

**GUAM TELEPHONE AUTHORITY**

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

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**YEAR ENDED SEPTEMBER 30, 1998**



**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 (GTA), as of September 30, 1998, and for the year then ended, and have issued our report thereon dated December 31, 1998. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

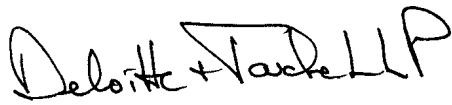
As part of obtaining reasonable assurance about whether GTA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered GTA'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 GTA'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 98-1 through 98-12.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, 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 GTA and the Rural Utilities Service, Rural Telephone Bank and Federal Financing Bank and other federal agencies. However, this report is a matter of public record and its distribution is not limited.

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

December 31, 1998



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL  
CONTROL OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD  
PROGRAM AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

The Board of Directors  
Guam Telephone Authority:

**Compliance**

We have audited the compliance of the Guam Telephone Authority (GTA) 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, 1998. GTA's major federal program is identified in the Schedule of Expenditures of Federal Awards (page 5). Compliance with the requirements of laws, regulations, contracts and grants applicable to its one major federal program is the responsibility of GTA's management. Our responsibility is to express an opinion on GTA's compliance based on our audit.

We conducted our audit in accordance with generally accepted auditing standards; 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 GTA'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 GTA'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 1998.

**Internal Control Over Compliance**

The management of GTA 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 GTA'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.

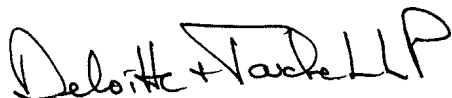
We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect GTA's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 98-1 through 98-4.

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 none of the reportable conditions described above to be material weaknesses.

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of GTA as of and for the year ended September 30, 1998, and have issued our report thereon dated December 31, 1998. 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 GTA. 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 the Board of Directors and management of the GTA and the Rural Utilities Service, Rural Telephone Bank and Federal Financing Bank and other federal agencies. However, this report is a matter of public record and its distribution is not limited.

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

December 31, 1998

GUAM TELEPHONE AUTHORITY  
(A Public Corporation)

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 1998

Federal grantor/ program title/ project designation	Catalog of Federal Domestic Assistance Number	Account Number	Project Amount	Balance at beginning of year	Advances	Repayments	Balance at end of year
Department of Agriculture, Rural Utilities Service:							
Rural Telephone loans:	10.851						
Guam 501-A8, Tamuning		12010	\$ 5,285,000	\$ 3,245,690	- \$	164,530	\$ 3,081,160
Guam 501-A8, Tamuning		12020	16,498,000	10,341,593	-	528,048	9,813,545
Guam 501-A8, Tamuning		12021	217,000	142,345	-	7,223	135,122
Guam 501-B8, Tamuning		12030	1,766,000	1,120,151	-	55,859	1,064,292
Guam 501-B8, Tamuning		12031	3,683,000	2,473,442	-	119,680	2,353,762
Guam 501-C8, Tamuning		12040	9,135,004	6,999,860	-	228,087	6,771,773
Guam 501-C8, Tamuning		12041	621,996	497,318	-	16,196	481,122
Guam 501-D4, Tamuning		12050	12,393,054	10,589,321	-	254,107	10,335,214
Guam 501-D4, Tamuning		12051	8,176,946	7,275,320	-	175,573	7,099,747
Guam 501-E4, Tamuning		12060	40,558,000	38,074,290	-	658,500	37,415,790
Guam 501-E4, Tamuning		12061	7,964,000	7,759,915	-	136,877	7,623,038
				<u>88,519,245</u>	<u>-</u>	<u>2,344,680</u>	<u>86,174,565</u>
Rural Telephone Bank loans:	10.852						
Guam 501-D7, Tamuning		R010	3,526,950	3,277,738	-	42,728	3,235,010
Guam 501-E7, Tamuning		R020	3,021,000	2,961,209	-	42,401	2,918,808
Guam 501-E7, Tamuning		R022	2,756,250	2,700,045	-	42,150	2,657,895
Guam 501-E7, Tamuning		R023	2,031,750	1,958,067	-	40,846	1,917,221
Guam 501-E7, Tamuning		R024	2,016,000	1,994,670	-	28,060	1,966,610
Guam 501-E7, Tamuning		R025	296,100	289,523	-	4,333	285,190
Guam 501-E7, Tamuning		R026	5,961,750	1,186,107	-	14,676	1,171,431
Guam 501-E7, Tamuning		5027	1,365,000	-	1,365,000	42,440	1,322,560
Guam 501-E7, Tamuning		5028	848,000	-	848,000	10,363	837,637
Guam 501-E7, Tamuning		5520	1,193,850	-	1,193,850	-	1,193,850
				<u>14,367,359</u>	<u>3,406,850</u>	<u>267,997</u>	<u>17,506,212</u>
Federal Financing Bank loans:	Not applicable						
Guam 501-F9, Tamuning		H0010	223,000	202,082	-	6,221	195,861
Guam 501-F9, Tamuning		H0015	1,006,000	906,311	-	29,291	877,020
Guam 501-F9, Tamuning		H0020	250,000	224,171	-	7,518	216,653
Guam 501-F9, Tamuning		H0025	601,000	540,140	-	17,796	522,344
Guam 501-F9, Tamuning		H0030	1,269,000	1,137,293	-	38,300	1,098,993
Guam 501-F9, Tamuning		H0035	16,000	14,285	-	495	13,790
Guam 501-F9, Tamuning		H0040	5,600,000	5,007,539	-	177,218	4,830,321
Guam 501-F9, Tamuning		H0045	709,000	631,884	-	22,408	609,476
Guam 501-F9, Tamuning		H0050	750,000	668,388	-	23,344	645,044
Guam 501-F9, Tamuning		H0055	715,000	646,947	-	21,828	625,119
Guam 501-F9, Tamuning		H0060	181,000	167,092	-	5,003	162,089
Guam 501-F9, Tamuning		H0065	6,380,000	5,932,411	-	173,387	5,759,024
Guam 501-F9, Tamuning		H0070	800,000	743,473	-	21,870	721,603
Guam 501-F9, Tamuning		H0075	1,110,000	1,038,600	-	29,652	1,008,948
Guam 501-F9, Tamuning		H0080	2,473,000	2,335,066	-	69,259	2,265,807
Guam 501-F9, Tamuning		H0085	2,409,000	2,271,944	-	68,671	2,203,273
Guam 501-F9, Tamuning		H0090	208,000	196,280	-	6,413	189,867
				<u>22,663,906</u>	<u>-</u>	<u>718,674</u>	<u>21,945,232</u>
Note: All loans are received in a direct recipient capacity.				<u>\$ 125,550,510</u>	<u>3,406,850</u>	<u>3,331,351</u>	<u>\$ 125,626,009</u>
					Receipts	Disbursements	Balance at end of year
Federal Emergency Management Agency							
Typhoon Omar	83.516	Not applicable		\$ 1,092,582	-	-	1,092,582
Typhoon Paka	83.516	Not applicable		-	29,165	227,117	197,952
				<u>\$ 1,092,582</u>	<u>29,165</u>	<u>227,117</u>	<u>\$ 1,290,534</u>
Note: All loans are received in a direct recipient capacity.							

GUAM TELEPHONE AUTHORITY  
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Schedule of Findings and Questioned Costs  
Year Ended September 30, 1998

**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 no findings 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>
98-1	Property, Plant and Equipment	\$ -	8
98-2	Property, Plant and Equipment	-	9
98-3	Property, Plant and Equipment	-	10
98-4	Insurance	-	11
98-5	Receivables	-	12
98-6	Receivables	-	13
98-7	Receivables	-	14
98-8	Inventory	-	15
98-9	Revenue/Receipts	-	16
98-10	Accounts payable	-	17
98-11	Revenue/Receipts	-	18
98-12	Property, Plant and Equipment	-	19

GUAM TELEPHONE AUTHORITY  
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Schedule of Findings and Questioned Costs  
Year Ended September 30, 1998

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

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
98-1	Property, Plant and Equipment	\$ -	8
98-2	Property, Plant and Equipment	-	9
98-3	Property, Plant and Equipment	-	10
98-4	Insurance	-	11



GUAM TELEPHONE AUTHORITY  
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Schedule of Findings and Questioned Costs  
Year Ended September 30, 1998

Finding No. 98-1 – Property, Plant and Equipment

Criteria: The construction work in progress account should be reviewed and reconciled with the open projects listing (maintained by the Engineering Department) in a timely manner.

Condition: During testing of CWIP transfers and through inquiry of personnel in the Accounting and Engineering Departments, approximately \$19,900,000 and \$1,250,000 of completed projects were not transferred from the construction work in progress account to the fixed asset account for GTA and Cellular respectively. Projects were completed during the periods from FY93 through FY97, with approximately 50% of the depreciable charges being attributed to capitalizable Engineering Department costs which were not closed out to fixed assets upon project completion.

Cause: The Accounting and Engineering Departments each track projects in progress, with Engineering providing final project close out documentation to the Accounting Department. Reconciliation of the two departmental CWIP listings has not been performed.

Effect: The above condition results in the overstatement of CWIP and an understatement of plant in service, depreciation expense and accumulated depreciation by a material amount.

Recommendation: The Accounting Department should reconcile the CWIP account to the CWIP list being tracked by the Engineering Department on a monthly or quarterly basis. The Engineering Department should ensure that all charges relating to a specific completed project are charged accordingly upon project completion.

Status of Prior Year Finding: The above finding is a carryforward finding (97-1) from fiscal year 1997. This issue has not been corrected as of September 30, 1998. See also 98-3 for additional information.

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Schedule of Findings and Questioned Costs  
Year Ended September 30, 1998

Finding No. 98-2 – Property, Plant and Equipment

Criteria: Per 7 CFR Part 1788.12, in the event of damage, loss or destruction of property mortgaged to the government covered by insurance, the borrower shall repair or replace the damaged, lost, or destroyed property so that the property is substantially the same condition as before the damage, loss or destruction.

Condition: Per review of the damages listed for typhoon Paka, we are unable to determine whether damages were incurred on property mortgaged to the government.

Cause: Fixed assets are not classified as either “federally funded” or “GTA funded” upon recording.

Effect: There is a potential for non-compliance as the insurance proceeds are not differentiated between federally funded and GTA funded fixed assets.

Recommendation: Fixed asset records should specify funding source.

GUAM TELEPHONE AUTHORITY  
(A Public Corporation)

Schedule of Findings and Questioned Costs  
Year Ended September 30, 1998

Finding No. 98-3 – Property, Plant and Equipment

Criteria: Construction work in progress (CWIP) projects that are completed and placed in service should be reclassified from CWIP to a capital asset account. Furthermore, CWIP contracts should be reconciled and investigated in a timely manner to determine whether such contracts should be closed.

Condition: During testing of CWIP transfers and through inquiry of personnel in the Accounting and Engineering Departments, the amounts indicated below were not transferred from the construction work in progress account to the fixed asset account for GTA and Cellular, respectively. Projects were completed during periods from FY93 through FY98, but were not capitalized as of year end.

<u>CWIP Type</u>	<u>GTA</u>	<u>Cellular</u>	<u>Total</u>
Force	\$ 3,524,735	\$ 471,565	\$ 3,996,300
Contract	<u>436,514</u>	<u>1,176,911</u>	<u>1,613,425</u>
Totals	\$ <u>3,961,249</u>	\$ <u>1,648,476</u>	\$ <u>5,609,725</u>

Cause: The Accounting and Engineering Departments are not coordinating their efforts to monitor the status of jobs in progress.

Effect: The effect of this condition is a delayed reclassification of CWIP to capital asset accounts which results in a:

- \$5,609,210 overstatement of CWIP
- \$5,609,210 understatement of capital assets
- \$194,492 understatement of depreciation expense
- \$194,492 understatement of accumulated depreciation

Recommendation: The Accounting Department should reconcile the CWIP account to the CWIP list being tracked by the Engineering Department on a monthly or quarterly basis. Internal controls should be placed in operation to ensure that CWIP accounts are aged. Jobs with no transactions for more than ninety days should be brought to Engineering's attention. Engineering should be responsible for determining and authorizing final capitalization approval.

GUAM TELEPHONE AUTHORITY  
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Schedule of Findings and Questioned Costs  
Year Ended September 30, 1998

Finding No. 98-4 - Insurance

Criteria: Per 7 CFR Part 1788.3, borrowers shall furnish written evidence to RUS within sixty days of the close of each calendar year stating that during such year all insurance required by this Part 1788 was in force and renewals have been obtained for all policies.

Condition: The certification of insurance coverage could not be provided.

Cause: The cause of the condition is unknown.

Effect: The Authority may not be in compliance with the above mentioned requirement.

Recommendation: Written evidence should be submitted to RUS to obtain certification of insurance coverage.

GUAM TELEPHONE AUTHORITY  
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Schedule of Findings and Questioned Costs  
Year Ended September 30, 1998

Finding No. 98-5 - Receivables

Criteria: Subledgers should be periodically reconciled with the general ledger. Reconciliations should be performed and variances addressed to prove the accuracy of recorded accounts receivable balances.

Condition: Differences exist between subledger and book balances as of September 30, 1998 as follows:

GTA

<u>Description</u>	<u>Per sub ledger (net)</u>	<u>Per G/L (net)</u>	<u>Under (over) stated</u>
1181 A/R active	\$ 2,487,289	\$ 2,227,918	\$ 259,371
1182 A/R inactive	<u>1,998,357</u>	<u>2,010,531</u>	<u>(12,174)</u>
Totals	\$ <u>4,485,646</u>	\$ <u>4,238,449</u>	\$ <u>247,197</u>

The accounts receivable subledger is comprised of residential, business, local government, and federal accounts. Per review of the billing register, a majority of the variances are in the "local government-active" accounts.

<u>Account #</u>	<u>Per sub ledger</u>	<u>Per G/L</u>	<u>Understated</u>
11813	\$ 516,462	\$ 251,389	\$ 265,073

<u>Description</u>	<u>Per sub ledger (net)</u>	<u>Per G/L (net)</u>	<u>Under (over) stated</u>
Accounts payable trade	\$ 1,099,393	\$ 1,363,853	\$ (264,490)

CELL

<u>Description</u>	<u>Per sub ledger (net)</u>	<u>Per G/L (net)</u>	<u>Under (over) stated</u>
1181 A/R active	\$ 551,342	\$ 842,295	\$ (290,953)
1182 A/R inactive	<u>894,888</u>	<u>901,706</u>	<u>(6,818)</u>
Totals	\$ <u>1,446,230</u>	\$ <u>1,744,001</u>	\$ <u>(297,771)</u>

The accounts receivable subledger is comprised of individual, business, local government, and federal accounts. Per review of the billing register, a majority of the variances are in the "individual-active" accounts.

<u>Account #</u>	<u>Per sub ledger</u>	<u>Per G/L</u>	<u>Understated</u>
1181100	\$ 36,805	\$ 326,895	\$ 290,090

Cause: The accounts receivable and accounts payable reconciliations have not been performed and agreed to the general ledger balances in a timely manner.

Effect: There is a potential for accounts receivable, accounts payable, and basic local revenue account balances to be misstated.

Recommendation: Account subledgers should be reconciled on a monthly basis and adjusted results should be reflected in general ledger balances in a timely manner.

GUAM TELEPHONE AUTHORITY  
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Schedule of Findings and Questioned Costs  
Year Ended September 30, 1998

Finding No. 98-6 - Receivables

Criteria: Negative balances in the accounts receivable active and inactive billing registers should be resolved in a timely manner.

Condition: At September 30, 1998, the following negative balances were noted in both the accounts receivable active and inactive accounts:

A/R - Active

GTA -\$601,095.34 (or 24%) of the total accounts receivable active balance (\$2,487,289.39) are negative amounts. Negative balances outstanding for over one year aggregate \$43,104.08 (or 7%). The negative balances range from \$0.25 to \$13,150.00 and comprise 142 records. We also noted that some of these amounts date back to 1992.

Cell - \$37,527.87 (or 7%) of the total accounts receivable active balance (\$551,228.55) are negative amounts.

A/R - Inactive

GTA - \$261,243.80 (or 13%) of the total A/R inactive balance (\$1,998,357.08) are negative amounts. Negative balances outstanding for over one year is \$163,767.04 (or 63%). The negative balances range from \$0.01 to \$8,087.50 and is composed of 5,776 records. We also noted that some of these amounts date back to 1989.

Cell - \$18,220.20 (or 2%) of the total A/R inactive balance (\$894,888.20) are negative amounts.

Effect:

- Real costs are being incurred in maintaining and reporting this information.
- Delayed recognition of revenues for customers who have both positive and negative balances in other accounts.
- Possible non compliance occurs with Government of Guam requirements regarding unclaimed prepayments.

Recommendation: Procedures should be implemented to ensure that credits are applied in a timely manner.

GUAM TELEPHONE AUTHORITY  
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Schedule of Findings and Questioned Costs  
Year Ended September 30, 1998

Finding No. 98-7 - Receivables

Criteria: Receivables should be carried at net realizable value.

Condition: Receivables include amounts that date back as far as 1985. These receivables do not appear to be recoverable and as such, GTA should consider writing these amounts off.

<u>Acct #</u>	<u>Name</u>	<u>Balance &gt; 3 years old as of 9/30/98</u>
1184.200	A/R collection agency KCO	\$ 219,545
1184.300	A/R collection agency	8,741
1191.000	A/R KCO active	<u>740,264</u>
Total		\$ <u>968,550</u>

Cause: The cause of this condition is unknown.

Effect: An overstatement of receivables and of miscellaneous revenue results from this condition. Real costs are being incurred in maintaining and reporting this information.

Recommendation: We recommend that management assess receivable amounts on an individual basis to determine the potential write-off required. The allowance for doubtful accounts should be recorded at a level necessary to account for all anticipated uncollectible accounts existing in the accounts receivable portfolio.

GUAM TELEPHONE AUTHORITY  
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Schedule of Findings and Questioned Costs  
Year Ended September 30, 1998

Finding No. 98-8 - 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.

Condition: During our observation of the physical inventory and review of the general ledger, we noted that no items were surveyed during the fiscal year. We also noted one item that appeared to be old.

Item #:	J7238	Extended cost:	\$105,391.60
Item description:	X9943041 Cable DE-4Esmart	Received date:	April 16, 1996
Unit cost:	\$304.60	Age:	2 yrs, 5 mos
Qty:	346 units		

In reviewing the inventory listing for GTA and Cellular, we noted \$1,220,177 of inventory items that have not moved for in excess of one year.

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.

Recommendation: Management should establish formal policies and procedures for monitoring excess, discontinued or obsolete inventory. Long-term replacement parts should be identified and separately classified.



GUAM TELEPHONE AUTHORITY  
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Schedule of Findings and Questioned Costs  
Year Ended September 30, 1998

Finding No. 98-9 – Revenue/Receipts

Criteria: The special circuits department is to monitor the monthly revenues and minutes per the CABS invoice. The information systems department is to monitor errors discovered every ten days. The accounting department is to monitor monthly revenues per the general ledger.

Condition: The departments noted above do not document that the required monitoring has occurred.

Cause: The cause of this condition is unknown.

Effect: The effect of this condition is that errors discovered may be overlooked, duplicate adjustments may be posted, and a possible misstatement of CABS revenue could occur.

Recommendation: Internal controls should be implemented to ensure that the appropriate departments maintain records documenting that the required monitoring occurred and the results of this monitoring.

GUAM TELEPHONE AUTHORITY  
(A Public Corporation)

Schedule of Findings and Questioned Costs  
Year Ended September 30, 1998

Finding No. 98-10 – Accounts Payable

Criteria: The account payable subsidiary ledgers should be maintained to ensure outstanding balances represent items that were actually received. If an item is based on an estimate, actual amounts should be subsequently recorded.

Condition: During the confirmation process of accounts payable trade, certain transactions listed per the accounts payable ledger were noted as:

- (a) old, (earliest date is February 14, 1992) or
- (b) not supported by invoices and receiving reports.

<u>Condition type</u>	<u>Vendor #</u>	<u>Questionable balance</u>
(a)	1111	\$ 33,103
(b)	0964	\$104,532

Condition: Approximately \$215,866 (or 20%) of the total accounts payable trade balance (\$1,099,393) is greater than ninety days old.

Cause: The cause of this condition is not known.

Effect: A possible misstatement of the accounts payable balance could result from this condition.

Recommendation: We recommend that supporting documentation be appropriately maintained and management review the aged accounts payable ledger on a monthly basis, and investigate amounts that are greater than ninety days old.

GUAM TELEPHONE AUTHORITY  
(A Public Corporation)

Schedule of Findings and Questioned Costs  
Year Ended September 30, 1998

Finding No. 98-11 – Revenue/Receipts

Criteria: Non-billable costs shall not be charged as receivable from a customer.

Condition: Per review of the accounts receivable billing system, the following amounts were billed subsequent to September 30, 1998 as follows:

Main billing number 500-0111-0

October '98	\$39,129
November '98	\$36,522
December '98	\$35,994

Per discussion with management, GTA has subsequently determined that it is not authorized to assess these fees to the above customer.

Cause: The computer system automatically bills based on minutes of use. A formal order from management has not been issued to the circuits/data department to cease billing the above charges.

Effect: An overstatement of accounts receivable and basic local revenue results from this condition.

Recommendation: The circuits/data department should be formally requested to cease billing for the above unallowable services.

GUAM TELEPHONE AUTHORITY  
(A Public Corporation)

Schedule of Findings and Questioned Costs  
Year Ended September 30, 1998

Finding No. 98-12 – Property, Plant and Equipment

Criteria: Fixed asset registers should be updated on a regular basis.

Condition: Management is in the process of performing a comprehensive inventory of certain fixed asset categories (vehicles, test equipment, furniture and fixtures, computers, office support equipment) where the continuing property records have not been updated.

Cause: The continuing property listing has not been updated.

Effect: Fixed assets may be misstated.

Recommendation: Internal controls should be strengthened to ensure that continuing property records are updated on a timely basis.

# **GUAM TELEPHONE AUTHORITY**

## **Schedule of Prior Year Audit Findings Year Ended September 30, 1998**

The status of prior year audit findings are contained within finding number 98-1.



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

The Board of Directors  
Guam Telephone Authority:

We have audited the financial statements of the Guam Telephone Authority (GTA) for the year ended September 30, 1998, and have issued our report thereon dated December 31, 1998, which was qualified because insufficient audit evidence exists to support GTA's disclosures with respect to the year 2000 issue. Except as discussed in the preceding sentence, we conducted our audit in accordance with generally accepted auditing standards, 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, 1998, 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 December 31, 1998, 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 December 31, 1998) 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.

#### 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 December 31, 1998, 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:

- . Procedure 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, 1998, 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, 1998.

## 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:

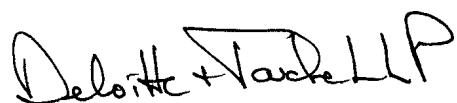
- the reconciliation of subsidiary plant records to the controlling general ledger plant accounts addressed at 7 CFR Part 1773.34(c)(1);
- the clearing of construction accounts and the accrual of depreciation on completed construction addressed at 7 CFR Part 1773.34(c)(2), except as set forth in finding number 98-1 and 98-3 on page 21 and 23 of the abovementioned audit reports;
- 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, 1998, 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 98-1 through 98-12 on pages 8 to 19.

\* \* \* \* \*

This report is intended solely for the information and use of the Board of Directors, management, and the RUS and supplemental lenders. However, this report is a matter of public record and its distribution is not limited.



December 31, 1998