returned to the warehouse upon completion of the jobs. However, such returns are not properly documented and the perpetual records and general ledger are not updated until completion of quarterly cycle counts.

Effect:

Misstatement of perpetual inventory records and monthly financial information.

Recommendation:

Management should implement procedures wherein items returned to the warehouse are properly documented. This will provide more accurate reporting of monthly financial information.

Auditee Response:

GTA agrees with E&Y audit comments. GTA maintenance personnel will return items in the cable yard without notifying Warehouse staff of items being returned and reversing issue document reflecting return of items issued back to stock. This affects annual inventory due to excess quantities being recorded at inventory.

Currently, Standard Operating Procedures (updated January 2004) are in place to address the returned of materials and supplies. With better organization of the cable yard and cooperation/coordination of Plant and Engineering Dept. returns will be processed immediately. Memorandum dated 2/26/03 was addressed regarding warehouse security and vehicles inside the perimeter of the warehouse. Implementation ongoing.

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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 19**  
**Inventory – Security / Physical Access**

**High**

Criteria

Access to inventory items should be adequately restricted.

Condition:

Access to the warehouse and yard where inventory items are stored is not adequately restricted. Individuals in the Safety Department have keys to the warehouse door and gates to the yard. Individuals in the Procurement and Maintenance Departments have keys to the gates.

In addition, there is no monitoring of the duplication, return and disposal of keys to the warehouse. Locks are also not changed periodically.

Cause:

The cause of this condition is unknown.

Effect:

Increased security over inventory items should minimize the opportunity for pilferage.

In addition, materials taken out of the warehouse on weekends for emergency and repair work may not be supported by adequately prepared issuance slips. Thus, such materials may be utilized on jobs without properly reliving inventory and charging the contract.

Recommendation:

We recommend Management review current physical access controls to the warehouse and yard and make appropriate changes as necessary. Increased physical security over inventory should minimize inventory variances, which arise during the quarterly cycle counts.

Auditee Response:

Inventory Management Officer and senior Store Keeper II are the only two staff that has full access to the Warehouse, inside perimeter and space into Warehouse. Inventory Management Officer has keys for outer gates, gate by road leading to Harmon Industrial Park and gate accessibility close to Plant Bldg. Other Warehouse staff each has a key leading into the Warehouse for accessibility during daily operation only. Procurement staff does not have any keys to Warehouse. Transportation/Maintenance have keys only to outer gates for their operations. Safety Office is key custodian for the entire GTA.

Warehouse staff processes all issuance of materials and supplies, during working hours, after working hours and on weekends. Materials and supplies forms are required to be completely filled at all times prior to releasing of materials and supplies.

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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 19**

**High**

**Inventory – Security / Physical Access, *Continued***

Due to lack of storage space inside the warehouse or inside the perimeter of the warehouse, cables are stored outside the fence line of the warehouse perimeter.

Regarding issue of storage space, recommend management review requirement of additional storage space for the storage cable or materials and supplies outside the warehouse perimeter. Issue of keys to Transportation/Maintenance will be addressed once additional storage has been identified.

Currently, Inventory Management is addressing the issue of surveying excess items. In conjunction with this process and in line with audit finding 2002-14, once additional items have been identified for survey, this would provide extra space inside the warehouse which for storage of cables.



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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 20**

**High**

**Purchase Orders – Open Purchase Orders**

Criteria:

The status of open purchase orders should be reviewed on an annual basis.

Condition:

As of September 30, 2002, there were numerous open purchase orders; some aged more than 2 years that are still outstanding. A summary of such purchase orders follows:

< 180 days	\$ 741,873
< 365 days	1,877,318
> 1 year	1,342,631
> 2 years	<u>2,126,185</u>

Total    \$6,088,007

Cause:

The cause of this condition is unknown.

Effect:

Inability to accurately identify vendor commitments.

Recommendation:

We recommend that Management establish procedures to ensure that the status of open purchase orders is reviewed periodically.

Auditee Response:

Closing of open purchase orders were not addressed until sometime in FY03 due to shortage of staff in Purchasing Section. Staffing of Purchasing Section consists of: 2 - Buyers, 1 Word Processing Secretary II, and 1-Clerk Typist II. While Purchasing Section attempts to close out different types of awards, i.e., Sole Source Procurement, Small Purchases, award under Invitation for Bids, award under Request For Proposal, to include Open Purchase Orders, it is difficult to close out a fiscal year at the same time preparing to open up the upcoming fiscal year.

Current problem will continue until hiring of additional staff to Purchasing Section. In the meantime, Purchasing Section has been working overtime to review and close out outstanding purchase orders for Fiscal Year 2002 and 2003.

We would like to note that there are purchase orders for prior Fiscal Years that are required to remain open by the nature of the service.

NOTE: Due to same number of staff in Purchasing Section, same finding will appear in FY03.

Guam Telephone Authority  
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 21**  
**Telecommunications Plant – Physical Inventory**

**Moderate**

Criteria:

A physical inventory inspection of telecommunications plant should be conducted to verify the physical existence and condition of plant assets.

Condition:

A physical inventory of telecommunications plant is not performed.

Cause:

The cause of this condition is unknown.

Effect:

Telecommunication plant assets recorded on the Authority's financial statements may be misstated.

Recommendation:

To ensure the accuracy of the accounting records and to confirm the physical existence of these assets, we recommend an inventory be taken of all plant assets, with each asset appropriately tagged. The physical inventory should then be reconciled to the detail fixed asset registers, with any adjustments appropriately made. Alternatively, cycle counts could be made, whereby different classes of telecommunication plant assets would be counted periodically throughout the year.

Auditee Response:

GTA agrees with E&Y's recommendation. An Accountant I, will be tasked with formulating a SOP for the tracking and tagging of Telecommunications Plant (Fixed Assets) to include conducting physical inventory of General Plant Assets, Central Office Equipment, Circuit Equipment and Paystation Equipment. Inclusive in her SOP will be procedures that will guide the Authority in disposing and or transferring assets from one location to another.

Guam Telephone Authority  
(A Public Corporation)

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 22**

**Moderate**

**Telecommunications Plant - Capitalization Policy**

Criteria:

A formal policy should be established whereby all capital expenditures in excess of an established amount are capitalized. All other amounts should be expensed.

Condition:

During the fiscal year ended September 30, 2002, numerous additions less than \$1,000 were capitalized in the work order and fixed asset modules. Out of the 927 line items capitalized during 2002, 554 line items represented additions that were less than \$1,000. The 554 items totaled \$172,491.

Cause:

The cause of this condition is unknown.

Effect:

Increases the clerical work required to maintain the asset records including the assignment of fixed asset numbers.

Recommendation:

Management should establish a written capitalization policy setting the minimum dollar for the capitalization of fixed asset acquisitions. This will ensure that there is uniformity and consistency in the accounting for fixed asset acquisitions.

In addition, Management should consider facilitating automation of this policy. This can be done by ensuring that fixed asset additions in the Work Order Module of the JD Edwards System, which are less than the established minimum amount, are automatically exempted from the computation of depreciation and automatically reclassified to an appropriate expense account.

Auditee Response:

As a telecommunications agency, GTA is to be guided by FCC rules and regulations with regard to capitalization of Telecom Plant. GTA will look into revising the limits on capitalization of assets in line with 47CFR§32.2000 (a) (4) and guidelines as provided in the FCC website ([www.fcc.gov/Bureaus/Common\\_Carrier/Orders/2001/fcc01305.doc](http://www.fcc.gov/Bureaus/Common_Carrier/Orders/2001/fcc01305.doc)).

With regard to C&W, COE and Buildings, GTA will continue to be guided by the general rule of whether the expenditure is betterment or simply a repair or replacement. All betterments are capitalized and all repairs and replacements are expensed regardless of the dollar limit.

Outside plant (C&W) cost of new service drops are capitalized, as it is part of our loop investment, hence greater recovery from the NECA Pool and USF. Replacement of an existing service drop should be expensed.

Guam Telephone Authority  
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 23**

**Moderate**

**Telecommunications Plant - Reasonableness of Useful Lives**

Criteria:

The estimated useful live of certain property and equipment should be reasonable and should reflect the actual productive live of the asset.

Condition:

The following classes of property and equipment do not appear to have reasonable useful lives, which reflect the actual productive live of the assets:

<u>Class</u>	<u>Per Books</u>	<u>Suggested</u>
Furniture & Fixture	10 yrs	5 yrs
Mainframe	8 yrs	3-5 yrs
Personal Computers	8 yrs	3-5 yrs

Cause:

The cause of this condition is unknown.

Effect:

The net book value of the assets identified above may be overstated while the related depreciation and accumulated depreciation may be understated.

Recommendation:

We recommend Management re-evaluate the estimated useful lives of the aforementioned assets in order to reflect useful lives that approximate their actual productive lives.

Auditee Response:

The FCC prescribes ranges of asset lives for every category of fixed asset. For furniture, they prescribe 15-20 years. Since GTA is well below their prescription, we do not agree to reducing the useful live of furniture.

The FCC prescribes useful live of 6-8 years for all computers including PCs. GTA is currently within their prescription and therefore will not change the useful life from 8 years to 6 years.

Guam Telephone Authority  
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 24**

**High**

**Telecommunications Plant – Reasonableness of Useful Lives Metallic Cable**

Criteria:

Public Utilities Commission Docket 99-05 provided guidance as to the appropriate useful lives to be used for certain classifications of property and equipment.

Condition:

Per Docket 99-05, the recommended useful live for buried metallic cables should be 20 years. However, the Authority is currently utilizing 25 years.

Cause:

The Authority's JD Edwards system is configured to use 25 years.

Effect:

The above condition resulted in non-compliance with the requirements of Docket 99-05 and an adjustment to increase depreciation expense and accumulated depreciation for the year ended September 30, 2002 by \$1,928,990.

Recommendation:

We recommend reconfiguration of the JD Edwards system from 25 to 20 years in accordance with the requirements of PUC Docket 99-05.

Auditee Response:

GTA agrees with the recommendation. An Accountant I, will be tasked to work with the ISD Systems Analyst to correct the useful live for metallic cable from 25 years to 20 years. This change will be made and be reflective with the calculation of Accumulated Depreciation for the month of December 2003

The general ledger at fiscal year end 2004 would then be more representative of the true depreciation expense related to Metallic Cable.

Guam Telephone Authority  
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 25**  
**Plant Under Construction - Outstanding Work Orders**

**High**

Criteria:

The construction work in progress (CWIP) account should be reviewed and reconciled with the open projects listing in a timely manner.

Condition:

As of September 30, 2002, there are long outstanding work orders some of which have been outstanding for more than four years as summarized below:

> 1 year	\$539,857
> 2 years	124,216
> 3 years	7,039
> 4 years	<u>9,649</u>
Total	<u>\$680,761</u>

Cause:

The cause of this condition is unknown.

Effect:

The above condition results in the overstatement of CWIP and an understatement of plant in service, depreciation expense and accumulated depreciation.

Recommendation:

We recommend that the open projects listing is reviewed for propriety and that the appropriate closeout documents, with proper approvals, be forwarded to the accounting department immediately upon completion of each project. This will allow the Authority to properly state the net book value of Telecommunication Plant Assets and record depreciation expense in a timely manner.

Auditee Response:

We have reviewed the list of open work orders and will be submitting the closeout documentation for the projects that need to be closed. The closure of these work orders should be completed by March 2004.

Guam Telephone Authority  
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 25**

**High**

**Plant Under Construction - Outstanding Work Orders, *Continued***

We also agree that a review process should be established. The following will immediately be part of the Work Order Standard Operating Procedures:

1. A monthly review for the project engineers to review all open work orders with the construction crews;
2. A quarterly review between the project engineers and chief engineer (departmental review);
3. A bi-annual review between the engineering and accounting departments.

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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 26**

**Moderate**

**Plant Under Construction – Repairs and Maintenance Expenses / Receivables**

Criteria:

Repairs and maintenance made to property and equipment should be expensed when incurred.

Condition:

Costs incurred for open work orders pertaining to repairs and maintenance, and expenses billable to third parties for damages to the Authority's property are capitalized as plant under construction until the work orders are closed. Upon closing of work orders, repair and maintenance expenses are expensed and third parties are billed for the total costs of the damages.

Cause:

All work orders are recorded and tracked through the JDE work order module. Expenses on these work orders are automatically capitalized until the work order is closed.

Effect:

Understatement of revenues, expenses and accounts receivable and the overstatement of plant under construction.

Recommendation:

We recommend monthly reviews of the plant under construction listing to identify work orders that should be (1) expensed as repairs and maintenance or (2) reclassified as receivables. The review should especially be performed at year-end to ensure that expenses are recorded in the proper period.

Auditee Response:

Per our discussion with the Chief Engineer and the Engineer III, all work orders are used for capital projects only. Maintenance of facilities are now directly charged against expense.

A work order/KCO number is assigned for repairs and maintenance of facilities due to damage by an individual/individuals. The Accounting department has implemented a monthly review of all outstanding KCO related work orders for timeliness of closeout upon completion of the work so the Authority can bill the individual/individuals.



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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 27**

**Moderate**

**Plant Under Construction – Calculation of Engineering Overhead**

Criteria:

The amount of engineering expenses allocated to work orders should reflect actual engineering expenses incurred.

Condition:

The total amount of engineering expenses capitalized is based on the engineering department's budget for the year and an estimate of total hours that engineers are expected to spend on work orders, 49% in 2002.

Cause:

The cause of this condition is unknown.

Effect:

Allocations of engineering overhead to work orders may be under or overstated.

Recommendation:

We recommend Management consider using actual engineering hours charge to work orders as a basis for the calculation of engineering overhead. This would require the conversion of engineering timesheets from bi-weekly to daily timesheets and would allow the Authority to better allocate engineering department expenses to the appropriate work orders.

Auditee Response:

GTA agrees with that the recommendation that management use actual engineering hours to charge work orders as a basis for the calculation of engineering overhead. The Accounting Supervisor, Payroll Supervisor will work with the Chief Engineer and ISD Manager on a process by establishing a unique time and function code that the engineers will charged against when working on work orders. The total engineering labor dollars booked against this time/function code will be then spread across the active work orders for the month. This method would be indicative of a time study to monitor the actual hours and dollars that should be allocated to CWIP.

Due to the timing of work order design and approvals, direct charges via time sheet entry may not be feasible. This process will be implemented in FY2004.

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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 28**

**Low**

**Plant Under Construction – Allocation of Engineering and Vehicle Overhead**

Criteria:

Engineering and vehicle overhead should be allocated to work orders based on an appropriate cost driver.

Condition:

Currently, engineering and vehicle overhead expenses are allocated based on the ratio of labor charges (in dollars) charged to a particular work order over the total labor charges (in dollars) charged to all work orders during the month.

Cause:

The cause of this condition is unknown.

Effect:

By allocating engineering and vehicle overhead based on labor charges in dollars, the amount allocated to a particular work order is determined by employee hourly rates and not actual hours worked or miles driven.

Recommendation:

We recommend Management consider using labor hours as a basis for the allocation of engineering overhead and actual miles travelled multiplied by a standard rate in the allocation of vehicle overhead.

Auditee Response:

The allocation of Engineering expense will be revised using actual labor hours recorded against the job by the Engineering Dept once we have implemented the process in Finding Number 2002 –27.

The allocation of vehicle overhead will require further analysis as the Authority does not track actual mileage driven nor does it have a process/program to do so at this time.

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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 –29**  
**Annual Leave**

**Moderate**

Criteria:

The annual leave subsidiary ledger should be reconciled to the general ledger balance on a monthly basis.

Condition:

As summarized below, the subsidiary ledger balance does not agree with the general ledger balances as of September 30, 2002:

<u>Per General Ledger</u>	<u>Per Subsidiary Ledger</u>	<u>Difference</u>
<u>\$1,710,816</u>	<u>\$1,650,176</u>	<u>\$60,640</u>

Cause:

The cause of this condition is unknown.

Effect:

This condition results in the misstatement of monthly financial statement information.

Recommendation:

We recommend that procedures be established to ensure that subsidiary ledger balance is reconciled to the general ledger balance monthly. This will ensure that any reconciling items are properly identified and corrected on a timely basis.

Auditee Response:

We agree with E&Y's recommendation. The payroll supervisor, will be tasked to ensure that monthly reconciliation's are performed.

The Accounting Supervisor will be responsible to review and sign off on the reconciliation.

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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 30**  
**Accrued Expenses - Reversals**

**Moderate**

Criteria:

Accruals should be reversed in a timely manner.

Condition:

Various accruals were not reversed prior to September 30, 2002. These accruals were reversed via post closing adjustments during audit fieldwork in 2003.

Cause:

The cause of this condition is unknown.

Effect:

Untimely reversals result in misstatement of account balances.

Recommendation:

We recommend Management develop procedures to ensure that:

- accruals are reviewed and reversed in a timely manner.
- reversing entries are reviewed by someone other than the preparer.
- proof of the review is documented by the reviewer initialing the reconciliations.

Auditee Response:

We agree with E&Y's recommendation. The Accounting Supervisor has implemented a process wherein all monthly accruals are automatically reversed by the system on the 1<sup>st</sup> day of the following month. The General Ledger Accountant, is tasked to monitor expenses to ensure that the expenses are properly accrued and or re-accrued each month by the Accounts Payable group. Accrual journal entries are prepared by A/P and are reviewed and approved by the AP or GL Accountant.

Guam Telephone Authority  
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 31**

**Moderate**

**Guarantee Deposits - Recording and Reconciliation**

Criteria:

Guarantee deposits should be recorded and reconciled in a timely manner.

Condition:

Several guarantee deposits were not recorded as of year-end and the subsidiary ledger balances were not reconciled to the general ledger balances in a timely manner.

In addition, as summarized below, the subsidiary ledger balance does not agree with the general ledger balances as of September 30, 2002:

	<u>Per General Ledger</u>	<u>Per Subsidiary Ledger</u>	<u>Difference</u>
Landline	\$3,440,610	3,705,339	\$(264,729)
Cellular	485,947	536,597	(50,650)
	<u>\$3,926,557</u>	<u>\$4,241,936</u>	<u>\$(315,379)</u>

Cause:

On August 16, 1999, the Authority implemented a new Financial Management Billing System (FMS). Due to the lack of adequate planning, system support and personnel, the system was not implemented effectively. This condition prevented the Authority from obtaining/preparing reports, issuing billings and performing reconciliations in a timely manner.

Effect:

This condition results in the misstatement of monthly financial statement information.

Recommendation:

We recommend that procedures be established to ensure that subsidiary ledger balances are reconciled to the general ledger balances monthly. This will ensure that any reconciling items are properly identified and corrected on a timely basis.

Auditee Response:

We agree with the recommendation. The Accounts Receivable staff and ISD group have been working on a program to update the Guarantee Deposit Subsidiary ledger for new deposits and refunds. The program has been generated effective October 1, 2003. Prior to that, the subsidiary ledger was not updated to reflect any refunds and or offsets. With the implementation of this new process, an Accountant II, has been tasked to reconcile the Guarantee Deposit Subsidiary on a monthly basis.

Guam Telephone Authority  
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 32**  
**E911 – Remittance of Surcharge**

**High**

Criteria:

Public Law 25-55 authorized the Public Utilities Commission to establish a monthly “E911 Surcharge” to be paid by Local Exchange Telephone and Commercial Mobile Radio Service subscribers. The law also identified the Local Exchange Carriers (LEC) and Commercial Mobile Radio Service (CMRS) as collection agents for the surcharge. Section 3(b) of the law states that each LEC and CMRS is to remit surcharges collected “no later than forty-five (45) days after the end of the month in which the amount is collected.”

Conditions:

1. Remittances of the 911 Surcharges collected in FY '01 and FY '02 ranged from 69 days to 312 days.
2. As of September 30, 2002, the Authority’s general ledger reflected total E911 receivables of \$140,066. However, in an attachment to a December 2, 2003 letter to the Office of the Public Auditor the Authority reflected total uncollected E911 revenues of \$204,880.
3. The Authority does not have a detailed subsidiary ledger to support the amounts reflected in items 2 above.

Cause:

The cause of this condition is unknown. However, we understand that the Authority is currently in the process of creating a subsidiary ledger to support E911 receivables.

Effect:

The Authority is not in compliance with the requirements of Public Law 25-55 and may be subjected to penalties of up to \$10,000 per infraction.

Recommendation:

We recommend the Authority remit the 911 Surcharges as stipulated by Public Law 25-55 and ensure that E911 receivable subsidiary and general ledger balances be reviewed and reconciled on a monthly basis.

Auditee Response:

GTA agrees with the recommendation. The Authority has been remitting its payments in line with Public Law 25-55 (no later than forty five (45) days after the end of the month) since the beginning of FY2004. The Accounting Supervisor has been working with the ISD Manager to create an A/R E911 Subsidiary ledger that will be utilized in reconciliation’s. An Accountant II, will be tasked in reconciling the E911 subsidiary on a monthly basis.

Guam Telephone Authority  
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 33**  
**Federal Discount Programs**

**Low**

Criteria:

Discounts given to customers as a result of Universal Service Federal Programs (USFP) should be reflected as receivables from the respective programs with the appropriate revenues being recognized.

Condition:

For USFP discounts to schools and libraries the related receivable and revenues are recorded when the application for reimbursement is filed by the Authority.

For USFP discounts to low-income customers receivables are not recorded and revenues are recorded on a cash basis upon receipt of the reimbursement from USFP.

Cause:

The cause of this condition is unknown.

Effect:

This condition results in the misstatement of revenues and receivables.

Recommendation:

All discounts should be recorded on a monthly basis.

Auditee Response:

GTA agrees with the recommendation. Effective October 1, 2004, receivables associated with the filing of Form 497 Lifeline and Linkup are recorded on a monthly basis.

The Accounting Supervisor will work with the Customer Service Manager and Business Office Manager in establishing a procedure for recording receivables with the Erate Program of USAC.

Guam Telephone Authority  
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 34**  
**JDE - Fast Path Option**

**High**

Criteria:

The Fast Path option increases the mobility of users in the JD Edwards environment by enabling the user to move directly from one menu to another. This option should only be granted to JDE users with system administrative or supervisory functions.

Condition:

There are 25 users that have the Fast Path option enabled.

Cause:

The cause of this condition is unknown.

Effect:

As Fast path allows the user to move directly to another menu screen within JDE, enabling this option potentially increases the mobility of a user across the JDE environment to a menu screen that a user may not, under normal circumstances, be able to have access to.

Recommendation:

The fast path option should be turned off particularly for users who do not have any system administrative functions.

Auditee Response:

GTA agrees with this finding. During the initial implementation of the individual JDE Modules, team members were given Fast Path access and were asked to provide ISD with required options in order to setup custom menus. After final implementation, Fast Path access was removed for most JDE users. We have reviewed all JDE user profiles and removed Fast Path access from all users, except for 8 ISD users and 3 Accounting users.



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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 35**  
**JDE - Menu Lock**

**High**

Criteria:

Access to critical applications in JDE should be limited to authorized personnel. Access to menus for critical applications can be restricted using the menu lock option. A blank field in the menu lock signifies that there is no security on such menu or selection.

Condition:

Menu locks for the following critical applications were enabled, as such there are no restrictions placed to users:

1. General System Menu (G00) – contains options that allow changes to be made on highly sensitive setup options. This menu, as well as other applications like Next Numbers and Automatic Accounting Instructions (AAI), should be protected through action code security.
2. Accounts Payable Menu and System Setup (G04 and G0431) – contains AAI configuration and document types used to interface A/P with the general accounting system on a transaction basis.
3. Employee Information (G05) – contains information on basic employee data, category codes and occupational pay rates.
4. Payroll Master Menu (G07) – contains information on employee data, time entry and history reports

In addition, the A/P Advanced and Technical Operations can be accessed using the hidden selection code. Although this selection code is hidden on the menu screen, menu masking is not used. Thus, if the selection code is known, users can have access to this sensitive and critical A/P menu.

Cause:

The cause of this condition is unknown.

Effect:

Unauthorized changes in the system setup through the user of the General Systems Menu (G00) may compromise the reasonableness and validity of financial information generated by JDE. In addition, the confidentiality and integrity of data might be compromised if there no restriction placed on such critical applications.

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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 35**  
**JDE - Menu Lock, *Continued***

**High**

Recommendation:

We recommend that a thorough review be conducted of the privileges granted to users. In addition, access to menu G00, G0431, G05 and G07 should be restricted from all unauthorized users via menu lock.

Auditee Response:

GTA agrees with this finding. All JDE users are set up with special menus and are only given access to “Setup” or “Advanced and Technical Operations” options if they require these options. We recognize the slim possibility of unauthorized access to critical menus by users with “Fast Path” access, and will implement recommended controls by June 30, 2004.

Guam Telephone Authority  
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 36**  
**AS/400 Password Expiration**

**High**

Criteria:

All user account passwords should be set to expire in regular defined cycles.

Condition:

QPWDEXPITV (“Password Expiration Interval”) specifies the number of days that must pass before a user is required to change the password. Currently, QPWDEXPITV has a value of \*NOMAX, thus user account passwords do not expire.

Cause:

The cause of this condition is unknown.

Effect:

If passwords do not expire, an unauthorized individual has more time to crack a password and more time to exploit the user account once it has been cracked. The Authority is exposed to a high risk that an intruder can easily pass through the systems authentication and verification process, if the intruder has learned another user’s password.

Recommendation:

In order to maintain a secured computing environment we recommend Management consider enabling password expiration interval by setting the system security value for QPWDEXPITV to 60 days for all end-users and 30 days for system administrators.

Auditee Response:

GTA agrees with this finding, and will implement recommend controls. However, password expiration dates will be set at different intervals. GTA users will need time to adjust to the added responsibility of maintaining their own passwords, which are currently created by GTA’s Security Officer. Expiration dates will be set to 90 days for all end-users and 45 days for all system administrators by June 30, 2004. GTA will monitor user compliance with new password expiry policy, and may adjust password expiration dates to recommended values six months after initial implementation. This will be dependant on the number of requests received by users to have their passwords reset by security officer during the initial six month period.

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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 37**  
**AS/400 Account Lockout**

**Moderate**

Criteria:

The operating system should be configured to disable user accounts after a specified number of failed login attempts within a set time frame.

Condition:

QMAXSIGN (“Maximum Sign-on Attempts Allowed”) defines the maximum number of unsuccessful sign-on attempts. If the number of incorrect login attempts exceeds the number specified, the user account is locked out for a period of time. QMAXSIGN is currently set at 8.

Cause:

The cause of this condition is unknown.

Effect:

Failure to limit the number of unsuccessful sign-on attempts before account lockout increases the risk of an unauthorized individual being able to compromise the system.

Recommendation:

We recommend Management consider reducing the system security value for QMAXSIGN from 8 attempts to 3 to 5 attempts. By reconfiguring QMAXSIGN, unauthorized access to the system will be limited and intruders can make only a few unsuccessful login attempts before the server locks out the user account.

Auditee Response:

GTA agrees with this finding and implemented the recommend controls on February 12, 2004. The systems value for “Maximum Sign-on Attempts Allowed” was previously set at the IBM recommended default value of 8. GTA has changed this system value to 5.

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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 38**  
**AS/400 Password Composition**

**Moderate**

Criteria:

The operating system should be configured to ensure that all passwords are not easily guessed, that they do not pertain directly to a user's family or personal interest, and that they contain both alpha and numeric characters.

Condition:

The Authority's system security values settings for password composition controls are currently set as follows:

1. QPWDMINLEN ("Minimum Password Length") – specifies the minimum number of characters in a password. GTA has a current value of 3.
2. QPWDRQDDGT ("Require Digit in Password") – verifies all new passwords have at least one numeric character. GTA has a current value of 0 (i.e., none).

Cause:

The cause of this condition is unknown.

Effect:

Easily guessable and poor password usage increases the risk of an individual gaining unauthorized access to the Authority's network resources.

Recommendation:

We recommend Management consider reconfiguring the aforementioned system security values as follows:

1. QPWDMINLEN from 3 to 6.
2. QPWDRQDDT from 0 to 1

Implementing strong password composition standards is a key control in safeguarding the confidentiality and integrity of the Authority's data.

Auditee Response:

GTA does not agree with this finding. The "Minimum Password Length" and "Require Digit in Password" System Values on the AS/400 were not set to recommended values because GTA users do not currently have access to change their passwords. GTA's Security Officer currently assigns all passwords, which consists of one or more letters and 5 digits. GTA recognizes that this will become an issue with the implementation of password expiration dates recommended in Finding Number 2002-36. GTA will set the "Minimum Password Length" to 6 and "Require Digit in Password" to 1 as recommended in this finding when password expiration dates are established for users.

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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 39**  
**Anonymous Reporting Mechanism**

**Moderate**

Criteria:

Anonymous reporting mechanisms enable employees to report wrongdoing without the fear of retribution.

Condition:

No anonymous reporting mechanism exists at the Authority.

Cause:

The cause of this condition is unknown.

Effect:

The presence of an anonymous reporting mechanism facilitates the reporting of wrongdoing and may have a recognizable effect in limiting fraud and losses.

Recommendation:

We recommend implementation of procedures for the confidential, anonymous submission by employees of concerns regarding questionable operating, or accounting matters. Factors to consider are as follows:

1. In order for the reporting mechanism to work, employees must be informed that the hotline is available and why they should use it.
2. To be effective, an independent party must operate the confidential anonymous reporting mechanism. The Authority's board of directors could oversee this.
3. There should be procedures established for the receipt, retention and treatment of complaints.
4. The hotline should be convenient for the caller and be available around the clock.

The board of directors may consider coordinating with the OPA for use of its existing hotline.

Auditee Response:

The Authority will advise/inform employees to report any wrongdoing directly to the Office of the Public Auditor and/or the Attorney General's Office. Employees will receive individual notices of this advisory as well as a general notice shall be printed in the company newsletter. The Human Resources office is currently amending the Personnel Rules & Regulations to reflect this reporting mechanism for ratification by the Board of Directors.

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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 - 40**

**High**

**Receivables - Government of Guam Wide Area Network (GGWAN)**

Criteria:

The Authority should ensure that all agreements for offsets of amounts billed are properly documented in writing and signed by all parties.

Condition:

As of September 30, 2002, the Authority has \$162,994 in outstanding receivables from the Government of Guam (GovGuam), which may become uncollectible.

Cause:

GovGuam is currently disputing payment of the \$162,994, noting that it should be offset against the \$627,269 received from Vendor No. 90637 during 2001.

Based on discussions with Authority personnel, GovGuam is disputing the billings based on a verbal agreement between the Authority and GovGuam to offset future billings against the \$627,269.

In addition, based on our review of the vendor.

- On November 1999, the Authority entered into a subcontract agreement with vendor who had a prime contract with GovGuam for the installation of the Government of Guam Wide Area Network (GGWAN) project. The Authority was to furnish all the necessary personnel, facilities, materials and supplies to assist vendor in the completion of the project for \$696,668. However, based on a reduction in the scope of work this amount was reduced to \$627,269. Upon completion of the project the Authority was tasked to administer the GGWAN and billed GovGuam for its use.
- A document prepared by the Authority noted “the \$627,269 paid to the Authority was designed to assist the Authority with the initial investment in providing the services required of the GGWAN and would eventually be used to cover the services provided”.
- The document further noted that “GTA installed the GGWAN infrastructure, the Authority would bill for the services provided and would reduce the monthly billings by the initial investment of \$627,269”.

However, there was no written documentation signed by all parties acknowledging the offset of such amounts.

Guam Telephone Authority  
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 - 40**

**High**

**Receivables - Government of Guam Wide Area Network (GGWAN), *Continued***

Effect:

Due to the lack of a written agreement the Authority may not be able to collect the \$162,994 receivable as of September 30, 2002 and future billings up to the \$627,269.

Recommendation:

Management should actively pursue collection of the aforementioned receivables and ensure that future agreements for billing offsets are properly documented in a written agreement signed by all parties.

Auditee Response:

GTA agrees with E&Y's recommendation. GTA will aggressively collect the outstanding receivables from DOA/Superior Court. DOA will be subjected to suspension for any unpaid balance. Absent any agreement, substantial time lapses and different personnel, GTA does not intend to offset this outstanding receivable with any payables with DOA.



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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 41:**

**High**

**Procurement: Emergency Method – Purchase Order #5707**

Criteria:

In accordance with the Authority's Standard Operating Procedures (SOP) for Procurement and Executive Order 2002-15, dated July 5, 2002, the emergency procurement should be completed within 30 days.

Condition:

The supplies/services procured under Purchase Order (PO) #5707 from Vendor No. 90165 totaling \$950,000 were not completed within the 30 day requirement. The PO was dated August 3, 2002 and the Acceptance Letter of Completion was dated September 10, 2002.

Cause:

Per discussion with the Supply Management Administrator this condition could have resulted from the time it took for the engineer to get out to inspect the site.

Effect:

This condition resulted in non-compliance with the required 30 day provision.

Recommendation:

Management should strengthen internal controls to ensure compliance with applicable procurement requirements.

Auditee Response:

We agree with E&Y audit comments.

Will make concerted effort with Engineering Dept. to follow up on outstanding project to ensure compliance with completion date. Inspection/acceptance of project was only 7 days overdue from Engineering Dept. Should Purchasing Section issue a Notice of Default, the allowable time to cure on default is 10 days from issuance of letter, and the 7 days over due is within the window to cure default.

NOTE: Repeated findings pertaining to follow-up on outstanding project will occur in FY03.

Guam Telephone Authority  
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 42**

**High**

**Procurement: Emergency Method – Purchase Order #5708**

Criteria:

In accordance with the Authority's SOPs for Procurement and Executive Order 2002-15, dated July 5, 2002, the emergency procurement should be completed within 30 days.

Condition:

The supplies/services procured under PO #5708 from Vendor No. 90165 totaling \$448,000 were not completed within the 30 day requirement and this procurement is currently under dispute.

Cause:

According to the Supply Management Administrator this condition is due to the Sub-Contractor not following the scope of work.

Effect:

This condition resulted in non-compliance with the required 30 day provisions.

Recommendation:

Management should strengthen internal controls to ensure compliance with applicable procurement regulations and take steps to ensure that the dispute is resolved immediately.

Auditee Response:

Completion of project was beyond 30 days due to dispute on scope of work verses work performed between GTA and subcontractor.

Dispute forwarded to Legal Counsel for review and determination. Any additional work performed should be addressed by submitting a change order prior to commencing of additional work. An amendment will be processed to effectuate change and provide additional funding source, acknowledged by contractor.

Dispute of additional work was resolved in Fiscal Year 2004. Purchase order 7433-000 OR was processed and forwarded to General Service Agency, Chief Procurement Office for approval of ratification due to age of completion of project and resolution of dispute.

Guam Telephone Authority  
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 43**

**High**

**Procurement: Sole Source Method – Vendor No. 90165**

Criteria:

In accordance with Section 3-205, the Sole Source Procurement section of the GSA Procurement Rules and Regulations the General Manager or designee must determine in writing that conditions justify sole source procurement have been met, including an analysis showing at least 10% in cost savings from non-Guam vendors.

Conditions:

Of the 16 purchase orders selected for testing of Sole Source Procurement 9 represented purchase orders issued to Vendor No. 90165. No exceptions were noted on the following three POs:

1. PO #5113 totaling \$190,000, represented a procurement for radio frequency services.
2. PO #5458 totaling \$250,000, represented radio frequency consultant services to include software/hardware and services to maintain the cellular network.
3. PO #5713, totaling \$326,650 the PO was returned to the requisitioner due to the closing of the fiscal year 2002 and will be re-submitted in fiscal year 2003.

Of the remaining six POs:

1. PO #4966 totaling \$159,916, the letter to the General Manager indicated that three requests for quotations were obtained without a successful response. However, the quotations were not on file.
2. PO #5755 totaling \$182,000, the requests for quotations were not on file and were not available for our review.
3. PO #5069 totaling \$190,850, all documents on file were copies of PO #4966.
4. PO # 5554 totaling \$388,500, no required supporting documents were on file. In addition, this PO was for the installation of the Interwave Equipment for PCS Program to include initial on-site training. However, these were included in the scope of work for PO #5458 above.
5. PO #5399 totaling \$326,650 no required supporting documents were on file for our review.
6. PO #5715 totaling \$155,686, the original file was not made available for our review.

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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 43**

**High**

**Procurement: Sole Source Method – Vendor No. 90165, *Continued***

Cause:

There appears to be weak internal controls over the proper use of the sole source procurement process.

In addition, according to the Supply Management Administrator:

1. PO #5069 – represented an “encumbrance/increase” to PO #4966 due to additional work needed to complete the scope of work.
2. PO #5554 – represented an “encumbrance/increase” to PO #5458 due to additional work required to complete the scope of work.
3. PO #5399 - refers to PO #3968 and were both awarded to Genesis in reference to Bid No. GTA-25-97 for Millennium Pay Phones. However, the bid documents were disposed of since the Authority destroys documents after five years.
4. PO #5715 – was requested by the FBI and the Authority did not keep a complete copy.

Effect:

These conditions result in non-compliance with Section 3-205 of the GSA Procurement Regulations and the Authority may not be attaining the best vendor and lowest offeror for the scope of work needed.

Recommendation:

Management should strengthen internal controls to ensure compliance with applicable procurement regulations and SOPs.

Auditee Response:

- 4966-000 OR - justification for sole source procurement dated 10/15/01 on file and approved by the Deputy General Manager. Table indicating previous attempts to formally solicit services provided and copy attached to file.
- 5755-000 OR - justification for sole source procurement for compatibility dated 8/7/02 and approved by Deputy General Manager on file.
- 5113-000 OR - copies of request for quotation on file and justification for award of sole source procurement dated November 15, 2001, approved by the Deputy General Manager on file.
- 5069-000 OR - purchase order is for encumbrance to 4966-000 OR – document on file
- 5458-000 OR - justification of use of sole source procurement dated 4/23/02 and approved by General Manager on 4/26/02 on file. Copies of request for quotation on file.
- 5554-000 OR - purchase order is for encumbrance to 5458-000 OR. No justification on file but probability document was missed when duplicating file for FBI.

Guam Telephone Authority  
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 43**

**High**

**Procurement: Sole Source Method – Vendor No. 90165, *Continued***

Auditee Response:

- 5458-000 OR was for consultant service to include software/hardware and services to maintain and operate cellular network. 5554-000 OR is for the installation of the interwave equipment for PCS program to include initial on-site training.
- 5399-000 OP – supporting documents for sole source procurement for compatibility on file.
- 5713-000 OP – purchase order was returned back to requisitioner on 10/4/02
- 5715-000 OP – purchase order was returned back to requisitioner on 10/4/02

Local Procurement Preference does not apply to local vendor therefore the 10% application does not apply. Genesis is a local vendor.

Proposal submitted by vendor and documentation provided by department for award under conditions for sole source procurement for compatibility was used to process award without any doubt since award was under sole source for compatibility. Otherwise, all other awards made under sole source procurement were supported by request for quotation on file. Condition for sole source procurement states in cases of reasonable doubt, competition should be solicited. Negotiation in sole source procurement citation vague, as stated, procurement officer shall conduct 6 negotiations, as appropriate. Solicitation was not necessary since award was under sole source procurement for compatibility.

Retention of record under Guam Procurement Law is 5 years. Therefore, in compliance with said law, record was subject for disposal.

Purchasing will continue to ensure strict compliance with Guam Procurement Law, Guam Administrative Rules and Regulations and Standard Operating Procedures. Purchasing shall ensure availability of all purchase order documents required to be on file. They shall insure enforcement of procedures in place that require proper tracking of purchase orders and related documents at all times. Tracking systems upon issuance and proper follow up. If file requires review from non-procurement staff, file is either reviewed in procurement office or reproduced prior to release. Internal audit for accountability of purchase order files will be conducted January 2004.

Guam Telephone Authority  
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 44**  
**Procurement: Sole Source Method**

**High**

Criteria:

In accordance with Section 3-205, the Sole Source Procurement section of the GSA Procurement Rules and Regulations the General Manager or designee must determine in writing that conditions justify sole source procurement have been met, including an analysis showing at least 10% in cost savings from non-Guam vendors.

Condition:

Of the 16 purchase orders selected for testing of Sole Source Procurement 4 purchase orders were issued to one vendor. However, the requests for quotations were not on file and were not available for our review. The purchase orders were for EF&I software upgrades at the Dededo, Hagatna and Tumon Host Offices and are as follows:

1. PO #5356 totaling \$115,092
2. PO #5133 totaling \$125,000
3. PO #5358 totaling \$375,339
4. PO #5357 totaling \$199,478

Cause:

There appears to be weak internal controls over the procurement process.

Effect:

These conditions result in non-compliance with Section 3-205 of the GSA Procurement Regulations and the Authority may not be attaining the best vendor and lowest offer for the scope of work needed.

Recommendation:

Management should strengthen internal controls to ensure compliance with applicable procurement regulations and SOPs.

Auditee Response:

Proposal submitted by vendor and department was used to process award without any doubt since award was under sole source for compatibility. Justifications for sole source procurement for compatibility submitted by department and approved by Deputy General Manager are on file. Condition for sole source procurement states in cases of reasonable doubt, competition should be solicited. Negotiation in sole source procurement citation vague, as stated, procurement officer shall conduct negotiations, as appropriate. Solicitation was not necessary since award was under sole source procurement for compatibility.

Guam Telephone Authority  
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 44**

**High**

**Procurement: Sole Source Method, Continued**

Auditee Response:

Purchasing Section will continue to ensure strict compliance with Guam Procurement Law, Guam Administrative Rules and Regulations and Standard Operating Procedures.

NOTE: Repeated finding may occur in FY03.

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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 45**

**High**

**Procurement: Sole Source Method – Vendor No. 90896**

Criteria:

In accordance with Section 3-205, the Sole Source Procurement section of the GSA Procurement Rules and Regulations the General Manager or designee must determine in writing that conditions justify sole source procurement have been met, including an analysis showing at least 10% in cost savings from non-Guam vendors.

Condition:

Of the 16 purchase orders selected for testing of Sole Source Procurement 1 PO #5120, totaling \$145,364, was for Vendor No. 90896. However, the memo from the requisitioner to the General Manager/Deputy General Manager justifying the sole source procurement was not signed by the General Manager /Deputy General Manager signifying his approval.

Cause:

There appears to be weak internal controls over the procurement process.

Effect:

These conditions result in non-compliance with Section 3-205 of the GSA Procurement Regulations and the Authority may not be attaining the best vendor and lowest offeror for the scope of work needed.

Recommendation:

Management should strengthen internal controls to ensure compliance with applicable procurement regulations.

Auditee Response:

Justification memorandum dated 11/14/01 from the Finance Manager, on file. Memo approved by Deputy General Manager on 12/4/01. Request For Quotation dated 9/19/01 on file. Response to Request For Quotation dated 9/21/01 on file. Award made under sole source procurement for compatibility.



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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 46**

**High**

**Procurement: Request For Proposal – Vendor No. 90741**

Criteria:

The Authority should comply with the Request For Proposal requirements of Section 3-207 of the GSA Procurement Rules and Regulations and the Authority's SOPs.

Condition:

Of the 11 purchase orders selected for testing 1 PO #5007, totaling \$100,000, was for Vendor No. 90741. However, the purchase order file was not made available for our review.

Cause:

There appears to be weak internal controls over the procurement process.

Effect:

This condition results in non-compliance with Section 3-207 of the GSA Procurement Regulations.

Recommendation:

Management should strengthen internal controls to ensure compliance with applicable procurement regulations and SOPs.

Auditee Response:

Request For Proposal file is available for review. Copy of 5007-000 OR is in RFP file, but unable to locate purchase order file.

Purchasing Section will ensure accountability of all purchase orders and status of purchase order. Purchasing Section shall insure enforcement of procedures in place that require proper tracking of purchase orders and related documents at all times. Tracking systems upon issuance and proper follow up. If file requires review from non-procurement staff, file is either reviewed in procurement office or reproduced prior to release. Purchasing Section will conduct internal audit to account for all purchase order files.

Guam Telephone Authority  
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 47**

**High**

**Procurement: Request For Proposal – Vendor No. 90655**

Criteria:

The Authority should comply with the Request For Proposal requirements of Section 3-207 of the GSA Procurement Rules and Regulations and the Authority's SOPs.

Condition:

Of the 11 purchase orders selected for testing 4 represented purchase orders issued to Vendor No. 90655 for "Privatization Procurement Advisor Services".

1. PO #5010 totaling \$70,000, was based on the scope of work on RFP-GTA-P1-00 which was approved by the General Manager on February 18, 2001.
2. PO #5137 totaling \$70,000, was an encumbrance/increase to PO #5010.
3. PO #5272 totaling \$70,000, an encumbrance/increase to PO #5137.
4. PO #5276 totaling \$70,000, was an encumbrance to PO #5272.

The following documents for the aforementioned purchase orders were not on file and were not available for our review:

1. Bid Review Committee documents.
2. Cover letter transmittal indicating all offerors who met the procurement requirement.
3. Committee's review and analysis ranking the offerors.
4. Memo indicating selection of the best qualified offeror.
5. Notice of Award

Cause:

There appears to be weak internal controls over the procurement process.

Effect:

This condition results in non-compliance with Section 3-207 of the GSA Procurement Regulations.

Recommendation:

Management should strengthen internal controls to ensure compliance with applicable procurement regulations.

Guam Telephone Authority  
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 47**

**High**

**Procurement: Request For Proposal – Vendor No. 90655, *Continued***

Auditee Response:

We agree with E&Y's audit comments. Was not able to locate documents noted on audit report as not being on file.

Purchasing Section will ensure accountability of all purchase order documents required to be on file. Purchasing Section shall insure enforcement of procedures in place that require proper tracking of purchase orders and related documents at all times. Tracking systems upon issuance and proper follow up. If file requires review from non-procurement staff, file is either reviewed in procurement office or reproduced prior to release. Purchasing Section will conduct internal audit to account for all purchase order files.

Guam Telephone Authority  
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 48**

**High**

**Procurement: Competitive Sealed Bid – Vendor No. 90266**

Criteria:

The Authority should comply with the Competitive Sealed Bidding requirements of Section 3-202 of the GSA Procurement Rules and Regulations and the Authority's SOPs.

Condition:

Of the 15 purchase orders selected for testing 3 represented purchase orders issued to Vendor No. 90266.

1. PO #4980 totaling \$30,000, was for ground maintenance of pedestals.
2. PO #5273 totaling \$90,000, was an encumbrance/increase to PO #4980.
3. PO #5535 totaling \$157,920, was for the rental of four dump trucks.

For PO #4980 and #5273, the date of advertisement versus the date of submission of bids was less than the 15 day minimum required.

For PO #5535, a copy of the Invitation to Bid was not on file.

Cause:

There appears to be weak internal controls over the procurement process.

In addition, according to the Supply Management Administrator PO#5535 was made based on the GSA approved bid document for heavy equipment rental.

Effect:

This condition results in non-compliance with Section 3-202 of the GSA Procurement Regulations and the Authority's Standard Operating Procedures.

Recommendation:

Management should strengthen internal controls to ensure compliance with applicable procurement regulations and SOPs.

Guam Telephone Authority  
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 48**

**High**

**Procurement: Competitive Sealed Bid – Vendor No. 90266, *Continued***

Auditee Response:

Copy of Performance Bond on file.

Purchase order 5535-000 OR was awarded under GSA and only bid document forwarded to GTA was referencing to bid price for heavy equipment rental. GSA document on file.

Several Invitation For Bids were advertised within the timeframe allowed. Purchasing Section exercised discretion in advertising short of the timeframe allowed due to urgency relayed orally by Department Heads.

Purchasing Section will ensure strict enforcement to guidelines for advertisement of bids. Implementation January 2004.

Guam Telephone Authority  
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 – 49**

**High**

**Procurement: Competitive Sealed Bid – Vendor No. 90555**

Criteria:

The Authority should comply with the Competitive Sealed Bidding requirements of Section 3-202 of the GSA Procurement Rules and Regulations and the Authority's SOPs. The time frame between the date of the acknowledgement by vendor of the Notice of Intent of Possible Award and the date the vendor signs the purchase order should be at least 15 days. This represents the required protest period.

Condition:

Of the 15 purchase orders selected for testing 1 PO #5315, totaling \$183,576, was for Vendor No. 90555. However, no Memo from/to Buyer Supervisor to/from requisitioner regarding Approval on Bid Specifications was on file for our review, but noted that Scope of Work was initialed and dated by the approving authority. Also, the date of acknowledgement by the Vendor of the Notice of Intent of Possible Award was dated 12/19/00 and the date that PO #5315 was signed by the Vendor was 12/27/00.

Cause:

There appears to be weak internal controls over the procurement process.

Effect:

This condition results in possible non-compliance with Section 3-202 of the GSA Procurement Regulations and the Authority's Standard Operating Procedures.

Recommendation:

Management should strengthen internal controls to ensure compliance with applicable procurement regulations and SOPs.

Auditee Response:

Invitation For Bid is available for review. Bid file was with Supply Management Administrator due to contractual/bond settlement on subject project. File was assessable at time of audit review.

Guam Telephone Authority  
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2002

**Finding Number 2002 –50**

**High**

**Procurement: Competitive Sealed Bids**

Criteria:

The Authority should comply with the Competitive Sealed Bidding requirements of Section 3-202 of the GSA Procurement Rules and Regulations and the Authority's Standard Operating Procedures.

Condition:

Of the 15 purchase orders selected for testing we noted numerous documents required by the Authority's SOPs were not on file.

Cause:

The cause of this condition is unknown.

Effect:

This condition results in non-compliance with Standard Operating Procedures.

Recommendation:

Management should strengthen internal controls to ensure compliance with applicable SOPs.

Auditee Response:

Purchasing Section will ensure compliance to the Guam Procurement Law and Guam Administrative Rules and Regulations. Standard Operating Procedure for Inventory Management Section and Purchasing Section has been implemented. Inventory Management Policy has been completed and is pending Board of Directors approval. Purchasing Section has updated Standard Operating Procedure to be in line with GARR. Administration and guidance to the GARR will be implemented January 2004.

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Schedule of Prior Year Audit Findings

Year ended September 30, 2002

As summarized below, the status of prior year audit findings are contained within the 2002 audit findings:

<u>Reference No.</u>	<u>Findings</u>	<u>Refer to 2002 Finding No.</u>
2001 - 1	Stale Dated Checks	2002 - 5
2001 - 2	Inventory	2002 - 14
2001 - 3	Deposits in Transit	2002 - 5
2001 - 4	Accounts Receivable Reclassification	2002 – 8 and 9
2001 - 5	Long-Term Debt	2002 - 4
2001 - 6	Plant Specific Expense	2002 – 22 and 26
2001 - 7	Depreciation Expense	2002 - 24
2001 - 8	Accounts Receivable Aging and Receipts	2002 – 8 and 9
2001 - 9	Capitalization Policy	2002 – 27 and 28