

GUAM TELEPHONE AUTHORITY

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

YEAR ENDED SEPTEMBER 30, 1999



**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, 1999, and for the year then ended, and have issued our report thereon dated May 25, 2000. 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

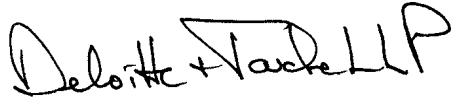
As part of obtaining reasonable assurance about whether GTA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination 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 99-1 through 99-7.

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 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.

Deloitte + Tatchell LLP

May 25, 2000



**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 (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, 1999. GTA'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 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, 1999.

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.

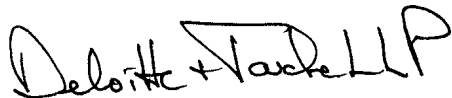
We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance 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. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 99-7.

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, 1999, and have issued our report thereon dated May 25, 2000. 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 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.

A handwritten signature in black ink that reads "Deloitte + Tuck LLP". The signature is stylized, with the "D" and "T" being particularly large and prominent.

May 25, 2000

GUAM TELEPHONE AUTHORITY
(A Public Corporation)

Schedule of Expenditures of Federal Awards
Year Ended September 30, 1999

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	\$ 3,081,160	\$ -	\$ -	\$ 3,081,160
Guam 501-A8, Tamuning		12020	16,498,000	9,813,545	-	-	9,813,545
Guam 501-A8, Tamuning		12021	217,000	135,122	-	-	135,122
Guam 501-B8, Tamuning		12030	1,766,000	1,064,292	-	-	1,064,292
Guam 501-B8, Tamuning		12031	3,683,000	2,353,762	-	-	2,353,762
Guam 501-C8, Tamuning		12040	9,135,004	6,771,773	-	-	6,771,773
Guam 501-C8, Tamuning		12041	621,996	481,122	-	-	481,122
Guam 501-D4, Tamuning		12050	12,393,054	10,335,214	-	-	10,335,214
Guam 501-D4, Tamuning		12051	8,176,946	7,099,747	-	-	7,099,747
Guam 501-E4, Tamuning		12060	40,558,000	37,415,790	-	-	37,415,790
Guam 501-E4, Tamuning		12061	7,964,000	7,623,038	-	-	7,623,038
				<u>86,174,565</u>	<u>-</u>	<u>-</u>	<u>86,174,565</u>
Rural Telephone Bank loans:	10.852						
Guam 501-D7, Tamuning		R010	3,526,950	3,235,010	-	-	3,235,010
Guam 501-E7, Tamuning		R020	3,021,000	2,918,808	-	-	2,918,808
Guam 501-E7, Tamuning		R022	2,756,250	2,657,895	-	-	2,657,895
Guam 501-E7, Tamuning		R023	2,031,750	1,917,221	-	-	1,917,221
Guam 501-E7, Tamuning		R024	2,016,000	1,966,610	-	-	1,966,610
Guam 501-E7, Tamuning		R025	296,100	285,190	-	-	285,190
Guam 501-E7, Tamuning		R026	5,961,750	1,171,431	-	-	1,171,431
Guam 501-E7, Tamuning		5027	1,365,000	1,322,560	-	-	1,322,560
Guam 501-E7, Tamuning		5028	848,000	837,637	-	-	837,637
Guam 501-E7, Tamuning		5520	1,193,850	1,193,850	-	-	1,193,850
				<u>17,506,212</u>	<u>-</u>	<u>-</u>	<u>17,506,212</u>
Federal Financing Bank loans:	Not applicable						
Guam 501-F9, Tamuning		H0010	223,000	195,861	-	-	195,861
Guam 501-F9, Tamuning		H0015	1,006,000	877,020	-	-	877,020
Guam 501-F9, Tamuning		H0020	250,000	216,653	-	-	216,653
Guam 501-F9, Tamuning		H0025	601,000	522,344	-	-	522,344
Guam 501-F9, Tamuning		H0030	1,269,000	1,098,993	-	-	1,098,993
Guam 501-F9, Tamuning		H0035	16,000	13,790	-	-	13,790
Guam 501-F9, Tamuning		H0040	5,600,000	4,830,321	-	-	4,830,321
Guam 501-F9, Tamuning		H0045	709,000	609,476	-	-	609,476
Guam 501-F9, Tamuning		H0050	750,000	645,044	-	-	645,044
Guam 501-F9, Tamuning		H0055	715,000	625,119	-	-	625,119
Guam 501-F9, Tamuning		H0060	181,000	162,089	-	-	162,089
Guam 501-F9, Tamuning		H0065	6,380,000	5,759,024	-	-	5,759,024
Guam 501-F9, Tamuning		H0070	800,000	721,603	-	-	721,603
Guam 501-F9, Tamuning		H0075	1,110,000	1,008,948	-	-	1,008,948
Guam 501-F9, Tamuning		H0080	2,473,000	2,265,807	-	-	2,265,807
Guam 501-F9, Tamuning		H0085	2,409,000	2,203,273	-	-	2,203,273
Guam 501-F9, Tamuning		H0090	208,000	189,867	-	-	189,867
				<u>21,945,232</u>	<u>-</u>	<u>-</u>	<u>21,945,232</u>
Note: All loans are received in a direct recipient capacity.				<u>\$ 125,626,009</u>	<u>-</u>	<u>-</u>	<u>\$ 125,626,009</u>
					Receipts	Disbursements	Adj.
Federal Emergency Management Agency							Balance at end of year
Typhoon Omar	83.516	Not applicable	\$ 1,092,582	-	-	(402,994)	689,588
Typhoon Paka	83.516	Not applicable	197,952	(78,062)	-	12,903	132,793
			<u>\$ 1,290,534</u>	<u>(78,062)</u>	<u>-</u>	<u>(390,091)</u>	<u>\$ 822,381</u>

Note: All loans are received in a direct recipient capacity.

The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.

GUAM TELEPHONE AUTHORITY
(A Public Corporation)

Schedule of Findings and Questioned Costs
Year Ended September 30, 1999

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>
99-1	Receivables	\$ -	8
99-2	Inventory	\$ -	9
99-3	Cash	\$ -	10
99-4	Receivables	\$ -	11
99-5	Accruals	\$ -	13
99-6	Payables	\$ -	14
99-7	Property, Plant and Equipment	\$ -	15

GUAM TELEPHONE AUTHORITY
(A Public Corporation)

Schedule of Findings and Questioned Costs
Year Ended September 30, 1999

Part III - Federal Award Findings and Questioned Cost Section

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
99-7	Property, Plant and Equipment	\$ -	15

GUAM TELEPHONE AUTHORITY
(A Public Corporation)

Schedule of Findings and Questioned Costs
Year Ended September 30, 1999

Finding No. 99-1 - Accounts Receivable-Active and Inactive

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

Condition: At September 30, 1999, the following negative balances were noted in both the accounts receivable active and inactive accounts:

A/R - Active

GTA -\$957,211 (or 38%) of the total accounts receivable active balance (\$2,493,330) Negative balances outstanding for over one year aggregate \$52,455 (or 5%). The negative balances range from \$0.25 to \$13,100 and comprise 152 records. We also noted that some of these amounts date back to 1992.

Cell - \$26,433 (or 3%) of the total accounts receivable active balance (\$834,353)

A/R – Inactive

GTA - \$299,103 (or 13%) of the total A/R inactive balance (\$2,298,683) are negative amounts. Negative balances outstanding for over one year are \$226,037 (or 76%). The negative balances range from \$0.01 to \$7,722 and is composed of 7,672 records. We also noted that some of these amounts date back to 1986.

Cell - \$25,643 (or 2.55%) of the total A/R inactive balance (\$1,005,110) are negative amounts.

Prior Year Status:

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

Cause: This condition was caused by customer advanced payments for future billing periods.

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
(A Public Corporation)

Schedule of Findings and Questioned Costs
Year Ended September 30, 1999

Finding No. 99-2 - Inventory Allowance and 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: The inventory listing for GTA and Cellular, noted \$1,447,601 of inventory items that has 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
(A Public Corporation)

Schedule of Findings and Questioned Costs
Year Ended September 30, 1999

Finding No. 99-3 - Stale Dated Checks

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

Condition: Review of the stale dated checks subsidiary details indicates that checks in this account are dated as follows:

Stale dated checks

1997 and prior	\$ 157,534
1998	30,203
1999	<u>40,004</u>
	\$ <u>227,741</u>

Cause: Management may not have consulted with legal counsel to determine the appropriate disposition of these amounts.

Effect: A possible misstatement of the stale dated checks balance could result from this condition.

Recommendation: We recommend that management review the stale dated checks ledger on a quarterly basis, and investigate amounts that are greater than ninety days old for possible adjustment.

GUAM TELEPHONE AUTHORITY
(A Public Corporation)

Schedule of Findings and Questioned Costs
Year Ended September 30, 1999

Finding No. 99-4 - Accounts Receivable Active and Accounts Receivable-Inactive

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, 1999 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	\$ 2,493,330	\$ 1,918,040	\$ 575,290
1182 A/R inactive	<u>2,298,683</u>	<u>2,565,948</u>	<u>(267,265)</u>
Totals	\$ <u>4,792,013</u>	\$ <u>4,483,988</u>	\$ <u>308,025</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 subledger</u>	<u>Per G/L</u>	<u>Understated</u>
11813	\$ 1,173,247	\$ 638,909	\$ 534,338

CELL:

<u>Description</u>	<u>Per sub ledger (net)</u>	<u>Per G/L (net)</u>	<u>(Overstated)</u>
1181 A/R active	\$ 834,354	\$ 853,343	\$ (18,989)
1182 A/R inactive	<u>1,005,439</u>	<u>1,048,529</u>	<u>(43,090)</u>
Totals	\$ <u>1,839,793</u>	\$ <u>1,901,872</u>	\$ <u>(62,079)</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 subledger</u>	<u>Per G/L</u>	<u>(Overstated)</u>
1181200	\$ 635,822	\$ 725,899	\$ (90,077)

Additionally, review of the subsidiary ledgers for Northern Telecom, Inc. and the Treasurer of Guam, indicates that there are unpaid invoices outstanding since FY92 totalling \$33,546.

Prior Year Status:

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

GUAM TELEPHONE AUTHORITY
(A Public Corporation)

Schedule of Findings and Questioned Costs
Year Ended September 30, 1999

Finding No. 99-4 - Accounts Receivable Active and Accounts Receivable-Inactive, Continued

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
(A Public Corporation)

Schedule of Findings and Questioned Costs
Year Ended September 30, 1999

Finding No. 99-5 - Accrued Accounts Payable

Criteria: The accrued accounts payable subsidiary ledger should be reviewed and reconciled on a quarterly basis.

Condition: During our review of the accrued accounts payable account, we noted that this account had not been reconciled or adjusted for the payment of recorded accruals totaling \$273,004. This condition was properly adjusted as of September 30, 1999 through the audit process.

Cause: The cause of this condition appears to stem from a lack of reconciliation processes due to a change in accounting systems.

Effect: A possible misstatement of the accounts payable account and expense could result from this condition.

Recommendation: We recommend that the accrued accounts payable account be reviewed and reconciled on a quarterly basis.

GUAM TELEPHONE AUTHORITY
(A Public Corporation)

Schedule of Findings and Questioned Costs
Year Ended September 30, 1999

Finding No. 99-6 – Accounts Payable

Criteria: The accounts payable account should be reviewed and balances greater than ninety days outstanding examined and resolved.

Condition: During our review of the accounts payable trade account, we noted that forty nine (49%), or \$162,800, of this balance was greater than ninety days outstanding.

Cause: The cause of this condition appears to stem from a lack of reconciliation processes due to a change in accounting systems.

Effect: A possible misstatement of the accounts payable account and expense could result from this condition.

Recommendation: We recommend that the accounts payable account be reviewed and balances greater than ninety days outstanding examined and resolved in a timely manner.

GUAM TELEPHONE AUTHORITY
(A Public Corporation)

Schedule of Findings and Questioned Costs
Year Ended September 30, 1999

Finding No. 99-7 – Property, Plant and Equipment

Criteria: The accounting department should be properly informed upon the disposal of capitalized assets.

Condition: The Authority conducted a physical fixed asset inventory on certain categories in the general fixed asset section. This resulted in the write-off of approximately \$707,000 of the net book value of general fixed assets during fiscal year 1999.

Cause: Management conducted a detailed analysis of its continuing property records and then proceeded to conduct a comprehensive inventory of these assets. No comprehensive inventory had previously been conducted.

Effect: Although there is no effect on the financial statements as of September 30, 1999, this condition may result in the possible misstatement of the general fixed assets.

Recommendation: We recommend that survey policies and procedures be reviewed and monitored on a periodic basis.

GUAM TELEPHONE AUTHORITY

Schedule of Prior Year Audit Findings Year Ended September 30, 1999

The status of prior year audit findings are contained within finding numbers 99-1 and 99-4.



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, 1999, and for the year then ended, and have issued our report thereon dated May 25, 2000. 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, 1999, 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 May 25, 2000, 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 May 25, 2000) 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 May 25, 2000, 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, 1999, 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, 1999.

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:

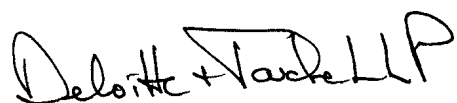
- the reconciliation of subsidiary plant records to the controlling general ledger plant accounts addressed at 7 CFR Part 1773.34(c)(1);
- the clearing of construction accounts and the accrual of depreciation on completed construction addressed at 7 CFR Part 1773.34(c)(2);
- the retirement of plant addressed 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, 1999, 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 99-1 through 99-7 on pages 20 to 27.

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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.



May 25, 2000