

Reports of Independent Auditors on Compliance and Internal Control

Guam Telephone Authority
(A Public Corporation)

Year ended September 30, 2004

Guam Telephone Authority
(A Public Corporation)

Reports on Compliance and Internal Control

Year ended September 30, 2004

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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, 2004 and for the year then ended, and have issued our report thereon dated November 19, 2004, except notes 1 and 8 as to which the dates are December 31, 2004. 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 2004 – 1, 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 2004 – 1 through 2004 – 12.

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

November 19, 2004

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 the 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 year ended September 30, 2004. The Authority's 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 its major federal programs 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, 2004.

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 programs 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 2004 - 1.

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, 2004, and have issued our report thereon dated November 19, 2004, except notes 1 and 8 as to which the dates are December 31, 2004. 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 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 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

November 19, 2004

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

**Schedule of Expenditures of Federal Awards
Year Ended September 30, 2004**

Federal grantor/program title/ project designation	Catalog of Federal Domestic Assistance Number	Account Number	Project Amount	Balance at beginning of year	Advances	Repayments	Adjustments	Balance at end of year
Department of Agriculture, Rural Utilities Service:								
Rural Telephone loans:	10.851							
Guam 501 - A8, Tamuning		12010	\$ 5,285,000	\$ 2,179,414	\$ -	\$ 221,016	\$ -	\$ 1,958,398
Guam 501 - A8, Tamuning		12020	16,498,000	6,920,793	-	709,342	-	6,211,451
Guam 501 - A8, Tamuning		12021	217,000	95,537	-	9,703	-	85,834
Guam 501 - B8, Tamuning		12030	1,766,000	757,823	-	75,034	-	682,789
Guam 501 - B8, Tamuning		12031	3,683,000	1,695,814	-	160,761	-	1,535,053
Guam 501 - C8, Tamuning		12040	9,135,004	5,475,073	-	306,238	-	5,168,835
Guam 501 - C8, Tamuning		12041	621,996	389,187	-	21,744	-	367,443
Guam 501 - D4, Tamuning		12050	12,393,054	8,843,019	-	340,998	-	8,502,021
Guam 501 - D4, Tamuning		12051	8,176,946	6,069,465	-	235,612	-	5,833,853
Guam 501 - E4, Tamuning		12060	40,558,000	33,350,176	-	883,010	-	32,467,166
Guam 501 - E4, Tamuning		12061	7,964,000	6,782,576	-	183,552	-	6,599,024
			<u>106,298,000</u>	<u>72,558,877</u>	<u>-</u>	<u>3,147,010</u>	<u>-</u>	<u>69,411,867</u>
Rural Telephone Bank loans:	10.852							
Guam 501 - D7, Tamuning		S010	3,526,950	2,950,419	-	74,180	-	2,876,239
Guam 501 - E7, Tamuning		S020	3,021,000	2,664,499	-	60,374	-	2,604,125
Guam 501 - E7, Tamuning		S022	2,756,250	2,405,011	-	60,072	-	2,344,939
Guam 501 - E7, Tamuning		S023	2,031,750	1,672,152	-	58,269	-	1,613,883
Guam 501 - E7, Tamuning		S024	2,016,000	1,798,263	-	39,974	-	1,758,289
Guam 501 - E7, Tamuning		S025	296,100	259,194	-	6,174	-	253,020
Guam 501 - E7, Tamuning		S026	5,961,750	1,069,842	-	24,077	-	1,045,765
Guam 501 - E7, Tamuning		S027	1,365,000	1,195,973	-	28,165	-	1,167,808
Guam 501 - E7, Tamuning		S028	848,000	764,662	-	17,402	-	747,260
Guam 501 - E7, Tamuning		S520	1,193,850	1,099,451	-	24,221	-	1,075,230
Guam 501 - E7, Tamuning		S521	24,150	21,300	-	845	-	20,455
Guam 501 - E7, Tamuning		S522	188,623	176,812	-	4,400	-	172,412
			<u>23,229,423</u>	<u>16,077,578</u>	<u>-</u>	<u>398,153</u>	<u>-</u>	<u>15,679,425</u>
Federal Financing Bank loans:	Not applicable							
Guam 501 - F9, Tamuning		H0010	223,000	157,256	-	9,487	-	147,769
Guam 501 - F9, Tamuning		H0015	1,006,000	698,067	-	43,353	-	654,714
Guam 501 - F9, Tamuning		H0020	250,000	171,264	-	10,876	-	160,388
Guam 501 - F9, Tamuning		H0025	601,000	414,293	-	26,028	-	388,265
Guam 501 - F9, Tamuning		H0030	1,269,000	868,092	-	55,260	-	812,832
Guam 501 - F9, Tamuning		H0035	16,000	10,833	-	702	-	10,131
Guam 501 - F9, Tamuning		H0040	5,600,000	3,779,043	-	247,859	-	3,531,184
Guam 501 - F9, Tamuning		H0045	709,000	476,636	-	31,301	-	445,335
Guam 501 - F9, Tamuning		H0050	750,000	505,964	-	32,922	-	473,042
Guam 501 - F9, Tamuning		H0055	715,000	493,602	-	31,457	-	462,145
Guam 501 - F9, Tamuning		H0060	181,000	130,770	-	7,759	-	123,011
Guam 501 - F9, Tamuning		H0065	6,300,000	4,665,251	-	272,825	-	4,392,426
Guam 501 - F9, Tamuning		H0070	800,000	583,923	-	34,279	-	549,644
Guam 501 - F9, Tamuning		H0075	1,100,000	820,510	-	47,318	-	773,192
Guam 501 - F9, Tamuning		H0080	2,473,000	1,830,939	-	108,016	-	1,722,923
Guam 501 - F9, Tamuning		H0085	2,409,000	1,774,552	-	105,884	-	1,668,668
Guam 501 - F9, Tamuning		H0090	208,000	150,822	-	9,428	-	141,394
			<u>24,610,000</u>	<u>17,531,817</u>	<u>-</u>	<u>1,074,754</u>	<u>-</u>	<u>16,457,063</u>
			<u>\$ 154,137,423</u>	<u>\$ 106,168,272</u>	<u>\$ -</u>	<u>\$ 4,619,917</u>	<u>\$ -</u>	<u>\$ 101,548,355</u>

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, 2004

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: \$500,000

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, 2004

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*.

<u>Reference No.</u>	<u>Findings</u>	<u>Questioned Costs</u>
2004 – 1	Long-Term Debt – TIER Requirement	\$ ---
2004 – 2	Telecommunication Receivables	\$ ---
2004 – 3	Inventory – Obsolete Inventory Items	\$ ---
2004 – 4	Inventory – Receiving Report Copy of Purchase Order	\$ ---
2004 – 5	Purchase Orders – Open Purchase Orders	\$ ---
2004 – 6	Telecommunications Plant – Capitalization Policy	\$ ---
2004 – 7	Plant Under Construction – Allocation of Engineering and Vehicle Overhead	\$ ---
2004 – 8	Plant Under Construction – Outstanding Work Orders	\$ ---
2004 – 9	Procurement: Competitive Sealed Bids	\$ ---
2004 – 10	Procurement: Request For Proposals	\$ ---
2004 – 11	Procurement: Sole Source Procurements	\$ ---
2004 – 12	Procurement: Small Purchases	\$ ---

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>
2004 – 1	Long-Term Debt – TIER Requirement	\$ ---

Guam Telephone Authority
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2004

Finding Number 2004 – 1
Long-Term Debt – TIER Requirement

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 by 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, 2004 audited financial statements the Authority's Average TIER is .42.

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, 2004.

Prior Year Finding:

This finding was included in the fiscal year 2003 and 2002 findings.

Recommendation:

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

Auditee Response:

In light of the recent privatization and sale of the Guam Telephone Authority to TeleGuam Holdings, LLC, this report shall be issued to the new owners for their discretionary use and disposition.

Guam Telephone Authority
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2004

Finding Number 2004 – 2
Telecommunication Receivables

Criteria:

Disputed accounts should be reconciled and resolved in a timely manner.

Inactive accounts are defined by the Authority as those whose services were terminated and those without any new billings for three consecutive months.

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

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

Conditions:

During FY 2004, the Authority wrote-off approximately \$477,000 in telecommunications accounts receivables. Based on audit procedures performed, the write-offs were due to disputed calls and processing errors. One customer in particular disputed billings since 1996. In this case, the Authority does not have the supporting documents for the outstanding balance.

During the years ended September 30, 2004 and 2003, inactive accounts receivable amounted to approximately \$3.8 million. A 100% allowance for doubtful accounts was provided for these accounts.

Based on our analysis of accounts receivable, the Authority continues to have problems with collections on outstanding balances. Although there have been steps put into place to improve collections, it remains lower than would be expected.

Telecommunications accounts receivable subsidiary ledgers continue to reflect numerous credit balances.

Causes:

Lack of supporting documents on account history and processing errors on disputed accounts.

Failure to pursue collections on inactive accounts and old outstanding balances.

Credit balances are due primarily to advance payments by customers, the posting of payments to the wrong customer account and keypunch errors.

Guam Telephone Authority
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2004

Finding Number 2004 – 2
Telecommunication Receivables, continued

Effects:

Loss of cash inflow on disputed, inactive account and old outstanding balances, which may become uncollectible.

The Authority also continues to incur administrative cost in maintaining inactive accounts.

Credit balances may result in the potential misstatement of customer account balances and improper disconnection of paid accounts if such payments are applied to the wrong customer account.

Prior Year Finding:

These findings were included in the fiscal year 2003 findings.

Recommendations:

We recommend that the Authority:

- Perform timely reconciliations/investigations of disputed accounts and processing errors particularly those from resellers and business organizations. In addition, we recommend that a complete file be maintained for all disputed accounts, which should contain all correspondences, pertinent legal documents, and summaries of the status of the account as well as the ultimate resolution.
- Write-off all inactive accounts receivables from its general ledger against the allowance for doubtful accounts. Inactive accounts to be maintained on the general ledger, for each fiscal year, should be those that are currently transferred from the active accounts receivable classification. However, the Authority should continue to pursue collections of accounts written-off. Amounts collect should be recorded as “income – bad debt recovery”, which will facilitate monitoring of all bad debts subsequently collected.
- Continue to enforce its payment and collection policies.
- Ensure that credit balances are reviewed and adjusted on a monthly basis to ensure that such payments are properly recorded.

Auditee Response:

In light of the recent privatization and sale of the Guam Telephone Authority to TeleGuam Holdings, LLC, this report shall be issued to the new owners for their discretionary use and disposition.

Guam Telephone Authority
(A Public Corporation)

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2004

Finding Number 2004– 3
Inventory – Obsolete Inventory Items

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, 2004, inventory obsolescence per books totaled \$1,261,466.

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 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.

Prior Year Finding:

This finding was included in the fiscal years 2003 findings.

Recommendation:

Management should identify excess, damaged, discontinued and obsolete inventory and evaluate the need to dispose of obsolete inventory. In addition, Management should develop a methodology to determine the reserves necessary to reduce the carrying value of these items to net realizable value.

Auditee Response:

In light of the recent privatization and sale of the Guam Telephone Authority to TeleGuam Holdings, LLC, this report shall be issued to the new owners for their discretionary use and disposition.

Guam Telephone Authority
(A Public Corporation)

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2004

Finding Number 2004 – 4
Inventory – Receiving Report Copy of Purchase Order

Criteria:

Stock orders received and services rendered should be physically counted and inspected by the Authority for completeness. There should also be a full “three-way” matching process, which compares vendor invoices, purchase orders and receiving reports before vendors are paid.

Condition:

In prior years, the Authority did not utilize “blind” receiving reports. Instead, quantities for stock items ordered were reflected on receiving reports and the same reports were utilized for multiple or back orders.

During 2004, the Authority implemented receiving report forms for stocks received. However, the receiving reports forms were not prenumbered, not adequately logged into the system and were not utilized for services rendered.

Cause:

The cause of this condition is unknown.

Effect:

The aforementioned condition may result in the possible misstatement of inventory balances and full payment on partially rendered goods or services.

Prior Year Finding:

This finding was included in the fiscal years 2003 findings.

Recommendation:

We recommend utilization of prenumbered receiving report forms for both stock items ordered and services rendered. In addition, Management should ensure that all receipts are properly logged into the system to ensure that inventory balances are properly stated and payments are made only for goods actually received and services rendered. The receiving report form should incorporate elements supporting services rendered and such services should be reviewed for completeness and compliance with the established scope of work.

Auditee Response:

In light of the recent privatization and sale of the Guam Telephone Authority to TeleGuam Holdings, LLC, this report shall be issued to the new owners for their discretionary use and disposition.

Guam Telephone Authority
(A Public Corporation)

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2004

Finding Number 2004 – 5
Purchase Orders – Open Purchase Orders

Criteria:

The status of open purchase orders should be reviewed on a regular basis.

Condition:

Several open purchase orders were not accounted for.

Cause:

The cause of this condition is unknown.

Effect:

There is a risk that goods may have been received for which there is no documentation. The Authority may have certain liabilities for these items which have not been recorded.

Prior Year Finding:

This finding was included in the fiscal year 2003 findings.

Recommendation:

Management should assign a person to review the file of open purchase orders and compare them to unmatched receiving reports on a monthly basis. The follow-up should include resolution of any open items. Where necessary, the vendors should be contacted regarding evidence that the goods were ordered. This will ensure that the Authority has properly reflected its liability in the accounting records.

Auditee Response:

In light of the recent privatization and sale of the Guam Telephone Authority to TeleGuam Holdings, LLC, this report shall be issued to the new owners for their discretionary use and disposition.

Guam Telephone Authority
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2004

Finding Number 2004 – 6

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:

No formal capitalization policy exists for the Authority. During the fiscal year ended September 30, 2004, numerous additions less than \$1,000 were capitalized in the fixed asset module. Out of 1,534 line items capitalized during 2004, 986 line items represented additions that were less than \$1,000 and totaled \$360,128.

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.

Prior Year Finding:

This finding was included in the fiscal year 2003 findings.

Recommendation:

We recommend management implement a policy that would designate expenditures over a certain dollar value as capital expenditures that are to be recorded as depreciable fixed assets. This will set a standard regarding the level of fixed assets that will need to be recorded as fixed assets with appropriate accounting treatment.

Auditee Response:

In light of the recent privatization and sale of the Guam Telephone Authority to TeleGuam Holdings, LLC, this report shall be issued to the new owners for their discretionary use and disposition.

Guam Telephone Authority
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2004

Finding Number 2004 – 7

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:

The Authority allocates engineering and vehicle overhead 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.

Prior Year Finding:

This finding was included in the fiscal year 2003 findings.

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:

In light of the recent privatization and sale of the Guam Telephone Authority to TeleGuam Holdings, LLC, this report shall be issued to the new owners for their discretionary use and disposition.

Guam Telephone Authority
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2004

Finding Number 2004 – 8
Plant Under Construction – Outstanding Work Orders

Criteria:

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

Condition:

There were unusual delays noted in closing the construction work in progress (CWIP) account to fixed asset. Although there were improvements particularly on the cellular company side, there are still numerous CWIPs outstanding for landline. Close coordination with the project engineers assigned to the respective work order should be made.

Cause:

The cause of this condition is unknown.

Effect:

Possible overstatement of CWIP, and understatement of plant in service, depreciation expense and accumulated depreciation.

Prior Year Finding:

This finding was included in the fiscal year 2003 findings.

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.

In addition, close coordination with the project engineers assigned to the respective work order should be made.

Auditee Response:

In light of the recent privatization and sale of the Guam Telephone Authority to TeleGuam Holdings, LLC, this report shall be issued to the new owners for their discretionary use and disposition.

Guam Telephone Authority
(A Public Corporation)

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2004

Finding Number 2004 – 9

Procurement: Competitive Sealed Bids

Criteria:

The Authority should comply with the Competitive Sealed Bidding requirements of the Authority's Standard Operating Procedures (SOP) and the following sections of the Guam Administrative Rules and Regulations 2-GAR Administration Div. 4 – Procurement Regulations ("the GAR"):

Section 3109 (c)(6)	-	Acknowledgement of amendments
Section 3109 (g)(4)	-	Pre-bid conferences
Section 3109 (i)(3)	-	Timeliness
Section 3109 (l)(1)	-	Receipt
Section 3109 (q)	-	Publicizing awards
Section 3129 (3)	-	Sound recording of pre-bid conferences
Section 3129 (5)	-	Requesting department's determination of need
Section 3130	-	Certification of records

Condition:

No exceptions were noted for 15 of the 29 purchase orders (POs) selected for testing. However, the following 14 POs did not comply with the aforementioned provisions of the GAR and the Authority's SOP:

PO Number	Vendor No.	Amount	Description	Finding(s)
1. 7751-000 OR	91155	291,740.00	Asphalt and concrete	1, 2, 4 and 5
2. 7480-000 OR	90221	13,050.00	Bedding sand	3
3. 8087-000 OR	90207	93,380.00	Enhanced digital signal	1
4. 8389-000 OR	90492	894,600.00	Light vehicles	5 and 7
5. 8409-000 OR	90800	113,669.64	Ground maintenance service	7 and 8
6. 8448-000 OR	91091	324,385.62	Sonet optical equipment	1 and 6
7. 8449-000 OR	91091	224,402.59	Agana CO optical equipment	1 and 6
8. 8450-000 OR	91091	203,782.98	Tumon CO optical equipment	1 and 6
9. 8451-000 OR	91091	159,543.77	Dededo CO optical equipment	1 and 6
10. 8452-000 OR	91091	132,924.17	Mangilao Remote optical equipment	1 and 6
11. 8453-000 OR	91091	54,276.06	Optical Ring A (Gibson, Airport, Tamuning)	1 and 6
12. 8457-000 OR	91091	54,159.46	Optical Ring B (Astumbo, Yigo and AAFB)	1 and 6
13. 8458-000 OR	91091	54,317.59	Optical Ring C (Agat, Orote Point, Asan/Piti)	1 and 6
14. 8459-000 OR	91091	54,175.54	Optical Ring D (Merizo, Talofoto, Ordot, Inarajan)	1 and 6

Guam Telephone Authority
(A Public Corporation)

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2004

Finding Number 2004 – 9

Procurement: Competitive Sealed Bids, continued

Our findings are as follows:

- 1 - The purchase orders did not have an amendment acknowledging receipt of documents from all prospective bidders.
- 2 - The bid amendment was not distributed to all prospective bidders within a reasonable time.
- 3 - No certification of record was kept in file.
- 4 - There was no tape recording of the pre-bid conference.
- 5 - The requesting department's determination of need was not filed.
- 6 - No summary of the pre-bid conference was provided to all prospective bidders.
- 7 - Bid packages were not properly stamped, dated and initialed when received by the Authority.
- 8 - Not all of the bid status forms were properly signed and dated by the bidder.

Cause:

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

Effect:

This condition results in non-compliance with the GAR and the Authority's SOP.

Recommendation:

Management should strengthen internal controls to ensure compliance with the GAR and the Authority's SOP.

Auditee Response:

In light of the recent privatization and sale of the Guam Telephone Authority to TeleGuam Holdings, LLC, this report shall be issued to the new owners for their discretionary use and disposition.

Guam Telephone Authority
(A Public Corporation)

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2004

Finding Number 2004 – 10

Procurement: Request for Proposals

Criteria:

The Authority should comply with the Request for Proposal requirements of the Authority's SOP and the following sections of the GAR:

Section 3114 (l)(5) - Notice of award

Section 3114 (k) - Submission of cost or pricing data

Condition:

No exceptions were noted for 10 of the 13 POs selected for testing. However, the following 3 POs did not comply with the aforementioned provisions of the GAR and the Authority's SOP:

PO Number	Vendor No.	Amount	Description	Finding(s)
1. 7470-000 OR	91043	\$103,000	Regulatory advice	1, 2 and 3
2. 7627-000 OR	91043	120,000	Regulatory advice	1, 2 and 3
3. 7916-000 OR	91043	50,500	Encumbrance to 7627-000 OR	1, 2 and 3

Our findings are as follows:

- 1 - No amount was specified in the notice of intent of possible award.
- 2 - No pricing data was available in the procurement file.
- 3 - Not all of the proposal packages were properly initialed and dated when received.

Cause:

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

Effect:

This condition results in non-compliance with the GAR and the Authority's SOP.

Recommendation:

Management should strengthen internal controls to ensure compliance with the GAR and the Authority's SOP.

Auditee Response:

In light of the recent privatization and sale of the Guam Telephone Authority to TeleGuam Holdings, LLC, this report shall be issued to the new owners for their discretionary use and disposition.

Guam Telephone Authority
(A Public Corporation)

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2004

Finding Number 2004 – 11

Procurement: Sole Source Procurements

Criteria:

The Authority should comply with the Sole Source requirements of the Authority's SOP and the following sections of the GAR.

Section 3112 (d) - Record of sole source procurement

Section 3112 (c) - Negotiation in sole source procurement

Condition:

No exceptions were noted for 12 of the 18 POs selected for testing. However, the following 6 POs did not comply with the aforementioned provisions of the GAR and Authority's SOP:

	PO Number	Vendor No.	Amount	Description	Finding(s)
1.	7353-000 OR	91043	\$103,000	JD Edwards software	1
2.	7845-000 OR	90496	45,000	Replenishment for permit 95	2
3.	7488-000 OR	90496	30,000	Replenishment for permit 95	1
4.	7768-000 OR	90757	36,754	Encumbrance to 7661-000 OR	1 and 2
5.	8283-000 OR	91091	61,104	Digital electronics	1
6.	8252-000 OR	90496	45,000	Replenishment for permit 95	2

Our findings are as follows:

- 1 - No information was recorded in the purchase order logbooks for FY2004.
- 2 - There are no negotiation documents on file.

Cause:

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

Effect:

This condition results in non-compliance with the GAR and the Authority's SOP.

Recommendation:

Management should strengthen internal controls to ensure compliance with the GAR and the Authority's SOP.

Auditee Response:

In light of the recent privatization and sale of the Guam Telephone Authority to TeleGuam Holdings, LLC, this report shall be issued to the new owners for their discretionary use and disposition.

Guam Telephone Authority
(A Public Corporation)

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2004

Finding Number 2004 – 12

Procurement: Small Purchases

Criteria:

The Authority should comply with the Small Purchase requirements of the Authority's SOP and the following sections of the GAR.

Section 3111 (b) - Authority to make small purchases

Section 3111 (b)(5) - Division of requirements

Section 3111 (b)(5)(d) - Competition for small purchases of construction

Section 3111 (c) - Competition for small purchases of supplies or services between \$500 and \$15,000

Condition:

There were no exceptions for 11 of the 21 POs selected for testing. However, the following 10 POs did not comply with certain provisions of the GAR and Authority's SOP:

PO Number	Vendor No.	Amount	Description	Finding(s)
1. 7414-000 OR	90122	33,139.20	Backhoe rental	1
2. 7483-000 OR	90122	47,760.00	Backhoe rental	1 and 2
3. 7518-000 OR	90715	14,791.20	BD 7 Pedestal with stake	1
4. 7748-000 OR	91141	14,059.00	EZ docs/400 software	3
5. 7784-000 OR	90715	14,549.58	Nortel multiplexer drawer	3
6. 7786-000 OR	90715	14,791.20	BD 7 Pedestal with stake	1
7. 7954-000 OR	90530	14,800.00	Connector UR 2	1
8. 8232-000 OR	90678	38,952.00	Standby generator - Agat	1
9. 8233-000 OR	90678	45,084.00	Standby generator - Merizo	1
10. 8412-000 OR	91155	43,000.00	Construction services	4

Our findings are as follows:

- 1 - There were indicators that these POs were artificially divided to avoid using other source selection methods.
- 2 - The POs were not based on the lowest bidder.
- 3 - The POs were approved based on small purchase selection method even though the Authority only received one request for quotation in which, based on the GPR, if the item is available from only one business; the sole source procurement method should be used.
- 4 - PO was not properly signed by authorized GTA officials.

Guam Telephone Authority
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2004

Finding Number 2004 – 12

Procurement: Small Purchases, continued

Cause:

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

Effect:

This condition results in non-compliance with the GAR and the Authority's SOP.

Recommendation:

Management should strengthen internal controls to ensure compliance with the GAR and the Authority's SOP.

Auditee Response:

In light of the recent privatization and sale of the Guam Telephone Authority to TeleGuam Holdings, LLC, this report shall be issued to the new owners for their discretionary use and disposition.