

Reports of Independent Auditors on Compliance and Internal Control

Guam Telephone Authority
(A Public Corporation)

Year ended September 30, 2003

Guam Telephone Authority
(A Public Corporation)

Reports on Compliance and Internal Control

Year ended September 30, 2003

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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, 2003 and for the year then ended, and have issued our report thereon dated May 19, 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 2003 – 3, 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 2003 – 1 through 2003 – 43.

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

May 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, 2003. 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, 2003.

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 2003 - 3.

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, 2003, and have issued our report thereon dated May 19, 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

May 19, 2004

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

**Schedule of Expenditures of Federal Awards
Year Ended September 30, 2003**

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	\$ 2,389,891	\$ -	\$ 210,477	\$ -	\$ 2,179,414
Guam 501 - A8, Tamuning		12020	16,498,000	7,596,305	-	675,512	-	6,920,793
Guam 501 - A8, Tamuning		12021	217,000	104,777	-	9,240	-	95,537
Guam 501 - B8, Tamuning		12030	1,766,000	829,280	-	71,457	-	757,823
Guam 501 - B8, Tamuning		12031	3,683,000	1,848,917	-	153,103	-	1,695,814
Guam 501 - C8, Tamuning		12040	9,135,004	5,768,863	-	293,790	-	5,475,073
Guam 501 - C8, Tamuning		12041	621,996	409,905	-	20,718	-	389,187
Guam 501 - D4, Tamuning		12050	12,393,054	9,168,104	-	325,085	-	8,843,019
Guam 501 - D4, Tamuning		12051	8,176,946	6,294,079	-	224,614	-	6,069,465
Guam 501 - E4, Tamuning		12060	40,558,000	34,192,639	-	842,463	-	33,350,176
Guam 501 - E4, Tamuning		12061	7,964,000	6,957,690	-	175,114	-	6,782,576
			<u>106,298,000</u>	<u>75,560,450</u>	<u>-</u>	<u>3,001,573</u>	<u>-</u>	<u>72,558,877</u>
Rural Telephone Bank loans:								
Guam 501 - D7, Tamuning	10.852	S010	3,526,950	3,018,372	-	67,953	-	2,950,419
Guam 501 - E7, Tamuning		S020	3,021,000	2,721,591	-	57,092	-	2,664,499
Guam 501 - E7, Tamuning		S022	2,756,250	2,461,793	-	56,782	-	2,405,011
Guam 501 - E7, Tamuning		S023	2,031,750	1,727,178	-	55,026	-	1,672,152
Guam 501 - E7, Tamuning		S024	2,016,000	1,836,064	-	37,801	-	1,798,263
Guam 501 - E7, Tamuning		S025	296,100	265,031	-	5,837	-	259,194
Guam 501 - E7, Tamuning		S026	5,961,750	1,092,624	-	22,782	-	1,069,842
Guam 501 - E7, Tamuning		S027	1,365,000	1,222,623	-	26,650	-	1,195,973
Guam 501 - E7, Tamuning		S028	848,000	781,130	-	16,468	-	764,662
Guam 501 - E7, Tamuning		S520	1,193,850	1,122,374	-	22,923	-	1,099,451
Guam 501 - E7, Tamuning		S521	24,150	22,098	-	798	-	21,300
Guam 501 - E7, Tamuning		S522	188,623	180,972	-	4,160	-	176,812
			<u>23,229,423</u>	<u>16,451,850</u>	<u>-</u>	<u>374,272</u>	<u>-</u>	<u>16,077,578</u>
Federal Financing Bank loans:								
Guam 501 - F9, Tamuning	Not applicable	H0010	223,000	166,104	-	8,848	-	157,256
Guam 501 - F9, Tamuning		H0015	1,006,000	738,704	-	40,637	-	698,067
Guam 501 - F9, Tamuning		H0020	250,000	181,497	-	10,233	-	171,264
Guam 501 - F9, Tamuning		H0025	601,000	438,739	-	24,446	-	414,293
Guam 501 - F9, Tamuning		H0030	1,269,000	920,109	-	52,017	-	868,092
Guam 501 - F9, Tamuning		H0035	16,000	11,495	-	662	-	10,833
Guam 501 - F9, Tamuning		H0040	5,600,000	4,013,549	-	234,506	-	3,779,043
Guam 501 - F9, Tamuning		H0045	709,000	506,256	-	29,620	-	476,636
Guam 501 - F9, Tamuning		H0050	750,000	537,070	-	31,106	-	505,964
Guam 501 - F9, Tamuning		H0055	715,000	523,218	-	29,616	-	493,602
Guam 501 - F9, Tamuning		H0060	181,000	137,986	-	7,216	-	130,770
Guam 501 - F9, Tamuning		H0065	6,300,000	4,918,430	-	253,179	-	4,665,251
Guam 501 - F9, Tamuning		H0070	800,000	615,754	-	31,831	-	583,923
Guam 501 - F9, Tamuning		H0075	1,100,000	864,319	-	43,809	-	820,510
Guam 501 - F9, Tamuning		H0080	2,473,000	1,931,322	-	100,383	-	1,830,939
Guam 501 - F9, Tamuning		H0085	2,409,000	1,873,139	-	98,587	-	1,774,552
Guam 501 - F9, Tamuning		H0090	208,000	159,672	-	8,850	-	150,822
			<u>24,610,000</u>	<u>18,537,363</u>	<u>-</u>	<u>1,005,546</u>	<u>-</u>	<u>17,531,817</u>
			<u>\$ 154,137,423</u>	<u>\$ 110,549,663</u>	<u>\$ -</u>	<u>\$ 4,381,391</u>	<u>\$ -</u>	<u>\$ 106,168,272</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, 2003

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, 2003

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 the 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>
2003 – 1	Financial Statement Close Process – Analysis and Review of Accounting Information	\$ ---
2003 – 2	Internal Controls – Staff Utilization	\$ ---
2003 – 3	Long-Term Debt – TIER Requirement	\$ ---
2003 – 4	Cash - Check Signatories	\$ ---

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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2003

Part II - Financial Statement Findings Section, Continued

<u>Reference No.</u>	<u>Findings</u>	<u>Questioned Costs</u>
2003 – 5	Telecommunication Receivable – Disputed Balances	\$ ---
2003 – 6	Telecommunication Receivable – Inactive Accounts	\$ ---
2003 – 7	Telecommunication Receivable – Monthly Reconciliations	\$ ---
2003 – 8	Telecommunication Receivable – Credit Balances	\$ ---
2003 – 9	Receivables – Allowance for Doubtful Accounts	\$ ---
2003 – 10	Telecommunication Receivable – Old Outstanding Balances	\$ ---
2003 – 11	Telecommunication Receivable – New Customer Accounts in Same Location	\$ ---
2003 – 12	Telecommunication Receivable – Futuristic	\$ ---
2003 – 13	Inventory – Costs in Excess of Market Values	\$ ---
2003 – 14	Inventory – Telephone Units from Typhoon Paka and One Meg Modem Non-Moving Items	\$ ---
2003 – 15	Inventory – Obsolescence Policy	\$ ---
2003 – 16	Inventory – Cycle Count Procedures	\$ ---
2003 – 17	Inventory – Receiving Report Copy of Purchase Order	\$ ---
2003 – 18	Warehouse Management	\$ ---
2003 – 19	Purchase Orders – Open Purchase Orders	\$ ---
2003 – 20	Telecommunications Plant – Physical Inventory	\$ ---
2003 – 21	Telecommunications Plant – Capitalization Policy	\$ ---

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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2003

Part II - Financial Statement Findings Section, Continued

<u>Reference No.</u>	<u>Findings</u>	<u>Questioned Costs</u>
2003 – 22	Telecommunications Plant – Reasonableness of Useful Lives Metallic Cable	\$ ---
2003 – 23	Plant Under Construction – Outstanding Work Orders	\$ ---
2003 – 24	Plant Under Construction – Repairs and Maintenance Expenses / Receivables	\$ ---
2003 – 25	Plant Under Construction – Calculation of Engineering Overhead	\$ ---
2003 – 26	Plant Under Construction – Allocation of Engineering and Vehicle Overhead	\$ ---
2003 – 27	Annual Leave	\$ ---
2003 – 28	Guarantee Deposits – Recording and Reconciliation	\$ ---
2003 – 29	E911 – Remittance of Surcharge	\$ ---
2003 – 30	Federal Discount Programs	\$ ---
2003 – 31	IBM Supplied Profiles	\$ ---
2003 – 32	Temporary Type User Accounts	\$ ---
2003 – 33	QSECOFR User Profile	\$ ---
2003 – 34	Dormant AS/400 User Accounts	\$ ---
2003 – 35	Idle Session Timeout	\$ ---
2003 – 36	Receivables – Government of Guam Wide Area Network (GGWAN)	\$ ---

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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2003

Part II - Financial Statement Findings Section, Continued

<u>Reference No.</u>	<u>Findings</u>	<u>Questioned Costs</u>
2003 – 37	Procurement: Competitive Sealed Bid	\$ ---
2003 – 38	Procurement: Request For Proposal	\$ ---
2003 – 39	Procurement: Sole Source Procurement	\$ ---
2003 – 40	Procurement: Services Rendered	\$ ---
2003 – 41	Procurement: Services Rendered – Blanket Purchase Agreements	\$ ---
2003 – 42	Procurement: Small Purchases	\$ ---
2003 – 43	Procurement: Emergency Procurement	\$ ---

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>
2003 – 3	Long-Term Debt – TIER Requirements	\$ ---

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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2003

Finding Number 2003 – 1
Financial Statement Close Process – Analysis and Review
of Accounting Information

High

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 consisted 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 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.

Prior Year Finding:

This finding was included in the fiscal year 2002 findings.

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, 2003

Finding Number 2003 – 1
Financial Statement Close Process – Analysis and Review
of Accounting Information, *Continued*

High

Auditee Response:

The closing procedure has been implemented where the books are closed by the 20th of the following month. To expedite the closing process and reconciliation, we are integrating the billing module with the general ledger. By the end of the calendar year 2004, we expect all systems to be fully integrated.

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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2003

Finding Number 2003 – 2
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.

Prior Year Finding:

This finding was included in the fiscal year 2002 findings.

Recommendation:

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

Auditee Response:

We do not agree with the finding. The staffs are being properly utilized in accordance to workload and individual skill level. In addition, we are currently working on automating the billing solution, which will significantly reduce their workload. We anticipate the project to be completed by the end of the calendar year 2004.

Guam Telephone Authority
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2003

Finding Number 2003 – 3
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 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, 2003 audited financial statements the Authority's Average TIER is .88.

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, 2003.

Prior Year Finding:

This finding was included in the fiscal year 2002 findings.

Recommendation:

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

Auditee Response:

The Authority was not able to meet the TIER requirement due to high depreciation expense. However, we have been making the loan payments to the lender on a timely basis.

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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2003

Finding Number 2003 – 4
Cash – Check Signatories

Moderate

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.

Prior Year Finding:

This finding was included in the fiscal year 2002 findings.

Recommendation:

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

Auditee Response:

We do not agree with the finding. We currently do not have the volume of payments to justify establishing the dollar limits for check signatories. Currently, we have four (4) signatories and two (2) signatures are required per check. Also, we anticipate one (1) of the signatory to be retiring. Overall, creating more signatories will weaken internal control; not strengthen. We also increased controls by reviewing the requisition to the budget to ensure proper expenditure.

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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2003

Finding Number 2003 – 5
Telecommunication Receivable – Disputed Balances

Moderate

Criteria:

Disputed accounts should be immediately reconciled.

Condition:

In our confirmation of landline and cellular accounts, we received replies as to disputed accounts receivable balances. For accounts with no replies received, we performed alternative procedures noting that certain customers pay only current month charges with no payments made for old outstanding balances.

Although, the disputed balances were reconciled and adequate reserves were provided based on the analysis of the customer service and audit and collection departments, there are reasons to believe that there are other accounts that have disputed balances. This is because of the customer's trend of paying only current charges, while accumulating beginning invoice balances.

Cause:

The cause of this condition is unknown.

Effect:

The Authority may be carrying in its books account balances, which are no longer collectible.

Recommendation:

We understand that the Authority's audit and collection department is understaffed. However, we recommend that an employee familiar with the entire credit and collection process be assigned to review all customer accounts trends and balances. Any unusual trends or long-outstanding carry over balances should be periodically summarized and reported to the department head for proper action.

In addition, disputed accounts should be reconciled with complete files maintained for all accounts reconciled. These files should contain all correspondences, pertinent legal documents, and summaries of the progress of the status of each account as well as the ultimate resolution.

Auditee Response:

The Audit and Collections are reviewing the disputed accounts and proposing a settlement.

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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2003

Finding Number 2003 – 6
Telecommunication Receivable – Inactive Accounts

Moderate

Criteria:

The Authority defines inactive accounts as those whose services were terminated and those without any new billings for three consecutive months.

Condition:

Based upon a review of the trend of the active accounts receivable aging report, there are certain account balances aged over 120 days that should have been considered inactive.

Cause:

There is no direct interface between the ICMS and JD Edwards. ICMS monitors and maintains the detailed subsidiary ledger per account number. ICMS information is manually encoded to JDE at the end of each month.

Effect:

Failure to properly reflect accounts receivable balances.

Recommendation:

We recommend that a direct interface be made between ICMS and JDE.

Auditee Response:

We do not agree with the finding. The inactive accounts will be in Active account sub ledger for issuing bills. It is our policy to send carried forward balance bills to customer as payment reminder for at least three months. Afterwards, the inactive account is transferred to Inactive sub ledger to properly identify and aggressively pursue collection by the Audit and Collection Department.

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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2003

Finding Number 2003 – 7
Telecommunication Receivable – Monthly Reconciliations

High

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, 2003:

Landline	Ledger Balances		Variance
	General	Subsidiary	
Residential	\$ 347,962	\$ 326,413	\$ 21,549
Business	605,805	592,707	13,098
Government	1,111,683	1,386,786	(275,103)
Federal	674,399	675,139	(740)
	<u>\$ 2,739,849</u>	<u>\$ 2,981,045</u>	<u>\$ (241,196)</u>

Cellular	Ledger Balances		Variance
	General	Subsidiary	
Individual	\$ 50,192	\$ 50,395	\$ (203)
Business	378,054	5,912	372,142
Federal	29,932	30,479	(547)
Government	27,353	27,798	(445)
Reseller	17,190	657,805	(640,615)
	<u>\$ 502,721</u>	<u>\$ 772,389</u>	<u>\$(269,668)</u>

Cause:

Different phone services (i.e. residential vs. business lines) have been bundled under a single customer account, which further complicated reconciliations between the general and subsidiary ledgers.

Effect:

Potential misstatement of revenue and telecommunications accounts receivable balances.

Prior Year Finding:

This finding was included in the fiscal year 2002 findings.

Guam Telephone Authority
(A Public Corporation)

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2003

Finding Number 2003 – 7

High

Telecommunication Receivable – Monthly Reconciliations, *Continued*

Recommendation:

We understand that the accounts receivable section of the accounting department is currently addressing this matter. However, 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:

The problem stems from not fully integrating our billings with general ledger. We are planning to upgrade our billing solution and the upgrade will have integration package.

Guam Telephone Authority
(A Public Corporation)

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2003

Finding Number 2003 – 8

Moderate

Telecommunication Receivable – Credit Balances

Criteria:

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

Condition:

As of September 30, 2003, the telecommunications accounts receivable subsidiary ledgers reflected numerous credit balances as summarized below.

Landline	Current	30 days	60 days	90 days	120 days	Total Due
Residential	\$ (470,309)	\$ (2,874)	\$ (1,929)	\$ (2,278)	\$ (43,410)	\$ (520,800)
Business	(134,259)	(183)	(1,308)	(5,592)	(31,260)	(172,602)
Federal	(20,843)	(3,298)	-	(5,280)	(1,047)	(30,468)
Government	(44,939)	(99)	(381)	-	(740)	(46,159)
	<u>\$ (670,350)</u>	<u>\$ (6,454)</u>	<u>\$ (3,618)</u>	<u>\$ (13,150)</u>	<u>\$ (76,457)</u>	<u>\$ (770,029)</u>

Cellular	Current	30 days	60 days	90 days	120 days	Total Due
Individual	\$ (10,249)	\$ (87)	\$ (224)	\$ (30)	\$ (1,312)	\$ (11,902)
Prepaid	(67)	-	-	-	-	(67)
Business	(817)	-	-	-	(69)	(886)
Federal	(1,808)	-	-	-	-	(1,808)
Government	(2)	-	-	-	(32)	(34)
	<u>\$ (12,943)</u>	<u>\$ (87)</u>	<u>\$ (224)</u>	<u>\$ (30)</u>	<u>\$ (1,413)</u>	<u>\$ (14,697)</u>

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.

Prior Year Finding:

This finding was included in the fiscal year 2002 findings.

Guam Telephone Authority
(A Public Corporation)

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2003

Finding Number 2003 – 8

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 number of business, federal and government accounts with credit balances should be minimal.

Auditee Response:

The credit balance is primarily due to advance payments by customers and possible wrongful posting. We are currently reviewing the credit balance accounts to determine the validity. Once determined, a refund check will be issued.

Guam Telephone Authority
(A Public Corporation)

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2003

Finding Number 2003 – 9

Moderate

Receivables – Allowance for Doubtful Accounts

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 receivable 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.

Prior Year Finding:

This finding was included in the fiscal year 2002 findings.

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:

An allowance has been made for high-risk credit customers. In addition, general allowances are being made on a monthly basis for the receivables. We believe that our current rate is adequate, however we will review the rate on a quarterly basis.

Guam Telephone Authority
(A Public Corporation)

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2003

Finding Number 2003 – 10

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, 2003, a significant amount of active telecommunication accounts receivable balances primarily business and government accounts, were over 120 days outstanding.

Landline	Current	Days 30	Days 60	Days 90	Days 120	Total Due
Residential	\$ (155,210)	\$ 42,129	\$ 26,482	\$ 20,755	\$ 392,257	\$ 326,413
Business	219,365	14,648	7,695	472	350,528	592,708
Federal	59,876	45,394	23,851	22,845	523,173	675,139
Government	179,781	108,314	61,951	46,108	990,632	1,386,786
	<u>\$ 303,812</u>	<u>\$ 210,485</u>	<u>\$ 119,979</u>	<u>\$ 90,180</u>	<u>\$ 2,256,590</u>	<u>\$ 2,981,046</u>
% to Total	10%	7%	4%	3%	76%	100%

Cellular	Current	Days 30	Days 60	Days 90	Days 120	Total Due
Individual	\$ 14,713	\$ 5,999	\$ 3,504	\$ 1,634	\$ 24,547	\$ 50,397
Business-Reseller	60,044	31,927	30,565	31,079	510,102	663,717
Federal	(1,782)	-	-	-	32,262	30,480
Government	10	-	-	-	27,788	27,798
	<u>\$ 72,985</u>	<u>\$ 37,926</u>	<u>\$ 34,069</u>	<u>\$ 32,713</u>	<u>\$ 594,699</u>	<u>\$ 772,392</u>
% to Total	10%	5%	4%	4%	77%	100%

Cause:

The cause of this condition is unknown.

Effect:

These old outstanding balances may become uncollectible.

Prior Year Finding:

This finding was included in the fiscal year 2002 findings.

Guam Telephone Authority
(A Public Corporation)

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2003

Finding Number 2003 – 10

High

Telecommunications Receivable – Old Outstanding Balances, *Continued*

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.

Auditee Response:

We do not agree with the finding. Disputed and bankruptcy case accounts cannot be disconnected by regulation. As long as a file has been claimed, we are obligated to provide service even though payments have not been received. Currently, the Audit and Collections Department are working diligently to reconcile all disputed accounts and settle the balances.

Guam Telephone Authority
(A Public Corporation)

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2003

Finding Number 2003 – 11

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.

Prior Year Finding:

This finding was included in the fiscal year 2002 findings.

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:

The possibility of opening a new account while having an inactive account with unpaid balance is not a potential or significant problem for the Authority. Please note that the customers are required to make a deposit before a new account is activated. The deposit is sufficient to pay for the delinquent balance when disconnected for nonpayment.

Guam Telephone Authority
(A Public Corporation)

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2003

Finding Number 2003 – 12
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.

Prior Year Finding:

This finding was included in the fiscal year 2002 findings.

Recommendation:

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

Auditee Response:

The reseller is bankrupt and the account has been closed. There is no further activity except collections.

Guam Telephone Authority
(A Public Corporation)

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2003

Finding Number 2003 – 13

High

Inventory – Costs in Excess of Market Values

Criteria:

Inventory should be stated at the lower of cost or market (LCM).

Condition:

As of September 30, 2003, the Authority had paystation inventories costing \$2,597,829 on its general ledger, which consists of pay phone units, enclosures, pedestals and spare parts. However, based on LCM testing, the value of these inventories totaled only \$191,479.

In addition, for the year ended September 30, 2003, revenue from paystation operations amounted to only \$354,320.

Cause:

It is our understanding that the Authority, engages middlemen, from the limited number of vendors in Guam and the paystation inventories were purchased from Vendor No. 90165, who acted as a middleman, for the Authority.

Effect:

This resulted in the recording of an audit adjustment for the year ended September 30, 2003, to write-down the value of these inventories by \$2,406,350 representing the excess of cost over market value.

Recommendation:

We recommend that the Authority, avoid procurement transactions with middlemen. Instead, the Authority should obtain quotations and deal directly with distributors to minimize the cost of items being acquired.

In addition, inventory values should periodically be monitored for reasonableness based on current market prices.

Auditee Response:

Certain items were identified where the carrying cost of the inventory is above market price. An adjustment was made to reflect reasonable carrying cost.

Guam Telephone Authority
(A Public Corporation)

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2003

Finding Number 2003 – 14

High

**Inventory – Telephone Units from Typhoon Paka and One Meg Modem
Non-Moving Items**

Criteria:

Non-moving inventory items should be disposed off in a timely manner.

Condition:

Based on our physical inventory observation, the Authority is maintaining large amounts of non-moving inventory. These include telephone units for which claims were filed with the insurance agency as a result of damages from typhoon Paka and One Meg Modem CPE, which is no longer supported by Nortel.

Presented below are the details of these inventories:

<u>Location</u>	<u>Item#</u>	<u>Product #</u>	<u>Description</u>	<u>Qty.</u>	<u>Unit Cost</u>	<u>Amount</u>
PAKA	2557PM5112		Instrument, M5112 ME	377	\$ 368.20	\$ 138,811.40
PAKA	2557PB5112		Instrument, M5112 ME	260	294.71	76,624.60
Zone 1	3232MEG01		One Meg Modem CPE	2650	104.54	<u>277,031.00</u>
						<u>\$ 492,467.00</u>

While the units damaged by typhoon PAKA have been excluded from the books and the overall accounting is deemed appropriate, we question the business rationale of maintaining the aforementioned non-moving inventory items.

Cause:

The cause of this condition is unknown.

Effect:

Maintenance of non-moving items results in unnecessary storage costs.

Recommendation:

We recommend that these obsolete inventory items be evaluated for possible disposal.

Auditee Response:

The one Meg Modem CPE are functioning equipment, which are being sold and used for DSL. Until the DSL network is overhauled, the DSL users are required to use the current modems.

Guam Telephone Authority
(A Public Corporation)

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2003

Finding Number 2003 – 15
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, 2003, inventory obsolescence per books totaled \$1,204,965 and numerous inventory items had not moved for more than 1 year as follows:

Plant	\$2,373,244
Instrument	172,650
Automotive	63,734
Small tools	3,288
Automotive	<u>3,199</u>
 Difference	 <u>\$2,616,115</u>

Of the \$2,616,115 above, approximately \$1,223,307 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.

Prior Year Finding:

This finding was included in the fiscal year 2002 findings.

Guam Telephone Authority
(A Public Corporation)

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2003

Finding Number 2003 – 15

Moderate

Inventory – Obsolescence Policy, *Continued*

Recommendation:

Management should establish policies and procedures for monitoring excess, damaged, discontinued and 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.

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:

A continual process of reviewing slow moving items are in place, however due to the nature of our infrastructure, old and obsolete equipment has to be in stock since the parts are critical and no longer manufactured.

Guam Telephone Authority
(A Public Corporation)

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2003

Finding Number 2003 – 16
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:

The current cycle count program is ineffective because it does not include all inventory types (plant, instrument, consumer, small tools and automotive) in the sample population.

Cause:

A comprehensively 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.

Prior Year Finding:

This finding was included in the fiscal year 2002 findings.

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
(A Public Corporation)

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2003

Finding Number 2003 – 16

Low

Inventory – Cycle Count Procedures, *Continued*

Auditee Response:

We do not agree with the finding. Physical inventory is performed on a quarterly basis. Our current program is to comprehensively count all inventory items by the end of the year. In addition, 100% physical count is performed at the year-end.

Guam Telephone Authority
(A Public Corporation)

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2003

Finding Number 2003 – 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. There should also be a full “three-way” matching process, that is, comparing vendor invoices, purchase orders and receiving reports before a vendor can be paid.

Condition:

The following are the weaknesses noted in the Authority’s use of receiving reports:

1. Quantities ordered are reflected on receiving reports. The Authority does not use a “blind” receiving report.
2. The same receiving report is used for multiple or back orders.

Cause:

The cause of this condition is unknown.

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.

Prior Year Finding:

This finding was included in the fiscal year 2002 findings.

Recommendation:

We recommend exclusion of quantities ordered from receiving reports. A “blind” receiving report should be generated. This should ensure that inventory quantities received are physically counted. Matching can then be made by the accounts payable personnel as to the original quantity ordered (per Purchase Order), quantity received (per Receiving Report – as physically inspected and counted by the warehouse personnel) and the quantity billed by the vendor (per vendor invoice). Only when a complete “three-way” match has been established can the vendor be paid. This is also a control where back-orders can be identified wherein payment can be made only for quantities actually received.

Auditee Response:

An automation of the forms has been implemented to correct the receiving report copy.

Guam Telephone Authority
(A Public Corporation)

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2003

Finding Number 2003 – 18
Warehouse Management

Moderate

Criteria:

Inventory of the small class/category should be stored in one location to facilitate performance of quarterly and year-end physical inventory counts. In addition, adequate accountability should be maintained for duplicate inventory count tags.

Condition:

During the performance of our physical inventory observation:

- Certain stocks were not grouped together according to their classification/category.
- Some stocks of the same kind are stored in different locations, referred to as “bulk” items.

The inventory count tags, although pre-numbered, were not customized for bulk items. An inventory count tag with the same number was used for items of the same kind because these are located in different areas within the warehouse. However, there was no accounting control of these inventory count tags as to how many were used for bulk items.

Cause:

The cause of this condition is unknown.

Effect:

Possible exclusion of inventories on duplicate inventory tags from the final physical inventory compilation.

Recommendation:

We recommend that all inventories of the same kind be grouped together and stored only in one location. This will facilitate the conduct of the physical count. In case there is a need to transfer a portion of the inventory to a different location, this must be documented and the reason must be stated to provide an audit trail during the count.

In addition, inventory count tags should include multi-part tags for bulk items.

Auditee Response:

We do not agree with the finding. It is not possible to stack all the same items in one location all the time due to limited self-space. However, bulk or pallet items are held in separate location with reference to bulk on the original and secondary tag.

Guam Telephone Authority
(A Public Corporation)

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2003

Finding Number 2003 – 19

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, 2003, 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	\$ 5,776,355
< 365 days	1,127,308
> 1 year	2,639,910
> 2 years	<u>7,549,086</u>

Total \$17,092,659

Cause:

The cause of this condition is unknown.

Effect:

Inability to accurately identify vendor commitments.

Prior Year Finding:

This finding was included in the fiscal year 2002 findings.

Recommendation:

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

Auditee Response:

We are routinely reviewing and closing old purchased orders deemed adequately fulfilled.

Guam Telephone Authority
(A Public Corporation)

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2003

Finding Number 2003 – 20

Moderate

Telecommunications Plant – Physical Inventory

Criteria:

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

Condition:

Physical inventory of telecommunications plant is not performed.

Cause:

The cause of this condition is unknown.

Effect:

Telecommunications plant assets recorded on the monthly financial statements may be misstated.

Prior Year Finding:

This finding was included in the fiscal year 2002 findings.

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 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:

Most of our equipment are either buried or fixed in a specific location. As for equipment, a listing of the items is kept at ISD Network Section and is updated as new items are ordered or disposed. Vehicle listing is updated and kept at Administration Department, which is reconciled to JDE. In addition, weekly reports of the condition of the plant equipment are provided to the management.

Guam Telephone Authority
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2003

Finding Number 2003 – 21
Telecommunications Plant – Capitalization Policy

Moderate

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, 2003, numerous additions less than \$1,000 were capitalized in the work order and fixed asset modules. Out of the 6,229 line items capitalized during 2003, 1,518 line items represented additions that were less than \$1,000. The 554 items totaled \$311,804.

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 2002 findings.

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:

We do not agree with the finding. As noted in prior year, our capitalization policy is based on NECA pool and USF recovery. GTA will continue to be guided by the general rule of whether the expenditure is betterment, repair or replacement. All betterments are capitalized and repairs and replacements are expensed regardless of the dollar limit.

Guam Telephone Authority
(A Public Corporation)

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2003

Finding Number 2003 – 22

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. Although the Authority's general ledger was adjusted to reflect 20 years the JDE Fixed Asset Module still reflects 25 years.

Cause:

The cause of this condition is unknown.

Effect:

Possible misstatement of general ledger balances.

Prior Year Finding:

This finding was included in the fiscal year 2002 findings.

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:

The general ledger was adjusted to reflect the change of depreciable life. We were not able to change the life in JDE for FY 2003 since the election was made after the fiscal year, but appropriate steps were made to depreciate properly.

Guam Telephone Authority
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2003

Finding Number 2003 – 23
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, 2003, there were long outstanding cellular and landline work orders some of which have been outstanding for more than four years as summarized below:

> 1 year	\$3,286,734
> 2 years	632,615
> 3 years	282,765
> 4 years	<u>16,688</u>
Total	<u>\$4,218,802</u>

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 2002 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.

Auditee Response:

Certain capital projects are known to last over one year since initiation. But as noted, certain projects were not closed on a timely basis. The Authority have reviewed the projects and completed work orders are being closed. We will take steps to timely close out the work orders.

Guam Telephone Authority
(A Public Corporation)

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2003

Finding Number 2003 – 24

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.

Prior Year Finding:

This finding was included in the fiscal year 2002 findings.

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:

The work order process is being utilized for project management and we will continue to use the process. However, we will recognize expense for repair and maintenance when incurred rather than construction in progress.

Guam Telephone Authority
(A Public Corporation)

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2003

Finding Number 2003 – 25

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. Engineering expenses capitalized in CWIP is based on 65% of total engineering expenses for 2003.

Cause:

The cause of this condition is unknown.

Effect:

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

Prior Year Finding:

This finding was included in the fiscal year 2002 findings.

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:

We are looking into changing the process, which the engineers are required to record their time to specific projects.

Guam Telephone Authority
(A Public Corporation)

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2003

Finding Number 2003 – 26

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.

Prior Year Finding:

This finding was included in the fiscal year 2002 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:

We are looking into changing the process, which the engineers are required to record their time to specific projects.

Guam Telephone Authority
(A Public Corporation)

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2003

Finding Number 2003 – 27
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 did not agree with the general ledger balances as of September 30, 2003:

Per general ledger	\$1,711,050
Per subsidiary ledger	<u>1,330,907</u>
Difference	\$ <u>380,143</u>

Cause:

The cause of this condition is unknown.

Effect:

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

Prior Year Finding:

This finding was included in the fiscal year 2002 findings.

Recommendation:

We recommend that procedures be established to ensure that subsidiary ledger balances are 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 noted the problem and a new process have been implemented so that the sub ledgers are being reconciled on a monthly basis.

Guam Telephone Authority
(A Public Corporation)

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2003

Finding Number 2003 – 28

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.

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.

Prior Year Finding:

This finding was included in the fiscal year 2002 findings.

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:

The noted problem with the program has been fixed and are now being reconciled on a monthly basis.

Guam Telephone Authority
(A Public Corporation)

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2003

Finding Number 2003 – 29
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.”

Condition:

Remittances of the 911 Surcharges collected in FY2003 ranged from 11 days to 137 days.

Cause:

The cause of this condition is unknown.

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.

Prior Year Finding:

This finding was included in the fiscal year 2002 findings.

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:

The Authority has been deposited E911 payments to Department of Administration on a monthly basis since the beginning of fiscal year 2004.

Guam Telephone Authority
(A Public Corporation)

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2003

Finding Number 2003 – 30
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.

Prior Year Finding:

This finding was included in the fiscal year 2002 findings.

Recommendation:

All discounts should be recorded on a monthly basis.

Auditee Response:

Effective October 1, 2003, the Authority has been recording the receivables associated with the filing of Form 497 Lifeline and Linkup on a monthly basis.

Guam Telephone Authority
(A Public Corporation)

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2003

Finding Number 2003 – 31
IBM Supplied Profiles

High

Criteria:

OS/400, the operating system for AS/400, is shipped with 31 predefined user profiles, otherwise known as default, or IBM-supplied profiles. The IBM-supplied profiles include: QAUTPROF; QBRMS; QCOLSRV; QDBSHR; QDBSHRDO; QDFTOWN; QDIRSRV; QDOC; QDSNX; QEJB; QFNC; GATE; QLPAUTO; QLPINSTALLQMSF; QNETSPLF; QNFSANON; QPGMR; QSNADS; QSPL; QSPLJOB; QSECOFR; QSRV; QSRVBAS; QSYS; QSYSOPR; QTCP; QTFTP; QTMHHTTP1; QTMHHTTP; QTSTRQS; and QUSER.

The passwords on the above IBM-supplied profiles are the same as the default profile name. In OS/400 systems, all default profiles are considered generic and should be disabled if not required.

Condition:

On May 5, 2004, we were able to log on and access the CL using the QSRV default.

Cause:

The cause of this condition is unknown.

Effect:

Failure to disable default accounts increases the risk that these accounts will be used to gain access to system resources without appropriate authentication. This could provide a means for someone to attempt to gain unauthorized access to the system, and could allow the individual to modify or compromise the system and gain unauthorized access to information assets and network resources. Use of default accounts can also reduce user accountability.

Recommendation:

We recommend that the password to the QSRV profile be changed

Auditee Response:

It is not advisable to disable IBM supplied profiles. Many of these profiles are required to perform system functions, which are performed without the need to log on to the system. Of the 31 predefined user profiles, only four are able to log on to the system.

IBM Service personnel while performing system maintenance reset the QSRV User Profile. This was required because the QSRV User Profile was unable to log on to the system at the time. This was an isolated incident and is not our standard practice.

In addition, the QSRV password has been changed.

Guam Telephone Authority
(A Public Corporation)

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2003

Finding Number 2003 – 32
Temporary Type User Accounts

Moderate

Criteria:

All enabled user profiles in AS/400 should represent active employees or end-users of the Authority.

Condition:

An employee with user profile ISDLLG is an intern who was an intern in the Authority's Information System Department. However, user profile ISDLLG is still enabled even though the period of the study has already ended.

Cause:

We understand that the Authority uses an Employee Clearance Form for the removal of users in the AS/400. However, this clearance form does not include interns, consultants, vendors or other individuals who have been given access to the system.

Effect:

There is a risk that such user profile may be mis-used if not disabled.

Recommendation:

We recommend that the Authority establish a clearance form that would include consultants, interns and other individuals.

Auditee Response:

User Profile ISDLLG was used by an intern, who worked in the Information Systems Division to gain academic credit towards her Computer Science degree program. She was trained to perform system operations and programming functions. She did not perform any functions without the direct supervision of operations or programming personnel. All programming assignments were performed in an isolated test environment. All work was performed in the Information Systems Operations area. She does not have access to log on to the system remotely or from any customer service terminal.

The GTA Clearance form is used as a tool for GTA Departments to use to perform procedures required to properly clear employees who separate from the Authority. As part of the Information Systems Division's clearance procedures, User Profiles are deactivated upon separation. We have only had one intern that was granted access to the system, and most of our consultants do not require access to the system. Establishing a clearance form for interns or consultants is not necessary.

GTA will establish controls to ensure that non-employees who are granted access to the system are removed upon completion of their required function.

Guam Telephone Authority
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2003

Finding Number 2003 – 33
QSECOFR User Profile

Moderate

Criteria:

The default administrator account on the OS/400 system is the QSECOFR user profile. This is the superuser account in OS/400, which cannot be renamed. Thus, leaves it open for unauthorized access attacks.

Condition:

Currently, there are three employees who know the password for the QSECOFR account. The password of this user account confirms to the standard one alpha and five numeric characters password convention implemented by the Authority. However, the password for this account should have more strength.

Cause:

The cause of this condition is unknown.

Effect:

Failure to strengthen the password for the QSECOFR user profile increases the risk of unauthorized users gaining access to resources through the user of this default administrator account.

Recommendation:

To mitigate the risk of unauthorized access attacks, the password should be changed on a regular basis and set to an appropriate strength, containing upper and lower case alpha, numeric, and special characters (e.g., “\$”, “#”, etc.). We recommend that the Authority strengthen the QSECOFR password

Auditee Response:

GTA does not agree with this finding. The AS/400 is on a private network protected by a firewall. Even if an attempt were made from within the internal network, the User Profile would be disabled after the fifth attempt.

This finding recommends that the Authority strengthen the password, but makes no suggestions. The QSECOFR password is strong and strictly controlled.

Guam Telephone Authority
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2003

Finding Number 2003 – 34
Dormant AS/400 User Accounts

Moderate

Criteria:

User accounts, which are not used for a period over 60 days, should be disabled.

Condition:

There are 9 user accounts whose last logon date is more than 1 year.

Cause:

The cause of this condition is unknown.

Effect:

The risk of unused accounts is that they may have been set up with a password that is easy to guess by an intruder and attacks on dormant accounts may go unnoticed. Dormant accounts may lead to unauthorized access to network assets and resources.

Recommendation:

A periodic review of user accounts should be performed to ensure that dormant accounts are disabled, thereby preventing the abuse of these user accounts.

Auditee Response:

GTA does not agree with this finding. There are some users who do not log on to the system for long periods of time. There are also group profiles and IBM Supplied profiles that do not log on to the system at all.

There are adequate controls in place to ensure that dormant accounts are not used for unauthorized access. User passwords expire every 90 days, User Profiles are disabled after five attempts, and digits are required when establishing passwords.

Guam Telephone Authority
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2003

Finding Number 2003 – 35
Idle Session Timeout

Low

Criteria:

Session timeout relates to the period of time an idle computer/session system is permitted to remain active without requiring the user to re-authenticate to the session system. Inactive terminals should automatically be logged out after a defined period of time.

Condition:

The Authority's AS/400 is not currently configured to automatically log out employees after a certain period of idle time.

Cause:

The cause of this condition is unknown.

Effect:

Inactive user terminals can allow unauthorized access to network resources. Failure to limit the amount of idle time permitted for user sessions increases the risk of an individual exploiting the inactive terminal to gain unauthorized access to network resources.

Recommendation:

Typically, it is recommended that a session be disconnected after 15-30 minutes of inactivity. However, this may vary depending on the sensitivity of the data held on the system.

Idle session timeout values should be in line with the Authority's organizational requirements. Specifically, the following system value fields should be adjusted to such requirement:

QINACTITV - specifies the number of minutes a terminal can remain signed-on without any activity. Management should consider a value of 15 to 30 minutes.

QINACTMSGQ – determines what action the system will take when an inactive job exceeds the specified interval. It is recommended that a setting of *DSCJOB be made to cause the system to disconnect and not end a job if it has been determined to be inactive.

Auditee Response:

The QINACTITV parameter has been changed to 30 and the QINACTMSGQ has been set to *DSCJOB.

Guam Telephone Authority
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2003

Finding Number 2003 – 36
Receivables – Government of Guam Wide Area Network (GGWAN)

High

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, 2003

Finding Number 2003 – 36

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.

Prior Year Finding:

This finding was included in the fiscal year 2002 findings.

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:

Most agencies are making current payments except that certain agencies have filed dispute for some of the balances.

Guam Telephone Authority
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2003

Finding Number 2003 – 37
Procurement: Competitive Sealed Bid

High

Criteria:

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

Condition:

Of the 15 purchase orders (POs) selected for testing, the following did not comply with certain provisions of the GSA Procurement Rules and Regulation and the Authority's SOPs:

PO Reference	Vendor Number	Amount	Description	Conditions			
PO 6092-000 OR	90801	\$ 57,480	Janitorial/custodial services	N/A	N/A	③	④
PO 7139-000 OR	90271	64,378	Replacement of generator at Dededo Central Office	①	②	N/A	④
PO 7156-000 OR	90271	44,707	Replacement of generator at Mangilao Remote Switching Center	①	②	N/A	④
PO 7159-000 OR	91042	99,658	Replacement of air conditioning unit at Tumon Central Office	①	②	N/A	④

- ① The date of the advertisement versus the date of submission of bids was less than the required minimum of 15 days.
- ② The time frame between advertisement and pre-bid conference is less than the required one-week.
- ③ The time frame between the acknowledgement by the vendor of the Notice of Intent of Possible Award and date the vendor signed the purchase order is less than 15 days.
- ④ Numerous documents required by the Authority's SOP were not on file. Also evidence as to the proper authorization, coordination, review and awarding of the bid documents could not be found.
- N/A Not Applicable.

Cause:

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

Effect:

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

Guam Telephone Authority
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2003

Finding Number 2003 – 37

High

Procurement: Competitive Sealed Bid, *Continued*

Recommendation:

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

Auditee Response:

PO 6092-000 OR is a continuation of the original contract. Two PO were issued to show funding by fiscal year.

The generators and the air conditioning units were not functioning adequately due to excess wear and tear. An urgent purchase was required.

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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2003

Finding Number 2003 – 38
Procurement: Request For Proposal

High

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 5 POs selected for testing the following did not comply with certain provisions of the Authority's SOPs:

1. PO 6189-000 OR (Vendor No. 90218), totaling \$140,000, for jurisdictional separations/cost studies.
2. PO 6664-000 OR (Vendor No. 91033), totaling \$34,000, for legal services initial contract.

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. Documentation on the review and approval of the proposal specifications by the requisitioning and procurement departments.
3. Transmittal to the General Service Agency

Cause:

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

Effect:

This condition results in non-compliance with the Authority's SOPs.

Recommendation:

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

Auditee Response:

The Bid Review Committee documents, Review and Approval of proposal are on file. PO 6189-000 OR had been forwarded to GSA. As for PO 6664-000, request for proposal documents are not required to be forwarded to GSA.

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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2003

Finding Number 2003 – 39
Procurement: Sole Source Procurement

High

Criteria:

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

Condition:

Of the 15 purchase orders (POs) selected for testing, the following did not comply with certain provisions of the GSA Procurement Rules and Regulation and the Authority's SOPs:

PO Reference	Vendor Number	Amount	Description	Conditions	
PO 6136-000 OR	90750	\$ 92,680	Software License	①	N/A
PO 6156-000 OR	90948	20,000	Repair and return of electronic cards.	①	②
PO 6196-000 OR	90633	200,000	Repair and return of circuit pacs for GTA's Mobile Telephone Exchange (MTX/Cellular)	①	N/A
PO 6468-000 OR	90311	31,620	Repairs to damages from Typhoon Pongsona at Mt. Alutom Cellular Site.	①	N/A
PO 6560-000 OR	90633	299,217	EF&I software upgrade of Tumon Host Office	①	N/A
PO 6594-000 OR	90633	375,336	EF&I software upgrade of the Hagatna Host Office.	①	N/A
PO 6611-000 OR	90633	34,444	Support, service and maintenance for GTA's passport and BLN equipment for internet service island wide.	①	②
PO 6875-000 OR	90633	4,113	Parts and labor to upgrade cellular equipment at Ritidian, Barrigada, Santa Rosa, and Alutom cell sites.	①	N/A
PO 6916-000 OR	90633	27,914	Annual Shasta support performance pack.	①	N/A
PO 6922-000 OR	90239	253,444	AS/400 upgrade.	①	N/A
PO 6967-000 OR	90948	72,470	Installation of a fully equipped access node from the Mangilao remote switching center to Leo Palace Resort.	①	②
PO 6968-000 OR	90948	39,755	Upgrade of access node from release AN15 to release AN19 with FB processors and complete with ABM/TBM common equipment software release and software license.	①	②
PO 7034-000 OR	90948	168,338	Additional requirement of equipment, hardware, service and training.	①	N/A

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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2003

Finding Number 2003 – 39

High

Procurement: Sole Source Procurement, *Continued*

- ① The PO file did not have any request for quotation from at least three different vendors. Documentation of negotiation is not on file.
- ② There was no transmittal or acknowledgement receipt from vendor regarding amendments.

N/A Not Applicable.

In addition, PO 6468-000 OR (Vendor No. 90311) amounting to \$31,620 for the repair of Typhoon Pongsona damages to the Mt. Alutom Cellular Site did not meet the criteria for sole source. Based on our review of the justification letter for sole source, the requisitioner indicated that the vendor was chosen because such vendor performed some cellular site repairs in the past.

Cause:

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

Effect:

This condition results in non compliance with Section 3-202 of the GSA Procurement Rules and 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:

Due to the proprietary of the equipment, certain equipment were purchased for compatibility.

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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2003

Finding Number 2003 – 40
Procurement: Services Rendered

Moderate

Criteria:

The Authority should comply with Section 9-203, the Remedies After an Award Procurement section of the GSA Procurement Rules and Regulations and the Authority's SOPs. The "remedies after an award procurement" should not be used in place of procurement wherein competition is solicited to award procurement to the lowest vendor.

Condition:

Based on our review of PO 7021-000 OR (Vendor No. 90746), totaling \$56,267, for services rendered for financial advisor contract service fees for the period from 12/01/02 to 4/30/03, we noted that this is an existing contract, however, the requisitioner failed to turn in a requisition to fund the contract for fiscal year 2003.

Cause:

The cause of this condition is unknown.

Effect:

This condition results in non-compliance with Section 9-203 of the GSA Procurement Rules and 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:

The contract was existing and valid, but however due to oversight and uncertainty of privatization, the PO was not executed on a timely basis.

Guam Telephone Authority
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2003

Finding Number 2003 – 41

Moderate

Procurement: Services Rendered – Blanket Purchase Agreements

Criteria:

The Authority should comply with Section 9-203, the Remedies After an Award Procurement section of the GSA Procurement Rules and Regulations and the Authority's SOPS. The remedies after an award procurement should not be used in place of procurement wherein competition is solicited to award procurement to the lowest vendor.

Condition:

Based on our review, we noted that of the 10 POs selected for testing, 4 POs were originally Blanket Purchase Agreements wherein the funds were exhausted and were not sufficient to pay for services rendered.

1. PO 7286-000 OR (Vendor No. 90448), totaling \$84, for services rendered for tire repair services.
2. PO 7287-000 OR (Vendor No. 90213), totaling \$228, for services rendered for additional carpet installation at the Dededo Business Office.
3. PO 7288-000 OR (Vendor No. 90360), totaling \$675, for services rendered for advertisement services.
4. PO 7289-000 OR (Vendor No. 90111) totaling \$151, for services rendered for off island courier services.

Cause:

The cause of this condition is unknown.

Effect:

This condition results in non-compliance with Section 9-203 of the GSA Procurement Rules and 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:

The Authority has discontinued using blanket purchase order due to the noted problem.

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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2003

Finding Number 2003 – 42
Procurement: Small Purchases

Moderate

Criteria:

The Authority should comply with Section 3-204, Small Purchases section of the GSA Procurement Rules and Regulations and the Authority's SOPS. If the supply, service or construction item is available from only one business, the sole source procurement method set forth in Section 3-205 (Sole Source Procurement) should be used even if the procurement is a small purchase as specified in subsection 3-204.02.

Condition:

Based on our review, of the 7 POs selected for testing, we noted that 2 POs only received one quotation, however, the small purchase procurement was used instead of the Sole Source Method. The procurement requirements for sole source are more restrictive compared to small purchases.

1. PO 7096-000 OR (Vendor No. 90715), totaling \$ 14,999.00, for AWG foam cable.
2. PO 7102-000 OR (Vendor No. 90715), totaling \$ 14,999.85, for multiplexer drawer set.

Cause:

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

Effect:

This condition results in non-compliance with Section 3-204 of the GSA Procurement Rules and 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:

The items solicited are a general commodity. A sole source procedure would have not been an appropriate action just because only one vendor responded.

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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2003

Finding Number 2003 – 43
Procurement: Emergency Procurement

Moderate

Criteria:

The Authority should comply with Section 3-206, Emergency Procurement section of the GSA Procurement Rules and Regulations and the Authority's SOPS. The Authority should properly document the approval process of an emergency procurement.

Condition:

Of the 4 POs selected for testing, 2 POs did not have the letter from the requisitioner to the General Manager requesting for emergency procurement.

1. PO 6356-000 OR (Vendor No. 90715), totaling \$ 15,200, for emergency procurement for loop s/repeater.
2. PO 6363-000 OR (Vendor No. 90715), totaling \$ 44,200, for emergency procurement for inside wire.

Cause:

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

Effect:

This condition results in non-compliance with Section 3-206 of the GSA Procurement Rules and 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:

Emergency procurement was utilized for Typhoon Pongsona repairs. The letter requesting Emergency Procurement and authorization are on file.