

**GUAM TELEPHONE AUTHORITY**  
**(A Public Corporation)**

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**INDEPENDENT AUDITORS' REPORT ON**  
**COMPLIANCE WITH LAWS AND REGULATIONS**

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**YEAR ENDED SEPTEMBER 30, 2001**



**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, 2001, and for the year then ended, and have issued our report thereon dated April 30, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

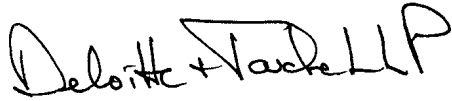
As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on 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 01-5, 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 01-1 through 01-9.

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. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended for the information of Board of Directors and management of the Authority and 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 those specified parties.

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April 30, 2002



**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 one major federal program for the year ended September 30, 2001. The Authority's major federal program is identified in the summary of auditors' results section of the Schedule of Findings and Questioned Costs (page 6). Compliance with the requirements of laws, regulations, contracts and grants applicable to its one major federal program is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; 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, GTA complied, in all material respects, with the requirements referred to above that are applicable to its one major federal financial assistance program for the year ended September 30, 2001.

**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 the audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

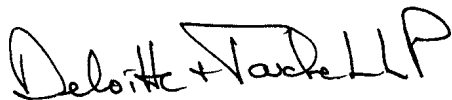
We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance 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 item 01-5.

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. 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, 2001, and have issued our report thereon dated April 30, 2002. 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 the purpose of additional analysis as required by OMB 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 our audit of the financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the financial statements taken as a whole.

This report is intended for the information of Board of Directors and management of the Authority and 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 those specified parties.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

April 30, 2002

GUAM TELEPHONE AUTHORITY  
(A Public Corporation)

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2001

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	\$ 2,727,642	- \$	137,866	\$ -	\$ 2,589,776
Guam 501-A8, Tamuning		12020	16,498,000	8,678,928	-	441,161	-	8,237,767
Guam 501-A8, Tamuning		12021	217,000	119,602	-	6,050	-	113,552
Guam 501-B8, Tamuning		12030	1,766,000	944,279	-	47,124	-	897,155
Guam 501-B8, Tamuning		12031	3,683,000	2,096,649	-	102,250	-	1,994,399
Guam 501-C8, Tamuning		12040	9,135,004	6,282,549	-	234,711	-	6,047,838
Guam 501-C8, Tamuning		12041	621,996	446,385	-	16,671	-	429,714
Guam 501-D4, Tamuning		12050	12,393,054	9,791,135	-	310,139	-	9,480,996
Guam 501-D4, Tamuning		12051	8,176,946	6,723,806	-	213,568	-	6,510,238
Guam 501-E4, Tamuning		12060	40,558,000	36,009,489	-	998,039	-	35,011,450
Guam 501-E4, Tamuning		12061	7,964,000	7,330,671	-	202,898	-	7,127,773
				81,151,135	-	2,710,477	-	78,440,658
Rural Telephone Bank loans:	10.852							
Guam 501-D7, Tamuning		S010	3,526,950	3,137,912	-	57,610	-	3,080,302
Guam 501-E7, Tamuning		S020	3,021,000	2,826,752	-	51,367	-	2,775,385
Guam 501-E7, Tamuning		S022	2,756,250	2,566,310	-	51,020	-	2,515,290
Guam 501-E7, Tamuning		S023	2,031,750	1,828,305	-	49,284	-	1,779,021
Guam 501-E7, Tamuning		S024	2,016,000	1,905,690	-	34,013	-	1,871,677
Guam 501-E7, Tamuning		S025	296,100	275,778	-	5,248	-	270,530
Guam 501-E7, Tamuning		S026	5,961,750	1,134,622	-	20,520	-	1,114,102
Guam 501-E7, Tamuning		S027	1,365,000	1,271,752	-	23,999	-	1,247,753
Guam 501-E7, Tamuning		S028	848,000	811,495	-	14,836	-	796,659
Guam 501-E7, Tamuning		S520	1,193,850	1,164,650	-	20,660	-	1,143,990
Guam 501-E7, Tamuning		S521	24,150	23,565	-	715	-	22,850
Guam 501-E7, Tamuning		S522	188,623	-	-	3,623	-	(3,623)
				16,946,831	-	332,895	-	16,613,936
Federal Financing Bank loans:	Not applicable							
Guam 501-F9, Tamuning		H0010	223,000	182,106	-	7,724	-	174,382
Guam 501-F9, Tamuning		H0015	1,006,000	812,704	-	35,808	-	776,896
Guam 501-F9, Tamuning		H0020	250,000	200,231	-	9,083	-	191,148
Guam 501-F9, Tamuning		H0025	601,000	483,377	-	21,622	-	461,755
Guam 501-F9, Tamuning		H0030	1,269,000	1,015,394	-	46,208	-	969,186
Guam 501-F9, Tamuning		H0035	16,000	12,714	-	592	-	12,122
Guam 501-F9, Tamuning		H0040	5,600,000	4,446,292	-	210,404	-	4,235,888
Guam 501-F9, Tamuning		H0045	709,000	560,932	-	26,587	-	534,345
Guam 501-F9, Tamuning		H0050	750,000	594,359	-	27,835	-	566,524
Guam 501-F9, Tamuning		H0055	715,000	577,486	-	26,319	-	551,167
Guam 501-F9, Tamuning		H0060	181,000	150,986	-	6,266	-	144,720
Guam 501-F9, Tamuning		H0065	6,380,000	5,372,935	-	218,798	-	5,154,137
Guam 501-F9, Tamuning		H0070	800,000	672,948	-	27,542	-	645,406
Guam 501-F9, Tamuning		H0075	1,110,000	942,710	-	37,692	-	905,018
Guam 501-F9, Tamuning		H0080	2,473,000	2,111,900	-	86,995	-	2,024,905
Guam 501-F9, Tamuning		H0085	2,409,000	2,050,958	-	85,749	-	1,965,209
Guam 501-F9, Tamuning		H0090	208,000	175,807	-	7,814	-	167,993
				20,363,839	-	883,038	-	19,480,801
Note: All loans are received in a direct recipient capacity				\$ 118,461,805	-	3,926,410	-	\$ 114,535,395

GUAM TELEPHONE AUTHORITY  
(A Public Corporation)

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2001

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

1. The Independent Auditors' Report on the financial statements expressed an unqualified opinion.
2. Reportable conditions in internal control over financial reporting were identified, none of which are considered to be material weaknesses.
3. No instance of noncompliance considered material to the financial statements was disclosed by the audit.
4. Reportable conditions in internal control over compliance with requirements applicable to major federal awards programs were identified, none of which are considered to be material weaknesses.
5. The Independent Auditors' Report on compliance with requirements applicable to major federal award programs expressed an unqualified opinion.
6. The audit disclosed one finding required to be reported by OMB Circular A-133.
7. The Organization's major programs were:

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

8. A threshold of \$300,000 was used to distinguish between Type A and Type B programs, as those terms are defined in OMB Circular A-133.
9. The Organization did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

**Part II - Financial Statement Findings Section**

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
01-1	Stale Dated Checks	\$ -	8
01-2	Inventory	\$ -	10
01-3	Deposits in Transit	\$ -	12
01-4	Accounts Receivable Reclassification	\$ -	13
01-5	Long-Term Debt	\$ -	14

GUAM TELEPHONE AUTHORITY  
(A Public Corporation)

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2001

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

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
01-6	Plant Specific Expense	\$ -	15
01-7	Depreciation Expense	\$ -	16
01-8	Accounts Receivable Aging and Receipts	\$ -	17
01-9	Capitalization Policy	\$ -	18

**Part III - Federal Award Findings and Questioned Cost Section**

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
01-5	Long-Term Debt	\$ -	14



GUAM TELEPHONE AUTHORITY  
(A Public Corporation)

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2001

Finding Number 2001-1 - Stale Dated Checks

Criteria:

The subsidiary ledgers for stale dated checks and unclaimed checks should be reviewed and adjusted on a consistent basis.

Condition:

Review of the stale dated and unclaimed check subsidiaries for GTA landline and cellular indicate that checks in this account are dated as follows:

GTA Landline	Stale dated checks:	
	1997 and prior	\$ 157,534
	1998	30,204
	1999	<u>40,004</u>
		227,742
	Unclaimed checks:	
	2000 and prior	107,477
GTA Cellular	Stale dated checks:	
	2000 and prior	7,538
	Unclaimed checks:	
	2000 and prior	<u>4,113</u>
Total		\$ <u>346,870</u>

Cause:

The cause of this condition is that resolution of this finding has yet to occur.

Effect:

A possible misstatement of stale dated checks could result from this condition.

Prior Year Status:

The above condition is reiterative of conditions identified in the prior year audit of the Guam Telephone Authority.

Recommendation:

We recommend that management review the stale dated checks ledger on a quarterly basis and investigate amounts outstanding more than ninety days for possible adjustment.

GUAM TELEPHONE AUTHORITY  
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Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2001

Finding Number 2001-1 - Stale Dated Checks, Continued

Auditee Response dated January 7, 2003:

GTA agrees with the recommendation. Ms. Alice Cruz, Accounting Technician Supervisor, has been tasked to develop and implement a procedure to ensure proper handling of stale dated and unclaimed checks. Timeline given to Ms. Cruz is three months from August 5, 2002.

In the interim, Ms. Lita Tambalo and Ms. Judith Guerrero will be responsible for reviewing all requests for customer refunds to ensure the appropriate mailing address is used when processing a check. Additionally, should a check be returned, Ms. Tambalo and Ms. Guerrero will make every effort to contact the customer.

GUAM TELEPHONE AUTHORITY  
(A Public Corporation)

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2001

Finding Number 2001-2 - Inventory

Criteria:

Per review of management's response to our audit letter dated December 6, 1995, it was noted that beginning August 1995, warehouse personnel should conduct quarterly inventories to eliminate inventory spoilage and to make a determination of obsolescence on those items counted. Per review of management's response to our letter dated May 25, 2000, it was noted that GTA had established new standard operating procedures for the survey of obsolete inventories with monthly meetings to be convened by a survey committee. Additionally, per review of management's response to our letter dated June 8, 2001, it was noted that GTA would re-institute the survey committee, but would prioritize the corrective action plans for prior year findings 00-1 and 00-4 (accounts receivable area) prior to addressing the corrective action plan for this finding.

Condition:

The inventory allowance for GTA and Cellular is accrued at a rate of \$2,000 per month.

Cause:

Periodic analyses of excess damaged, discontinued or obsolete inventory are not prepared. Quantities on hand are not monitored to determine the adequacy of recorded reserves. An "inventory allowance expense" of \$2,000 per month is recorded, regardless of the physical characteristics or aging of inventory.

Effect:

The failure to perform periodic analyses of damaged, discontinued and obsolete inventory reduces management's ability to take timely corrective action to dispose of these items. In addition, this condition 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. There is also a risk that inventory may be understated due to excessive reserves since some outdated items may represent long-term replacement parts.

Prior Year Status:

The above condition is reiterative of conditions identified in the prior year audit of the Guam Telephone Authority.

Recommendation:

Management should review and adhere to existing policies and procedures for monitoring excess, discontinued or obsolete inventory. Long-term replacement parts should be identified and separately classified.

GUAM TELEPHONE AUTHORITY  
(A Public Corporation)

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2001

Finding Number 2001-2 – Inventory, Continued

Auditee Response dated January 7, 2003:

GTA Survey committee has conducted surveys in January 2002 and June 2002. Included in these surveys were items that were identified as damaged or obsolete inventory as identified by Plant and Engineering personnel. The committee will continue to meet quarterly to assess items that have been designated for survey by various departments of the Authority.

Additionally, warehouse personnel have worked with various departments and have identified long-term replacement parts. Ann DeJesus, Accounting Technician, in charge of inventory is currently reviewing the list to verify if indeed items are slow moving and should be reclassified a long-term replacement parts. Reclassification to long-term replacement parts should be done by the beginning of fiscal year 2003.

GUAM TELEPHONE AUTHORITY  
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Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2001

Finding Number 2001-3 - Deposits in Transit

Criteria:

Bank reconciling items should be properly documented.

Condition:

Deposits in transit below totaling \$128,986.77 were not properly supported:

<u>Bank Name</u>	<u>Account Name</u>	<u>Deposit in Transit Per Bank Recon</u>	<u>Deposit in Transit Per Schedule</u>	<u>Difference</u>
BOG	Customer Collection	\$ 461,894.44	\$ 358,632.48	\$ 103,261.96
BOH	Checking # 0038-007602	63,238.86	37,514.05	<u>25,724.81</u>
Total				\$ <u>128,986.77</u>

Cause:

The Authority utilizes a reconciliation procedure to derive total deposits in transit for use in bank reconciliations.

Effect:

The condition may result in a misstatement of cash balances of the affected accounts.

Recommendation:

Management should review and revise its current bank reconciliation procedures.

Auditee Response dated January 7, 2003:

GTA agrees with the recommendation. Ms. Lilian Babauta, Accounting Technician is tasked to reconcile bank statements is to support her in-transit amounts with schedule of dates and amounts that make up the dollar values identified as in-transit.

GUAM TELEPHONE AUTHORITY  
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Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2001

Finding Number 2001-4 - Accounts Receivable Reclassification

Criteria:

The inactive accounts receivable subsidiary ledger should be reviewed and reconciled on a regular basis to ensure proper classification.

Condition:

During our testing of inactive accounts receivable balances for GTA landline and cellular, we noted amounts in need of reclassification; however, due to system classification problems on conversion and classification entry errors, we are unable to identify the appropriate reclassification entry. Additionally, we noted that the sub-ledger did not agree to the general ledger as noted below:

	<u>GTA</u>	<u>CELLULAR</u>
Inactive balance per sub ledger	\$ 2,135,002	\$ 1,989,146
Inactive balance per G/L	<u>2,350,062</u>	<u>2,017,330</u>
Difference	\$ <u>215,060</u>	\$ <u>28,184</u>

Cause:

We are aware that Authority personnel have been working on this matter, which is not yet fully resolved.

Effect:

Inaccuracies in the schedules will prevent regular reconciliation of balances to the general ledger and the proper aging of inactive customer accounts receivable.

Prior Year Status:

The above condition is reiterative of conditions identified in the prior year audit of the Guam Telephone Authority.

Recommendation:

We recommend that management promptly resolve this condition. Management should consider seeking consultation from its system software provider.

Auditee Response dated January 7, 2003:

The GTA accounting staff has been working closely with our ISD department to implement processes to update the Inactive Subsidiary Ledgers. Viola Cruz, Accountant, has been tasked with monitoring and reconciling the Inactive Subsidiary Ledgers.

GUAM TELEPHONE AUTHORITY  
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Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2001

Finding Number 2001-5 – Long-Term Debt

Criteria:

Article IV of the Rural Utilities Service loan agreement states that the Authority should maintain a tariff designed to produce net income or margins, before interest, in such amounts that when divided by the amount of interest requirements on all of the borrower's outstanding and proposed loans, produces a ratio of 1.5.

Condition:

The Authority's RUS Form 479 for the following quarters indicated the following:

<u>Quarter Ended</u>	<u>Tier Ratio</u>
December 31, 2000	1.24
March 31, 2001	0.17
June 30, 2001	0.50
September 30, 2001	(0.85)

Cause:

The above condition does not reflect the adjustment of the unfunded retirement liability of the Authority's financial statements as mandated by Public Law 26.70.

Effect:

The above condition results in noncompliance with RUS debt covenants for the fiscal year ended September 30, 2001. However, it appears as a result of Public Law 26.70, this matter has subsequently been resolved.

Prior Year Status:

The above condition is reiterative of conditions identified in the prior year audit of the Guam Telephone Authority.

Recommendation:

We recommend that the Authority review projections for fiscal year 2002 to ensure tier requirements are met.

Auditee Response dated January 7, 2003:

The GTA agrees with the recommendation that the Authority review projections for fiscal year 2002 to meet its tier requirements.

GTA agrees with the audit recommendation and will review on a quarterly basis the financial statements in order to make recommendations to the General Manager relative to tier disposition.

GUAM TELEPHONE AUTHORITY  
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Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2001

Finding Number 2001-6 - Plant Specific Expense

Criteria:

Authority expenditures should be in line with services rendered and/or in line with the specific purpose of the Authority.

Condition:

Expenses for dump truck and backhoe rentals do not always clearly state the project to which the item relates. Additionally, it appears that review of such expenses should occur to determine whether these expenses should be capitalized.

Cause:

The cause of this condition appears to be that documentation of the manner in which the Authority benefited from these expenses was not always prepared and on file.

Effect:

This condition could result in items being expensed rather than capitalized and could result in other misclassified transactions.

Recommendation:

We recommend that the Authority review equipment rental expenses for compliance with the criteria.

Auditee Response dated January 7, 2003:

During fiscal year 2001, customer complaints/demands were escalating due to construction and installation schedule set backs. This was due to subscriber growth, facility damages, deterioration, and torrential rains which caused flooding in several areas throughout the island.

Plant Department formed a temporary backup crew of installers and cable splicer to assist in reducing the backorders. However, the existing dump trucks owned by GTA were being fully utilized by Force Account for job order and capital improvement projects. GTA's backhoes which are used and shared among Plants Northern, Central and southern Cable Maintenance crews, as well as Force Account, were frequently down and under repair due to age, wear and tear, and unavailability of parts.

The increased usage of equipment rental was therefore warranted during this period in order for Plant to achieve its efforts in delivering dial tone.



GUAM TELEPHONE AUTHORITY  
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Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2001

Finding Number 2001-7 - Depreciation Expense

Criteria:

Per review of “Stipulation Docket 99-05” before the Public Utilities Commission, Guam Telephone Authority and Georgetown Consulting Group (GCP) agree that fixed assets classified as buried cable metallic should be depreciated using twenty (20) years or two hundred forty (240) month lives.

Condition:

During tests of depreciation, it was noted that all assets under G/L # 242310 (buried cable metallic) were depreciated using twenty (25) years or three hundred (300) month lives.

Cause:

It appears that correction of the assets’ useful lives was not timely performed in the system.

Effect:

This condition resulted in a year-end audit adjustment of \$906,559 to increase depreciation.

Recommendation:

Management should periodically review useful lives used to depreciate assets to ensure asset depreciation is in accordance with regulatory requirements.

Auditee Response dated January 7, 2003:

GTA agrees with the recommendation. Ellen Santos, Accountant and Lilian Babauta, Accounting Technician will review the asset’s life months and ensure that the fixed assets depreciation is in accordance with regulatory requirements.

GUAM TELEPHONE AUTHORITY  
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Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2001

Finding Number 2001-8 - Accounts Receivable Aging and Receipts

Criteria:

The accounts receivable active and inactive subsidiary ledgers should be properly aged and customer payments should be applied against specific invoices.

Condition:

Valuation procedures performed on the accounts receivable inactive account indicate that outstanding customer balances are not being properly categorized in the appropriate aging categories. These procedures also indicate that customer payments do not appear to be properly allocated against specified invoices upon receipt.

Cause:

The Authority's system does not require that payments be matched with specific invoices.

Effect:

The accounts receivable active and inactive account balances may not be properly aged.

Prior Year Status:

The above condition is reiterative of conditions identified in the prior year audit of the Guam Telephone Authority.

Recommendation:

We recommend that management review the current billing and receipt system and propose modifications to allow for proper application of customer payments against specific outstanding invoices.

Auditee Response dated January 7, 2003:

Accounts receivable balances are properly aged in most cases. Accounts with improper aging were a result of adjustments entered with the wrong date. New procedures have been put in place to ensure adjustments. Adjustments can be applied to specific invoices, but we do not currently apply payments to specific invoices. Our ICMS System currently automatically applies payments to the oldest invoice.

There is a Payment Allocation process available, which would allow payment application to specific invoices. However, ICMS Support has recommended that we do not implement this feature, because it may produce unpredictable results. We have tested this process, and found discrepancies, with running reminder notices and suspension selection. To resolve these discrepancies, we have developed an in-house process to print reminder notices and process suspension selection. The reminder notice process was implemented in May of this year, and the suspension was implemented in December. We are hoping to complete testing of this process within the next month.

GUAM TELEPHONE AUTHORITY  
(A Public Corporation)

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2001

Finding Number 2001-9 – Capitalization Policy

Criteria:

Capitalization policies relating to construction and other capitalized projects should be reviewed for proper treatment and recording.

Condition:

The Authority capitalized \$1,592,971 and \$1,870,165 of labor and other overhead costs associated with construction and other capitalized projects during fiscal years 2001 and 2000, respectively. Management has not examined the propriety of such capitalization policies in recent years.

Cause:

The cause of this condition appears to be the result of the Authority's current capitalization practices.

Effect:

There does not appear to be significant impact on the presentation of the plant in service account of the construction work in progress accounts; however, capitalization policies improperly established may result in a misstatement of these accounts.

Recommendation:

We recommend that management periodically review the procedures used for capitalization of labor and other overhead costs for propriety.

Auditee Response dated January 7, 2003:

GTA agrees with the recommendation. Ellen Santos, Accountant and Lilian Babauta, Accounting Technician will periodically review the procedures used for capitalization of labor and other overhead costs for propriety. They will also work together with the Engineering department to ensure work orders are closed in the appropriate period to comply with the current policies.

GUAM TELEPHONE AUTHORITY  
(A Public Corporation)

Schedule of Prior Year Audit Findings  
Year Ended September 30, 2001

The status of prior year audit findings are contained within finding numbers 01-1, 01-2, 01-4, 01-5 and 01-8.



## **INDEPENDENT AUDITORS' MANAGEMENT LETTER REPORT**

The Board of Directors  
Guam Telephone Authority:

We have audited the financial statements of the Guam Telephone Authority (GTA), as of September 30, 2001, and for the year then ended, and have issued our report thereon dated April 30, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and 7 CFR Part 1773, Policy on Audits of Rural Utilities Service (RUS) Borrowers. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of GTA for the year ended September 30, 2001, we considered its internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

A description of the responsibility of management for establishing and maintaining the internal control over financial reporting, and the objectives of and inherent limitations in such control is set forth in our Independent Auditors' Report on Compliance and Internal Control Over Financial Reporting Based Upon the Audit Performed in Accordance with *Government Auditing Standards* dated April 30, 2002, and should be read in conjunction with this report.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting that we consider to be material weaknesses.

7 CFR Part 1773.34 requires comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and other additional matters. In addition to obtaining reasonable assurance about whether the financial statements are free from material misstatements, at your request, we performed tests of specific aspects of the internal control over financial reporting, of compliance with specific RUS loan and security instrument provisions, and of additional matters. The specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and additional matters tested include, among other things, the accounting procedures and records, materials control, compliance with specific RUS loan and security instrument provisions set forth in 7 CFR Part 1773.34(e)(2) and related party transactions. In addition, our audit of the financial statements also included the procedures specified in 7 CFR Part 1773.38-.45. Our objective was not to provide an opinion on these specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, or additional matters, and accordingly, we express no opinion thereon.

No reports (other than our Independent Auditors' Report, our Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting Based Upon the Audit Performed in Accordance with *Government Auditing Standards* and our Independent Auditors' Report on Compliance and Internal Control Over Compliance Applicable to Each Major Federal Award Program, all dated April 30, 2002) or summary of recommendations related to our audit have been furnished to management.

Our comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and other additional matters as required by 7 CFR Part 1773.34 are presented below.

#### COMMENTS ON CERTAIN SPECIFIC ASPECTS OF THE INTERNAL CONTROL OVER FINANCIAL REPORTING

We noted no matters regarding GTA's internal control over financial reporting and its operation that we consider to be a material weakness as previously defined with respect to:

- . the accounting procedures and records;
- . the process for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts, and;
- . the materials control.

#### EXCEPT AS NOTED IN FINDING NUMBER 01-5, COMMENTS ON COMPLIANCE WITH SPECIFIC RUS LOAN AND SECURITY INSTRUMENT PROVISIONS

Management's responsibility for compliance with laws, regulations, contracts, and grants is set forth in our Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based Upon the Audit Performed in Accordance with *Government Auditing Standards* dated April 30, 2002, and should be read in conjunction with this report. At your request, we have performed the procedures enumerated below with respect to compliance with certain provisions of laws, regulations, contracts and grants. The procedures we performed are summarized as follows:

- . Procedures performed with respect to the requirement to maintain all funds in institutions whose accounts are insured by an Agency of the Federal Government:
  - .. Obtained information from financial institutions with which GTA maintains funds that indicated that the institutions are insured by an Agency of the Federal Government.
- . Procedures performed with respect to the requirement for a borrower to obtain written approval of the mortgagee to enter into any contract for the operation or maintenance of property, for the use of mortgaged property by others, or for services pertaining to toll traffic, operator assistance, or switching for the year ended September 30, 2001, of GTA.
  - .. GTA did not enter into any new contracts for the operation or maintenance of its property, or for the use of its mortgaged property by others, or for services pertaining to toll traffic, operator assistance, or switching as defined in §1773.34 (e)(2)(i) during the year ended September 30, 2001.

## COMMENTS ON OTHER ADDITIONAL MATTERS

In connection with our audit of the financial statements of GTA, nothing came to our attention that caused us to believe that GTA failed to comply with respect to:

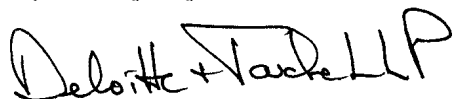
- the reconciliation of subsidiary plant records to the controlling general ledger plant accounts addressed at 7 CFR Part 1773.34(c)(1);
- the clearing of construction accounts and the accrual of depreciation on completed construction addressed at 7 CFR Part 1773.34(c)(2);
- the retirement of plant addressed at 7 CFR Part 1773.34(c)(3) and (4);
- sales of plant material or scrap addressed at 7 CFR Part 1773.34(c)(5); and
- the disclosure of material related party transactions, in accordance with Statement of Financial Accounting Standards (SFAS) No. 57, "Related Party Transactions," for the year ended September 30, 2001, in the financial statement referred to in the first paragraph of this report addressed at 7 CFR Part 1773.34(f).

## REPORTABLE CONDITIONS

In connection with our audit of the financial statements of GTA, we noted reportable conditions which are set forth in findings 01-1 through 01-9 on pages 8 to 18.

\* \* \* \* \*

This report is intended for the information of Board of Directors and management of GTA and 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 those specified parties.



April 30, 2002