

Report of Independent Auditors on Compliance and Internal Control

Government of Guam
Interim Transition Coordinating Committee and
Guam Telephone Authority Privatization Proceeds Funds

For the period from December 31, 2004 to September 30, 2005

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Report on Compliance and Internal Control

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

Honorable Felix P. Camacho
Governor of Guam

We have audited the financial statements of the Interim Transition Coordinating Committee and Guam Telephone Authority Privatization Proceeds Funds as of September 30, 2005 and for the period from December 31, 2004 to September 30, 2005, and have issued our report thereon dated May 9, 2006. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Interim Transition Coordinating Committee and Guam Telephone Authority Privatization Proceeds Funds and Government of Guam'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 an opinion 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 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 financial reporting that, in our judgment, could adversely affect the Interim Transition Coordinating Committee and Guam Telephone Authority Privatization Proceeds Funds' ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Finding and Response as item 2005-01.

A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Interim Transition Coordinating Committee and Guam Telephone Authority Privatization Proceeds Funds' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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.

This report is intended solely for the information and use of management of the Government of Guam, the Interim Transition Coordinating Committee, the Office of the Public Auditor of Guam, the Guam Legislature, 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. However, this report is a matter of public record and its distribution is not limited.

Ernst + Young LLP

May 9, 2006

Government of Guam
Interim Transition Coordinating Committee
and Guam Telephone Authority Privatization Proceeds Funds

Schedule of Finding and Response

For the period from December 31, 2004 to September 30, 2005

Finding Number 2005 – 1
Financial Statement Close Process

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:

Though general ledger account balances agree with the subsidiary ledger balances, certain transactions such as the recording of assets (RTB stock, land, notes receivable, etc.) retained from the Guam Telephone Authority (GTA) were not properly carried forward to the books. Another account that was not properly reconciled and supported relates to \$604,851 of retained liabilities from the GTA.

Cause:

There appears to be a weakness in the coordination between the Department of Administration (DOA) with the Interim Transition Coordinating Committee (ITCC).

Effect:

Financial statements may be misstated. However, the financial statements were adjusted through the audit process.

Recommendation:

The DOA should ensure that timely recordkeeping and coordination is made with the ITCC.

Management's Response:

Agreed. A fund manager would be designated to work with the Interim Transition Committee and to ensure all activities are recorded accurately and completely.