



OFFICE OF THE PUBLIC AUDITOR

EXECUTIVE SUMMARY

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June 2002

Guam Telephone Authority's Accounts Receivable and Accounts Payable Quarter ending December 31, 2000 Financial Related Audit

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Spurred by concerns of the Legislature and the Public Utilities Commission regarding the collection policies and payment of vendors of the island utilities, the Office of the Public Auditor (OPA) performed a monitoring review of the Guam Telephone Authority's (GTA) Accounts Receivable and Accounts Payables for the quarter ending December 31, 2000. The audit objective was to determine if GTA is meeting benchmark targets, industry standards, and is operating in compliance with its service rules and regulations with regards to its Accounts Receivable (A/R) and Accounts Payable (A/P). Analysis performed for this audit focused on the Landline Service A/R and A/P because GTA did not provide Cellular A/R after several months of delay.

GTA maintains many delinquent accounts on their books due to non-enforcement of their disconnection policy. Accounts receivable as of December 31, 2000 was \$9,046,825, of which \$5,399,017 represents delinquent accounts. A breakdown of the delinquent accounts by customer category is as follows: Government of Guam accounts represented 61% (or \$3,310,580), Business accounts were 22% (or \$1,180,206), Federal accounts amounted to 14% (or \$735,276), and Residential accounts were 3% (or \$172,955). GTA General Tariff, Section III (G)(3), states GTA may discontinue service ten (10) days after suspension date, i.e. 55 days upon receipt of the billing. Government of Guam and Business accounts were allowed to receive services, by being classified as active accounts, despite little or no collections. The Federal accounts have been remitting payments; however, GTA has had difficulties in applying payments remitted by the Federal government because Federal payment format does not include the account numbers being credited.

In the Business category, about 19% of delinquent accounts were receivables from telecommunication companies. Of particular note is the receivable of \$855,601 from a telecommunication customer that represents cellular call charges from 1996 to 1998. This receivable was proposed to the GTA Board to be written-off as the charges were found to be noncompliant with FCC rules governing compensation. The length of time taken to resolve this matter is excessive.

One measure of the effectiveness of an organization in collecting payments due from customers is the calculation of the number of days in receivables. This ratio shows the average number of days it takes to collect the accounts receivable. A high number of Days in Receivable indicates poor collection of accounts receivable while a low number indicates an efficient collection of receivables. As of December 31, 2000, the OPA calculated the following days in receivables ratios: 374 days for the Government of Guam category, 314 days for the Federal category, 50 days for the Business category and 2 days for the Residential category. The ratios calculated for the Business and Residential accounts were found to be in conformity with the GTA Disconnection Policy. While GTA had a satisfactory explanation for the Federal accounts as mentioned above, GTA was unable to explain why they are carrying more than one year's worth of Government of Guam receivables on their books.

Additionally, as a result of the poor enforcement of the disconnection policy, GTA's allowance for doubtful accounts has been steadily increasing. The trend over the last five fiscal year audits indicates that the allowance for doubtful accounts has increased from \$2,172,186 in 1996 to \$7,497,341 in 2000. Based on our review of the delinquent and inactive accounts as of September 2001, we believe a further substantial increase will be required. As of the report date, GTA has not established a formal policy to provide an allowance for doubtful accounts or to write-off disputed receivables and payables.

Financial information for GTA is not prepared in a timely manner and is not properly reconciled. The financial statements from October 2000 to September 2001 were being submitted to management between 45 days and 148 days after month end. The OPA also encountered difficulty in obtaining documents during the audit; some documents were provided as late as 6 months from initial request date. The accounts receivables subsidiary ledger for the four quarters of fiscal year 2001 had variances between \$54,201 and \$1,446,712. Additionally, data provided to the OPA and the Board had variances ranging from \$409,676 to \$1,235,976. These variances were not explained by GTA to OPA. This lack of timely and accurate financial information may impair the ability of GTA Board and management to make quality decisions and set effective policies. In this instance, we found a corrective action plan in place that was initiated and approved by the Board of Directors (Board) to address these discrepancies.

Moreover, we found that the review and monitoring of accounts receivable and accounts payable details is insufficient. There were overpayment/credit balances in the accounts receivable active sub-ledger amounting to \$519,102, and long-outstanding payables for \$368,958 as of December 31, 2000.

Recommendations

We recommend that the GTA accounts receivable department improve the monitoring of accounts receivable aging and enforce the GTA General Exchange Tariff, Section III (G)(3) to all receivable account regardless of the categories. Disconnection of delinquent accounts should be applied to all classes of customer regardless of the account category to lower GTA's exposure to un-collectible accounts. Exceptions to the disconnection policy should be developed and established in the GTA General Exchange Tariff.

We also recommend the Guam Public Utilities Commission change the language of the GTA General Exchange Tariff, Section III (G)(3) from permissive to mandatory - the language "may" should be replaced with "shall" and provide for certain limited exceptions.

We recommend that timely and reliable financial information be submitted to management and the Board within 30 after month end. Timely reconciliation of financial information such as the reconciliations of accounts receivable and accounts payable subsidiary ledgers to the general ledger control account should be performed on a monthly basis to ensure the accuracy and reliability of information by various users.

We commend the Board for recognizing the importance of correcting the accounts receivable subsidiary ledgers. We recommend that GTA management fully implement the corrective action plan approved by the Board in the July 2001 meeting which stated that corrective action be taken on credit balances for active accounts receivable to ensure that customers are billed correctly and billings reflect actual advance payments.

GTA should review the existing policy in providing an allowance for doubtful accounts and establish a formal policy so that accounts receivable reflect true collected accounts.

We recommend that staff be assigned to reconcile long outstanding payables and propose an appropriate write-off of old and disputed payables.

This audit was conducted in accordance with generally accepted government auditing standards.



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