

Executive Secretary for the Interim
Transition Coordinating Committee
Office of the Governor

In planning and performing our audit of the financial statements of the Guam Telephone Authority (the “Authority”) as of and for the three months ended December 31, 2004 we considered its internal control to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. The following came to our attention that we believe merit your consideration.

Criteria:

Public Law 27-109, established the Interim Transition Coordinating Committee (the “ITCC”) which is responsible for the administration and enforcement of the privatization agreements, including indemnification claims, and any assets and liabilities of the Authority retained by the Government of Guam as a result of the privatization of the Authority. Assets and liabilities include the following:

1. Proceeds arising from the privatization of the Authority. Specifically, on August 31, 2004, the Authority entered into an Asset Purchase Agreement (APA) with TeleGuam Holdings, LLC, a Delaware limited liability company, for the privatization of the Authority. Based on the terms of the APA, certain assets and liabilities of the Authority, as of the closing date of December 31, 2004, were transferred to TeleGuam effective January 1, 2005 for a total purchase price of \$150 million. The \$150 million consisted of a \$10 million promissory note and \$140 million in cash. The \$10 million promissory note matures on January 1, 2013, while the \$140 million was deposited into various interest bearing escrow accounts pursuant to the terms of an Escrow Agreement and Public Law 26-70, as amended.
2. Certain assets and liabilities retained by the Government of Guam and transferred to the ITCC in accordance with the APA.
3. The \$1.8 million, which was transferred by the Authority to a checking account in the name of the ITCC during December 2004. These funds were to be used to fund ITCC operations and for the payment of retained liabilities.

Condition:

Based on discussions with the Executive Secretary for the ITCC, the accounting and recordkeeping for the aforementioned transactions is now being handled by the Government of Guam’s Department of Administration (“DOA”). However, DOA has yet to receive all the information/documentation necessary to ensure that all transactions are properly recorded.

Recommendation:

We strongly recommend that the Executive Secretary for the ITCC:

1. Ensure that an experienced accountant immediately be assigned the responsibility of ensuring that all of the aforementioned transactions and all subsequent transactions are properly recorded. In addition to maintaining the general ledger, this individual should ensure that all transactions are properly supported, all accounts are reconciled in a timely manner and that interim financial statements are provided to the Executive Secretary of the ITCC.
2. Review all transactions and interim financial statements to ensure that the statements are free from misstatements, and
3. Ensure compliance with the privatization laws and applicable provisions of the APA, including Article II, Section 2.5 relative to the preparation of an Adjusting Closing Schedule, and Article XIII, Section 13.1 relative to the collection of receivables.

This report is intended solely for the information of the Executive Secretary for the Interim Transition Coordinating Committee and the Office of the Public Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

March 11, 2005