

**Guam Telephone Authority's
Accounts Receivable & Accounts Payable**

**Financial Related Audit
Quarter ending December 31, 2000**

**OPA Report No. 02-04
June 2002**



OFFICE OF THE PUBLIC AUDITOR

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OFFICE OF THE PUBLIC AUDITOR

EXECUTIVE SUMMARY

OPA Report No. 02-04

June 2002

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

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.



Doris Flores Brooks
Public Auditor
Report No. 02-04
June 2002



OFFICE OF THE PUBLIC AUDITOR

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Introduction

In March 2001, in response to concerns raised by the Legislature and the Public Utilities Commission regarding the collection policies of the island utilities and in response to concerns raised by private citizens regarding the payment of vendors by the same entities, the Office of the Public Auditor (OPA) initiated a quarterly monitoring review of the Accounts Receivable and Payable functions of the Guam Telephone Authority (GTA) beginning with the quarter ended December 31, 2000. This report details the findings of our review of the Guam Telephone Authority's Accounts Receivable and Accounts Payable functions.

Jurisdiction to Audit

The Public Auditor (PA) is required to annually audit "all the transactions and accounts of all departments, offices, corporations, authorities, and agencies in all of the branches of the government of Guam."¹ The Public Auditor has the duty to "communicate directly with any person or with any department, officer or person having official relations with the office in any matter relating to the expenditures of government funds and property or to the settlement thereof."²

Background information

With over 80,000 subscribers, GTA is the 15th largest local telephone company³ and the only remaining government-owned phone company in the United States⁴. GTA was established by Public Law 12-44⁵ as a local telephone company owned and operated by the government of Guam. By virtue of such public law, the assets and liabilities of the telephone division of the Public Utilities Agency of Guam were transferred to GTA effective April 1, 1974. Some of the responsibilities of GTA are "to install, maintain, sell and supply telephone services to individuals, firms, corporations and governments"⁶ and "to establish and modify, with approval of the Public Utilities Commission (PUC), rates and charges for the telephone service and refund charges collected in error"⁷. Services offered by GTA include Landline and Cellular. A third potential line of business is GTA Internet. However, a Guam Superior Court ruling has placed the Internet business on hold on grounds that GTA is not authorized to provide such services.⁸

¹ 1 GCA § 1908

² 1 GCA § 1909(c)

³ GTA history at www.admin.gov.gu/gta/history/gateway.htm

⁴ www.guampdn.com/news/stories/20011122

⁵ 12 GCA § 7103; Amended by PL 12-118

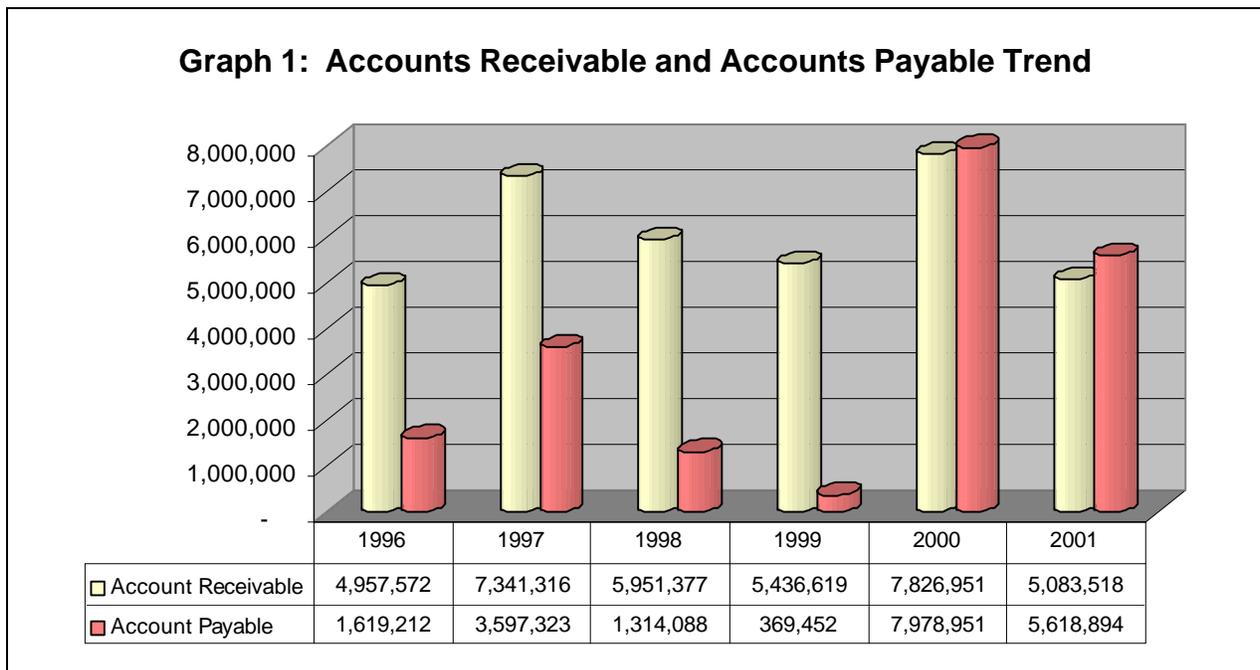
⁶ 12 GCA 7104

⁷ 12 GCA 7104(d)

⁸ PL 26-70, RFP for the Privatization of the GTA Section III

In 1996, at the request of the Governor, the Legislature began privatization efforts of GTA.⁹ The decision to privatize was prompted by the political and legal restrictions inherent in GTA's charter - GTA is limited in its ability to effectively compete with the private sector. Public Law 26-70 was signed on December 24, 2001, setting the guidelines for selling GTA.¹⁰

A history of the consolidated accounts receivable (A/R) and accounts payable (A/P) during the last five years is presented in **Graph 1**¹¹. As indicated in **Graph 1**, the largest increase in A/R and A/P occurred in fiscal year 2000. The increase in accounts receivable from the prior year amounted to \$2.4 million while the increase in accounts payable was \$7.6 million. Both balances at the end of the fiscal year 2000 were the highest amount for the six years presented. Discussions with the GTA Accounting Supervisor indicate that the major reason for the increase in the A/R in 2000 was an increase in the long outstanding billings from GovGuam and Federal customer categories. On the other hand, the increase in A/P was attributed to amounts expended in the Y2K program, software upgrades, cost privatization, DSL program and internet project.



⁹ www.privatize.gtaguam.com

¹⁰ December 25, 2001, Guam Pacific Daily News

¹¹ Data for 1996 to 2000 were obtained from the audited financial statements for fiscal years ending September 30, 1996, 1997, 1998, 1999 and 2000. FY2001 data is obtained from unaudited financial statements as of September 30, 2001, as provided to the GTA Board of Directors.

Audit Objectives

The objective of our audit was to determine if the Guam Telephone Authority is meeting benchmark targets, industry standards and is operating in compliance with its service rules and regulations in regards to its Accounts Receivable and Accounts Payable.

Audit Scope and Methodology

The originally planned scope of the audit was limited to all Accounts Receivable and Accounts Payable transactions of the GTA. However, we were not provided with information related to Cellular accounts. Because of lengthy delays encountered in obtaining the information utilized in this report, we opted not to pursue these Cellular account records. Therefore, the accounts receivable and accounts payable information discussed in this report is limited to Landline account data. The audit methodology used was to perform detail account transaction testing and to analyze the balances of accounts receivables and payables, and review compliance with related rules and regulations. The detail testing performed was based on transactions and balances as of December 31, 2000. Analysis was also performed on balances for the quarters ending March 31, 2001, June 30, 2001, and September 30, 2001.

Our audit was conducted in accordance with the generally accepted government auditing standards. Accordingly, we included tests of records and other auditing procedures that were considered necessary under the circumstances.

As part of the audit, we evaluated the system of internal controls related to the financial management of the accounts receivable and accounts payable to the extent that we considered necessary to accomplish the audit objectives.

Overall Conclusion

Based on the available data gathered and analyzed, GTA has incurred material delinquent accounts particularly in the Government, Federal and Business categories due to non-enforcement of their disconnection policy. Additionally, there is insufficient review of long-outstanding payables, overpayment/debit balances in payables and advance payments/credit balances in receivables. Further, financial statements are not properly reconciled to supporting ledgers and are not prepared in a timely manner.

Prior Audit Coverage

- ❖ Independent Consultant Accounts Receivable Study: Georgetown Consulting, an independent consultant of the PUC, issued a report dated May 16, 2001 on the GTA accounts receivable and collection policy and practices. The study was initiated on March 6, 2001, when the PUC required the Administrative Law Judge (ALJ) to

institute hearings on GTA's petition for rate relief. As part of those proceedings, the ALJ was required to oversee a study of GTA's accounts receivable and collection policy and practices. The scope of the study covered the time period of December 31, 1999 through May 16, 2001.

Findings and conclusions of the study included (1) overall increase in the accounts receivable and delinquent accounts particularly the government of Guam (GovGuam) accounts, (2) the late payment charge was not imposed on the Government classes, (3) study did not indicate that GovGuam and Federal accounts are suspended after 45 days overdue and disconnected after 55 days overdue, and (4) existence of unusual amounts in the business and federal classifications.

- ❖ GTA Financial Statements and Independent Auditor's Report: Deloitte and Touche, an independent public accounting firm, issued the financial statements and independent auditor's report for GTA for fiscal years 2000 and 1999 dated June 8, 2001. Four specific findings related to accounts receivables and payables, listed below, were included in the report.

- (1) Negative balances in the accounts receivable active and inactive billing registers were not resolved in a timely manner.
- (2) The active and inactive accounts for the landline and cellular accounts do not reconcile resulting in variances between \$2,916 and \$583,115.
- (3) Outstanding customer balances were not being properly categorized into the appropriate aging categories and customer payments were not matched against specific invoices.
- (4) Review is not being performed for accounts payable greater than 90 days, which represents 70% (or \$5,325,174) of the total FY 2000 balance.

- ❖ Single Audit Report: In December 2001, Deloitte and Touche issued the Single Audit Reports for the Government of Guam for the year ended September 30, 2000 dated October 31, 2001. Included in the Schedule of Findings and Questioned Costs is an accounts receivable by the Government of Guam from GTA that has not been reconciled in a timely manner. Inquiry with Deloitte and Touche on April 30, 2002 revealed that as of September 30, 2000, the Department of Administration (DOA) receivable from GTA was \$450,996. Of the \$450,996 Deloitte selected transaction amount of \$202,315 (Journal Voucher no. J000662064) for testing and had requested related supporting documentation. The requested documentation was not provided to Deloitte and thus was included as Finding 2000-48 in the report. DOA responded to this finding by assigning the DOA Controller to perform a periodic reconciliation of the subsidiary ledger and determine aging analysis for further action.

Specific Findings and Conclusions

Accounts Receivable

Finding 1: Delinquent Accounts and Poor Enforcement of Disconnection Policy

GTA have a specific rule in disconnecting delinquent accounts. GTA General Exchange Tariff, Section III (G)(3), Page 11 states:

“The customer shall pay all charges for service monthly in advance. Payment is due upon receipt and is past due thirty (30) days after the date of the bill. If the bill is not paid by the past due date, the Authority may suspend service fifteen (15) days after the past due date. The Authority may discontinue service ten (10) days after the suspension date.”

Based on the above ruling, accounts that are 55 days in arrears may be disconnected and for purposes of this report is the definition of a delinquent account. Statistics in **Table 1** indicate that \$5,399,017 (or 60%) of the total accounts receivable are delinquent as of December 31, 2000, wherein 22% (or \$1,180,206) represents the business category and 61% (or \$3,310,580) represents the GovGuam accounts. The delinquent receivables were still classified as active accounts and were not disconnected. In a March 8, 2001 GTA Board of Directors meeting, documentation in the minutes indicate that GTA management reviews the disconnection list prior to disconnecting phone lines that were past due. Accounts that management is “looking for that should not be disconnected are health clinics, doctors, dentists, health care professionals, public safety, etc.”

Table 1: Summary of Landline Accounts Receivable as of December 31, 2000

Category	Less than 60 day arrears	Delinquent			Overall total	Total delinquent accounts	Per cent
		60-day arrears	90-day arrears	120-day arrears			
Residential	\$ 1,009,341	\$ 30,175	\$ 21,351	\$ 121,429	\$ 1,182,296	\$ 172,955	3%
Business	1,744,481	65,984	41,044	1,073,178	2,924,687	1,180,206	22%
Federal	130,696	31,894	32,302	671,080	865,972	735,276	14%
GovGuam	763,290	225,061	238,825	2,846,694	4,073,870	3,310,580	61%
Total	\$ 3,647,808	\$ 353,114	\$ 333,522	\$ 4,712,381	\$ 9,046,825	\$ 5,399,017	100%

With regards to the business accounts, we noted that about 19%¹² of the delinquent accounts were receivables from businesses in the telecommunication industry. Documents provided by the GTA Accounting Supervisor reflected some collection activity on these accounts in 2001; however, there were three customers with account balances of \$855,601, \$35,784 and \$1,268 that remained constant as of this report’s date. GTA staff indicated that the \$855,601 receivable represents charges for cellular calls that terminated with GTA from October 1996 to October 1998 (see **Table 2** item 2). However, such charges were found to be noncompliant with FCC rules governing

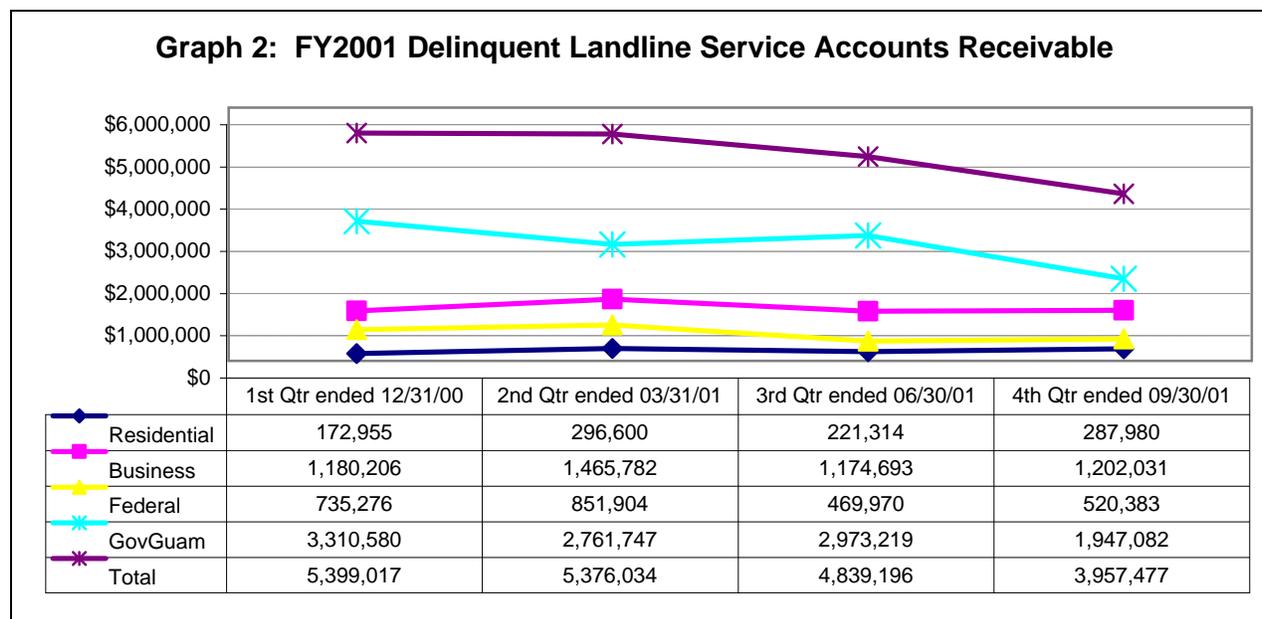
¹² This percentage comprises 12 accounts accounting for total delinquent receivables of \$1,040,087.

compensation and have been proposed to be written-off. In a letter to OPA dated April 26, 2002, GTA indicated this issue was brought before the Board of Directors in June 2001. As of the completion of our fieldwork, the Board had not made a decision regarding this matter. It appears this issue is being addressed in an appropriate manner; however the length of time taken to resolve this issue is excessive.

Additionally, the percentage of delinquent accounts to total receivables for the Federal category was 85%, however, all of the accounts in the category continue to receive service. We inquired of GTA staff as to why the Federal accounts are not being disconnected. We were advised that GTA had difficulties caused by the format that the Federal government utilizes to pay bills to the Authority. Apparently, the payment system used by these agencies is not able to indicate the accounts that are being paid on the face of their payment documentation. This necessitates that GTA staff perform substantial research before payments can be properly credited. In order to confirm the validity of this assertion, we reviewed transaction activity throughout the period of our audit. We found that payments received in the Federal category during the period of our audit consistently exceeded the billings issued during the period of our audit. As can be seen in **Graph 2**, the total balance outstanding decreased by 29% from \$735,276 in the first quarter to \$520,383 in the fourth quarter. This is an indication that GTA is making substantial progress in addressing the Federal billing problem.

Quarterly Trend of Delinquent Landline Service Accounts Receivable

Graph 2 summarizes the delinquent accounts receivable (active) amount for each quarter of FY2001. The graph indicates that delinquent amounts in the GovGuam category dropped from \$3,310,580 in the first quarter to \$1,947,082 in the fourth quarter. Nonetheless, the GovGuam accounts still represent the largest portion of delinquent receivables with a percentage of 61% in the first quarter, 51% in second quarter, 61% in third quarter, and 49% in fourth quarter.



Detailed Testing of Fourteen Accounts

As part of our testing to determine enforcement of the disconnection policy (GTA General Exchange Tariff, Section 1) and the collection of delinquent receivables, we selected fourteen (14) accounts from various account categories with significant delinquent amounts in the first quarter of FY2001. We obtained the outstanding balances of the selected accounts as of December 31, 2000, October 1, 2001 and December 1, 2001 and summarized the balances in **Table 2**. The summary indicates that three account balances (items 1, 2 and 4), representing the residential and business categories remained constant. Subsequently, GTA had reclassified items 1 and 4 to inactive account status due to non-collection. Item 2 was proposed for write-off. One account (item 7) from the business category had an overall increase in outstanding balance over the periods listed. Additionally, ten of the fourteen accounts (items 3, 5, 6, 8 through 14), representing the business, governmental and federal categories, had a decrease in receivables suggesting collection from customers. As of December 31, 2000, all the accounts listed below incurred delinquent amounts and were not disconnected.

Table 2: Fourteen specific accounts trend during 12/31/00 to 12/1/2001

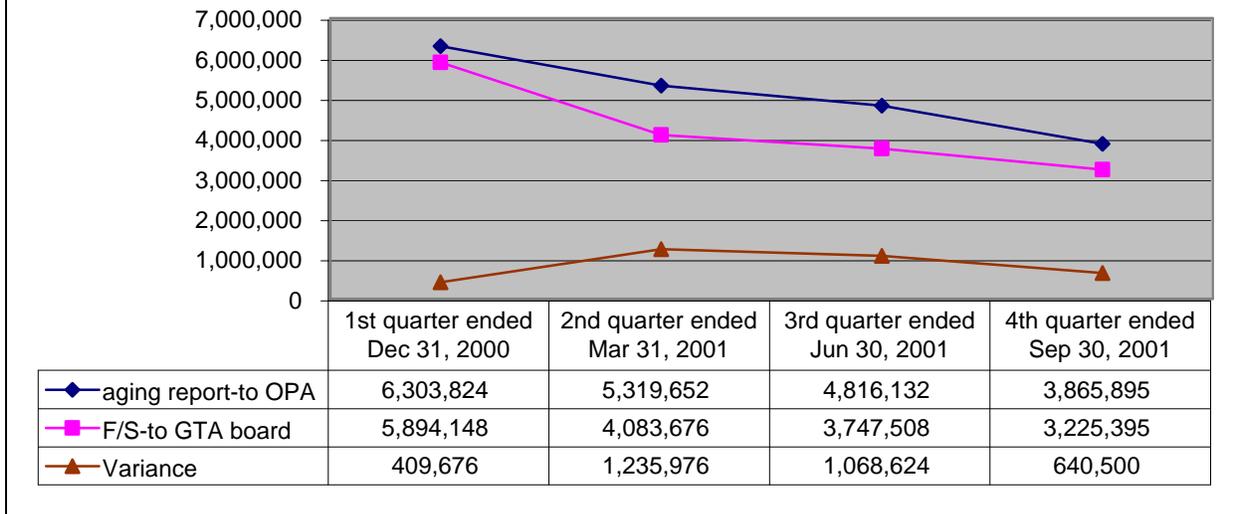
		A	B	C	D	E	F=C-E
	Category	Delinquent (60 days & over) 12/31/00	Delinquent/ Outstanding 12/31/00	Outstanding @12/31/00	Outstanding @ 10/1/01	Outstanding @ 12/1/01	Increase (Decrease)
1	Residential	\$ 1,043	100%	\$ 1,043	\$ 1,043	\$ 1,043	\$ 0
2	Business	855,601	100%	855,601	855,601	855,601	0
3	Business	72,692.63	69%	105,223	1,406	24,254	(80,969)
4	Business	35,784.41	100%	35,784	35,784	35,784	0
5	Business	14,291.77	100%	14,322	14,225	14,225	(97)
6	Business	7,903.32	92%	8,551	8,608	8,492	(59)
7	Business	4,111.00	92%	4,481	5,501	4,960	479
8	Governmental	431,510.42	91%	473,214	532,505	274,598	(198,617)
9	Governmental	233,864.02	87%	268,202	49,175	67,206	(200,996)
10	Governmental	227,999.85	86%	265,710	(12,717)	24,593	(241,117)
11	Governmental	131,255.47	87%	150,164	62,308	81,585	(68,579)
12	Governmental	112,488.57	88%	128,117	72,612	81,377	(46,740)
13	Federal	315,463.92	86%	365,622	88,878	87,019	(278,603)
14	Federal	125,915.36	82%	153,641	206,982	151,967	(1,674)

Quarterly Trend of Landline Services Accounts Receivable

Presented in **Graph 3¹³** is a summary of the quarterly landline accounts receivables provided to the OPA and the Board for fiscal year 2001. Disregarding the fact that the numbers provided to the OPA and the Board differ, it is apparent that the landline accounts receivable substantially declined from the first quarter to the fourth quarter, suggesting progress in the collection of receivables. Refer to **Finding 3** for further discussion of the inconsistency of the receivable amounts presented to different parties.

¹³ Data were obtained from the financial statements provided to the GTA Board of Directors.

Graph 3: FY2001 Quarterly Landline Service Accounts Receivable



Finding 2: High Days in Receivables Ratio

The number of days in receivables is a ratio that many business-type organizations utilize to assist in managing the receipt of customer payments. This ratio measures the effectiveness of an organization in collecting payments due from customers.

For the quarter ended December 31, 2000, our calculation of the days in receivables indicated that the Residential category has an average number of days in receivables of two. The Business category has an average number of days in receivables of 50. As discussed in **Finding 1**, customers are allowed 55 days prior to disconnection. Thus, the Residential and Business accounts appear to be handled in a manner consistent with the disconnection policy. However, the Government of Guam and the Federal categories appear to be in excess of the number of days allowed by the policy with averages of 374 days and 314 days, respectively. As mentioned in **Finding 1**, we were satisfied with the explanation provided regarding collection practices related to Federal accounts. GTA was unable to explain why the receivables from the government of Guam were allowed to become more than one year past due without disconnection. GTA may be leaving itself vulnerable to exposure to legal action based on claims of discriminatory disconnection practices across customer classes.

Table 3: Days in Receivables by Customer Category as of December 31, 2000

ACCOUNT	Revenue (A)	Receivable (B)	Days in Receivables (C=90/[A/B])
Residential	2,007,163.00	51,753.60	2
Government of Guam	912,157.00	3,786,401.11	374
Business	2,986,783.00	1,666,902.61	50
Federal	228,827.00	798,770.43	314

ACCOUNT	Revenue (A)	Receivable (B)	Days in Receivables (C=90/[A/B])
Total(active)	6,134,930.00	6,303,827.75	92
Other revenue	369,497.00		
Landline total	6,504,427.00	6,303,827.75	87

Finding 3: Inconsistent and Untimely Financial Reporting

Financial statements should be prepared in a timely manner and should be reasonably accurate in order to provide value to decision makers,¹⁴ in this case government leaders and agency management. We believe preparation of financial statements should be completed within 30 days after month end.

We reviewed the Board Minutes from October 2000 to September 2001 to determine the timeliness of the submission of the financial statements. Our review indicates that the monthly financial statements were not provided to the Board and management in a timely manner (refer to **Table 4**). The financial statements were initially provided to the General Manager between 45 and 148 days after month end.

For months October 2000 through December 2000, the financial statements were revised and re-submitted for the second time as a result of the completion of the JDE CWIP (construction work in progress) module. With the completion of this module GTA is trying to properly record actual labor, materials and overhead cost associated with cost orders. Prior to completion, GTA estimated costs were journalized.

On August 21, 2001, the financial statements from October 2000 to February 2001 were re-submitted for the third time. This resulted from the completion of the fiscal year 2000 audit in July 2001 and GTA re-running the CAM (cost allocation manual) process to reallocate costs between regulated and non-regulated entities.

GTA also claimed that the Board receives the financial statements at the same time they are submitted to the General Manager, for review and discussion during Board work sessions. The OPA, however, was not provided with any listing or documentation to evidence submission of financial statements to the Board.

This lack of timely and accurate financial information may impair the ability of the GTA Board of Directors and management to make quality decisions and set effective policies.

¹⁴ Statement of Financial Accounting Concept No.2

Table 4: Submission of monthly financial statements

Financial Statement Month	Initial Submission	Days Late	2 nd Submission	3 rd Submission
October 2000	February 12, 2001	104	May 14, 2001	August 21, 2001
November 2000	February 12, 2001	74	May 14, 2001	August 21, 2001
December 2000	February 14, 2001	45	May 15, 2001	August 21, 2001
January 2001	May 30, 2001	119	None	August 21, 2001
February 2001	May 30, 2001	91	None	August 21, 2001
March 2001	May 30, 2001	60	None	None
April 2001	September 25, 2001	148	None	None
May 2001	September 25, 2001	117	None	None
June 2001	September 26, 2001	88	None	None
July 2001	September 26, 2001	57	None	None
August 2001	October 29, 2001	59	None	None
September 2001	December 5, 2001	66	Pending Audit Completion	Pending Audit Completion

We compared the financial information provided to the Board of Directors with that provided to the OPA. In some instances, there were alarming differences in the data provided which may be indicative of internal data collection and processing problems.

This untimely reporting concern was confirmed by the difficulty the OPA encountered in obtaining financial information from GTA. An indication was the slow submission by GTA of schedules and reports requested by the OPA. The initial request for documents was transmitted on March 14, 2001. The OPA received a set of documents within two weeks of our initial request; however, the next substantial delivery of documents was not received until 6 months later or September 2001. Other documents requested were not received as of the completion of our fieldwork. The OPA did not ask documents be prepared specifically for our needs. The schedules requested were subsidiary ledgers and reconciliations that should have been performed on a routine basis by GTA staff.

Additionally, we are uncertain of the reliability of the financial information provided by GTA. For example, the accounts receivable subsidiary ledger¹⁵ was not being reconciled to the general ledger¹⁶ (refer to **Table 5**). Variances range from \$54,210 to \$1,446,712 during the four quarters reviewed. Another example of the possible unreliability of GTA financial data is reflected in **Graph 3**. The OPA was provided with an aging report of the accounts receivable for the quarters ending December 2000, March, June and September 2001 and monthly financial statements of GTA throughout the same fiscal year. The OPA compared the landline accounts receivable amount from the aging report with the financial statements as of December 2000, March, June and September 2001 and observed that the numbers do not reconcile. GTA was unable to explain the variances ranging from \$409,676 to \$1,235,976 (see **Graph 3**).

¹⁵ A subsidiary ledger is a supporting ledger of related accounts that in total equals the control account appearing in the general ledger. Dictionary of Accounting Terms 2nd edition.

¹⁶ A general ledger is a control account summarizing the subsidiary ledgers. It contains the accounts that make up the entity's financial statements. Dictionary of Accounting Terms 2nd edition.

We are aware that GTA staff have been required to meet the demands associated with the planned privatization of the Authority throughout the period of our audit, however, we are concerned that GTA is encountering systemic data problems at a time when data collection and reporting is most critically needed by decision makers.

Table 5: Reconciliation of Accounts Receivable Subsidiary Ledger

Accounts	Subsidiary ledger(1)	General ledger(2)	Variance (2-1)
A/R Active	\$ 6,303,827.75	\$ 6,358,038.21	\$ 54,210.56
A/R Inactive	2,179,615.34	2,267,462.68	87,847.34
A/R interstate	1,753,016.29	2,104,379.66	351,363.37
Allowance	(5,286,045.52)	(3,839,873.52)	1,446,712.00
Total	\$ 4,950,413.86	\$ 6,890,007.03	\$ 558,732.89
E-911	\$ 119,718.77	\$ 65,311.72	\$ 54,407.05

Finding 4: Negative Balances in Accounts Receivable

A negative balance in the accounts receivable subsidiary ledger usually reflects an advanced payment by a customer, a disputed amount, or an error that needs to be adjusted. Such negative balances should be resolved in a timely manner in order to properly reflect the current status of each account. The December 31, 2000 accounts receivable sub-ledger indicates negative account balances exist in both the active and inactive subsidiary ledger accounts.

The active subsidiary ledger reflected negative (or credit) balances totaling \$519,102 (or 8%) of the total gross accounts receivable balance of \$6,303,827. The negative balances ranged from \$0.01 to \$12,955 and comprised 11,333 accounts. Similarly, the inactive subsidiary ledger included negative balances totaling \$262,166 (or 12%) of the total gross accounts receivable balance of \$2,179,615. The negative balances ranged from \$0.01 to \$11,004 and comprised 9,695 accounts. Refer to **Table 6** for a breakdown of the negative balance for active accounts receivable by category.

Table 6: Negative accounts receivable balances by category

	As of 12/31/00	As of 3/31/01	As of 6/30/01	As of 9/30/01
Residential	\$ 412,872.77	\$ 43,038.17	\$ 46,208.69	\$ 50,113.67
Business	83,255.98	15,915.57	16,334.48	18,076.38
Federal	21,820.70	3,059.92	1,876.18	1,437.06
GovGuam	1,153.17	41.29	173,321.70	320,258.74
Total	\$ 519,101.62	\$ 62,054.95	\$ 237,741.05	\$ 389,885.85

We discussed the active account balances with GTA staff and were advised that many residential customers pay in advance, thus accounting for the credit balances in the residential category. However, the credit balances in the Federal, GovGuam and Business accounts appear to indicate that mispostings are occurring and are not being corrected in a timely manner. We view this as a material breakdown in internal control procedures and should be addressed promptly by GTA management.

With regards to the inactive receivable accounts, GTA staff indicated that the credit balances represent advance payments by terminated customers. This may explain some of the credit balances. In these instances, these prepayments should be returned to the customers at the time the accounts are terminated. However, similar to the active account balances, the majority of these credit balances appear to indicate that mispostings are occurring and are not being corrected on a timely basis.

The minutes of the GTA meetings of the Board of Directors indicated that in July, 2001, as part of a corrective action plan to a financial statement audit finding, the Board of Directors approved the formation of a group within the audit and collection department to investigate such credit balances and perform necessary action. Our discussions with GTA staff indicated that a team had been established, however, the process is slow and these problems are gradually being addressed.

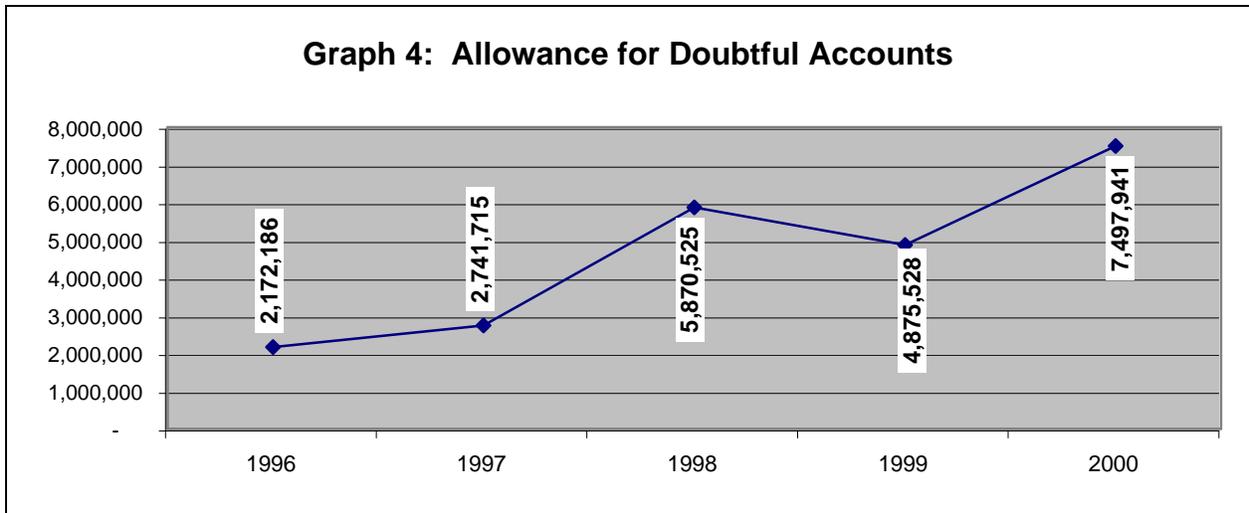
Finding 5: Insufficient Reserve for Doubtful Receivable Accounts

We requested information on GTA's policy in providing allowance for doubtful accounts and were provided with the following informal oral policy: GTA classifies 1% of monthly billings on Residential and Business accounts at the end of each month as potentially uncollectible and establishes a preliminary allowance for doubtful accounts for Landline service; the Federal and GovGuam accounts are not provided an allowance for doubtful accounts. Each year, during the performance of the financial statement audit, the independent auditors adjust the account to reflect the probability of collecting the past due accounts.

The trend over the last five audits indicates that the allowance for doubtful accounts has increased from \$2,172,186 in 1996 to \$7,497,341 in 2000 as depicted in **Graph 4**¹⁷. Based on our review of the delinquent and inactive accounts as of September 30, 2001, we believe a further substantial increase will be required. These increases are indicative of a possible inability of GTA to properly manage its collection and disconnection policies that may have cost GTA in excess of \$1 million per year over the last five years.

The minutes of a meeting of the Board of Directors in October 2001 reported that the percentage of un-collectible accounts was approximately 3.5%, with the majority derived from GovGuam agencies. This statement appears to conflict with the current policy of not providing an allowance for the GovGuam accounts since **Findings 1** and **2** indicate this category poses high risk of non-collection.

¹⁷ Data for 1996 to 2000 were obtained from the audited financial statements for fiscal years ending September 30, 1996, 1997, 1998, 1999 and 2000.



Accounts Payable

Finding 6: Inconsistent and Untimely Financial Reporting

As illustrated in Accounts Receivable **Finding 3**, financial statements should be timely and accurate in order to be useful to users of the financial data and enable management and the Board of Directors to make informed decisions. Similar to **Finding 3**, our review of the GTA accounts payable subsidiary ledger amount of \$3,943,617 at December 31, 2000, did not reconcile to the general ledger amount of \$5,685,286. A variance of \$1,741,669 (or 44%) existed. In a reconciliation subsequently provided to the OPA on May 8, 2002, almost six months after initial inquiry, variance indicated that the difference was due to the fact that information provided to the OPA was only for Landline accounts. The variance is due to payables of \$1,685,191 from the Cellular Accounts and \$56,478 from E-911 Accounts.

Additionally, financial information provided to the Board of Directors differs from the General Ledger amount. A difference of \$6,654 exists between the General Ledger amount and the information provided to the Board. The variance was not explained by GTA.

These variations in financial data presented to different parties indicate a potential problem in the accounting system that needs attention. **Table 7** below summarizes the various accounts payable balances provided to the OPA and the Board as of December 31, 2000.

Table 7: Summary of Various Accounts Payable Balances as of Dec. 31, 2000

	Sub-ledger amount	General Ledger amount	Provided to Board
Landline	\$ 3,943,617	\$ 3,943,617	Not provided
Cellular	Not provided	1,685,191	Not provided
E-911	Not provided	56,478	Not provided
Total		\$ 5,685,286	\$ 5,678,632

Finding 7: Aged Accounts Payable

Accounts payable are short-term obligations arising from purchases of services and goods on credit.¹⁸ Long outstanding payables should be examined to determine whether such payables still represent obligations of the government. As of December 31, 2000, GTA had \$368,958 of accounts payable that were greater than 120 days past due (refer to **Table 8**). Three of the significant items are due to other government entities. The Treasurer of Guam, Guam Power Authority and GovGuam Retirement Fund were owed a total of \$265,362, \$183,810, \$141,571, respectively. Amounts owed to these agencies in excess of 120 days were \$88,897, \$0, and \$141,154, respectively. Subsequently, GTA made payments to these GovGuam agencies during fiscal year 2001. Documents provided by GTA staff indicated that some of these items may represent disputed amounts. Although it appears GTA has properly left these amounts on their books pending final resolution, the length of time taken to resolve this matter is excessive. We determined that the maintenance of an accounts payable aging schedule with current payables comprising in excess of 90% is reflective of payments generally being made to vendors in a timely manner.

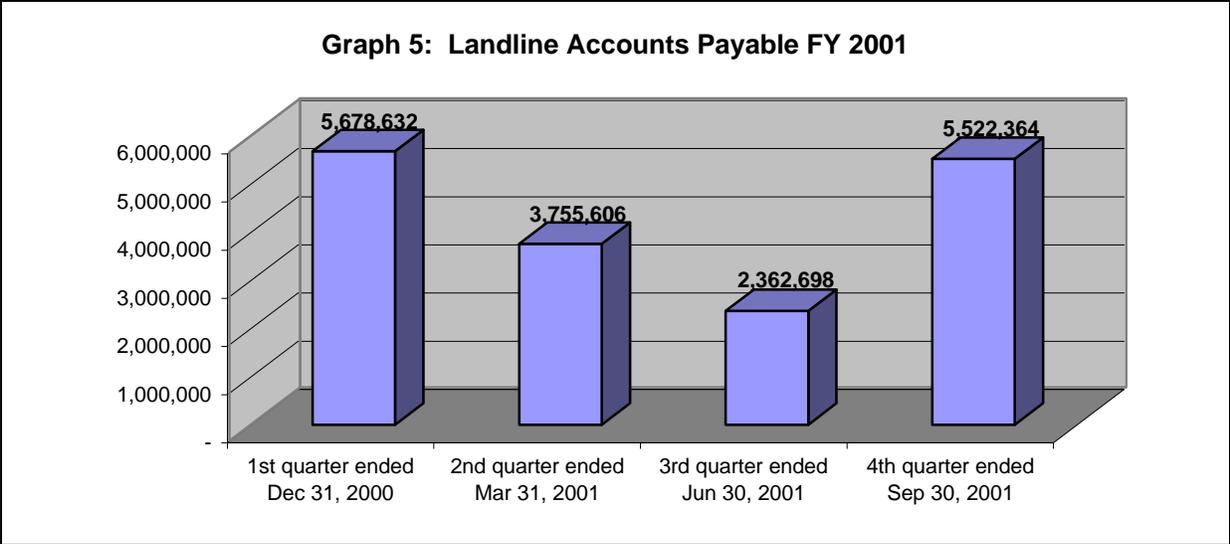
Table 8: Aging of Accounts payable as of December 31, 2000

Aging	Amount	Percentage
Current	\$ 3,570,627	90.54%
31 – 60	339	0.01%
61 – 90	2,940	0.07%
91 – 120	753	0.02%
Over 120	368,958	9.36%
Total	\$ 3,943,617	100%

The accounts payable balance fluctuated during 2001. As presented in **Graph 5**¹⁹, the accounts payable balance dropped \$3,315,934 (i.e. \$5,678,632 less \$3,755,606 or 58%) from the first quarter to the third quarter, but escalated by \$3,159,666 (or 134%) in the fourth quarter indicating the presence of likely cash flow problems. A compounding factor to GTA's cash flow problem may be the fact that receivables from other government agencies are not actively being pursued.

¹⁸ Accounting Research Bulletin 43.

¹⁹ Data were obtained from the financial statements provided to the GTA Board of Directors.



Recommendations

1. Based on **Findings 1 and 2**, we commend GTA management for the improvement in receivable collections during the period of our audit, however, we recommend that the GTA accounts receivable department continue to improve the monitoring of its accounts receivable aging and enforce the GTA General Exchange Tariff, Section III (G)(3). 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.

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 “...If the bill is not paid by the past due date, the Authority may suspend service fifteen (15) days...The Authority may discontinue service ten (10) days after...” to “...If the bill is not paid by the past due date, the Authority shall suspend service fifteen (15) days...The Authority shall discontinue service ten (10) days after...”

2. Based on **Findings 3 and 6**, we recommend that GTA management provide the resources necessary to resolve discrepancies between the general ledger and the subsidiary ledgers; moreover, we recommend the Finance Manager to work with the accounting staff towards producing reliable information within 30 days after month end to enable users make an informed decision. With the privatization process in progress, it is critical that GTA’s accounting records be as accurate as possible to ensure that the government of Guam officials have adequate information to ensure the government obtains the optimum price for GTA. Additionally, these ledgers should be reconciled on a monthly basis going forward.

3. For the negative balances in the Accounts Receivable (refer to **Finding 4**), we commend the Board of Directors for recognizing the importance of correcting the A/R subsidiary ledger. We recommend that GTA management fully implement the corrective action plan approved by the Board of Directors in the July 2001 meeting. The corrective action to be implemented included monitoring the credit balances for active accounts receivable to assure customers are billed correctly and billings reflect actual advance payments. The Data Processing Manager is tasked to produce a monthly exception listing to be reviewed by the audit and collection supervisor. For inactive accounts, the credit balances are to be reviewed, reconciled and properly apply credit balances on a monthly basis. The task is to be performed by the audit and collection supervisor on a monthly basis with an activity report forwarded to the Finance Manager. A progress report is to be submitted to the Board on a monthly basis for further evaluation. We believe this plan will provide a framework in which the accuracy of receivable transactions can be significantly improved.
4. Based on **Finding 5**, GTA management should formalize its policy for establishing an appropriate allowance for doubtful accounts. This policy should include the Government of Guam accounts with past due balances as receivable for which collection may be impaired. This will ensure that the financial statements provided to decision makers by the GTA will more accurately reflect the financial position of GTA. Additionally, as described in **Recommendation 1**, the GTA accounts receivable department should actively enforce the disconnection policy as outlined in GTA General Exchange Tariff, Section III (G)(3). Such disconnection of delinquent accounts will reduce the losses that GTA had been incurring due to excessive write-offs of accounts receivable balances.
5. Based on **Finding 7**, we recommend GTA management resolve the disputed charges with Treasurer of Guam reflected on their accounts payable subsidiary ledger as delinquent amounts owed to GovGuam entities.

Management Response

The draft report was provided to the Management of the Guam Telephone Authority. Their letter of response is attached as **Appendix A** of this report. GTA generally concurred with the findings of the report and the recommendations associated with it. In some instances, GTA had indicated steps had been taken to rectify the condition. In other instances, GTA pledged personnel and steps to correct the situation. In response to Findings 1, 3 and 6 GTA disagreed with some parts of the finding. OPA performed subsequent research and modified the above-mentioned findings.

Limitations of the Report

The period of our review was the four quarters ending September 30, 2001. Our work was performed in accordance with generally accepted government auditing standards.

This report does not provide conclusions involving legal determinations. This report contains only evidentiary conclusions based on interviews and documentation available for our review.

This report has been released to the Governor of Guam, the Speaker and members of the 26th Guam Legislature, the Public Utility Commission, the General Manager and Chairman of the Board of the Guam Telephone Authority, the Director of Administration, the Director of the Bureau of Budget and Management Research and the Attorney General of Guam. This report is a matter of public record and its distribution is not limited.

The management and the staff of the Guam Telephone Authority contributed information that materially assisted the OPA in completing its work. The cooperation of these individuals is gratefully acknowledged.

OFFICE OF THE PUBLIC AUDITOR



DORIS FLORES BROOKS, CPA
Public Auditor

OPA Report No. 02-04
June 2002

Appendix A – Responses



GUAM TELEPHONE AUTHORITY ATURIDÁT TILIFON GUÅHAN

Post Office Box 9008 • Tamuning, Guam 96931

June 25, 2002

Doris Flores Brooks, CPA
Public Auditor
Office of the Public Auditor
Suite 401 Pacific News Building
238 Archbishop Flores St.
Hagatna, Guam 96910

Re: Findings of Audit FY 2000

Hafa Adai:

The following are our responses to the findings of your audit for Fiscal Year 2000.

Finding No. 1

Accounts Receivable

Delinquent Accounts and Poor Enforcement of Disconnection Policy.

Auditee Response:

GTA does not agree with the Public Auditor's finding that 60% or \$5,399,017 of the total accounts receivable are delinquent and should be disconnected. This finding considered accounts over 55 days in arrears as delinquent accounts. Table 1 stated GTA had an overall Accounts Receivable balance of \$9,046,825 of which \$5,399,017 or 60% was delinquent. GTA verified the figures in Table 1 and concluded that the Accounts Receivable balances did not include payments and adjustments totaling \$2,387,934. GTA applied applicable payments and adjustments to the balances in Table 1 and arrived at the following conclusions:

Total Delinquent Accounts (after pmt/adj)	\$5,196,113
Less Inactive Accounts of Total Delinquent	<u>962,166</u>
Adjusted Total Delinquent Accounts	4,233,947
Percentage of Delinquency	52.4%

The difference in the findings for the total delinquent accounts resulted from unapplied payments and adjustments in addition to inactive accounts reflected on the aging report provided to the OPA. After payment and adjustment applications, business inactive accounts in the amount of \$923,768 and government inactive accounts in the amount of



\$38,397 were then removed to finalize the total delinquent amount. The percentage spread of delinquent accounts reflects that 74% is government accounts and 17% is federal accounts. These percentages are reflective of the government's outstanding debt to the Authority. As stated below, GTA implemented more aggressive collections on this outstanding balance. The residential and business percentages of delinquency, 4% and 5% respectively, can be attributed to accounts in dispute. Again, GTA will work to resolve these disputes in a timely manner. GTA agrees that it must review its collection process and establish more aggressive collection efforts.

GTA agrees that federal and local government accounts reflect delinquent accounts receivable balances. Federal government accounts have remained in delinquent status although GTA continues to receive payments from the federal government. Billing protocol and payment procedures are being scrutinized by both entities in order to resolve outstanding balances. GTA has implemented a more aggressive collection effort with the local government. GTA is working closely with the Department of Administration in identifying and resolving outstanding balances of the government. The Audit and Collections division has been tasked to closely monitor and aggressively collect outstanding balances on all local government accounts.

GTA does not agree with the Public Auditor's finding that the Board of Directors approved a list of accounts exempt from disconnection. The minutes of GTA's Board of Directors meeting of March 8, 2001 did not reflect that a motion was entered into by any Board member to approve a list of accounts exempt from disconnection. The minutes of the meeting stated that the Board Chairman, Mr. Martinez, inquired about GTA disconnecting phones that were past due. The minutes further reflected that the General Manager stated he reviewed the disconnection listing prior to disconnection where he identified those organizations dealing with public safety (such as, health clinics, doctors, dentists, health care professionals, etc.) and instructed his staff to contact these organizations. These organizations were simply afforded a courtesy call so they may resolve their arrearages prior to disconnection.

Finding No. 2
Accounts Receivable
High Days in Receivables Ratio

Auditee Response:

GTA agrees with the Public Auditor's finding that Federal and Government of Guam accounts receivable balances are in excess of the number of days allowed by the disconnection policy. As stated in Finding 1, GTA continues to aggressively collect outstanding balances with both governments. GTA agrees to improve the monitoring of its accounts receivable aging and enforce the disconnection process to all classes of customers.

Finding No. 3
Accounts Receivable
Inconsistent and Untimely Financial Reporting

Auditee Response:

GTA disagrees with the Public Auditor's finding that financial statements were being provided to the General Manager as late as ten months after the end of the period.

Financial statements are provided to the General Manager no later than 45 days of closing. Due to the reopening of the general ledger for the construction work in progress (CWIP) module completion and FY2000 roll forward, the financial statements were revised to reflect necessary adjustments. The dates referenced on Table 4 are reflective of the final revision of the financial statements.

GTA disagrees with the Public Auditor's finding that financial statements from January 2001 to September 2001 had not been submitted to the Board as reflected in Table 4. Just as financial statements are submitted to the General Manager, copies are then forwarded to the Board for review and discussion during Board work sessions. Final approval of the financial statements during a Board meeting was the pending item.

GTA agrees that reports were not delivered in a timely manner to the Office of the Public Auditor (OPA). Due to the requirement of providing an aging report in excel format, this document was specifically prepared for the Public Auditor's needs. While we do maintain an Aged Accounts Receivable Hard Copy report, GTA did not maintain a downloadable format of this report. In order to comply with this request, GTA was required to create internal processes to retrieve this information then download to excel format. After the initial submission of data to the OPA, it was determined that the process created to obtain the data was flawed due to timing issues that required additional work. This accounted for the time delay in providing subsequent documents.

GTA finally implemented a process to download Aged Accounts Receivable information to excel format as reported on GTA's Aged Accounts Receivable Hard Copy report. This will ensure that external reports will be presented in a timely and accurate manner.

GTA agrees that reconciliation of the accounts receivable subsidiary ledger to the general ledger resulted in the unexplained variances. GTA's Accounting Division is working diligently with the Information Systems Division to resolve timing and reporting issues that will assist in the reconciliation process. Additionally, a recently hired accountant has been assigned to oversee the accounts receivable section and to ensure that monthly reconciliation of the subsidiary to the general ledger is completed.

Finding No. 4
Accounts Receivable
Negative Balances in Accounts Receivable

Auditee Response:

GTA agrees with the Public Auditor's findings that negative balances exist in both the active and inactive accounts receivable subsidiary ledgers and that such negative balances should be resolved in a timely manner in order to reflect the current status of each account. GTA agrees with the recommendation that the implemented corrective action plan be followed through with monthly status reports submitted to the Finance Manager, General Manager and the Board of Directors.

Finding No. 5
Accounts Receivable
Insufficient Reserve for Doubtful Receivable Accounts

Auditee Response:

GTA agrees with the Public Auditor's finding that an insufficient reserve exists for doubtful receivable accounts. The General Accounting Supervisor is tasked to re-evaluate and formalize the accounting policy utilized for reserving for doubtful accounts. Accounts receivable aging reports will be used to determine more realistic percentages for the monthly reserve.

Finding No. 6
Accounts Payable
Inconsistent and Untimely Financial Reporting

Auditee Response:

GTA disagrees with the Public Auditor's finding that the accounts payable subsidiary ledger did not reconcile to the general ledger. The accounts payable subsidiary ledger provided to the Public Auditor was strictly the accounts payable liability for the landline business of GTA. However, the general ledger amount is consolidated to include GTA's Landline, Cellular and E911 accounts payables. Information has been provided to the Office of the Public Auditor that will explain the differences in the amounts indicated on Table 7.

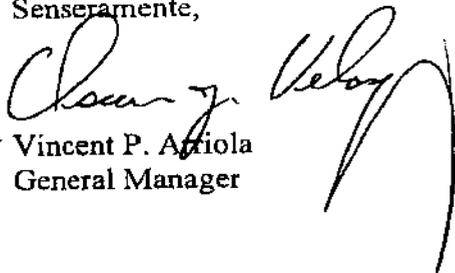
Finding No. 7
Accounts Payable
Aged Accounts Payable

Auditee Response:

GTA agrees with the Public Auditor's finding that outstanding payables exist in the over 120 day aging category. These items are attributable to disputed charges that require quicker resolution. GTA's policy is to pay its vendors based on agreed upon terms and conditions. Otherwise, GTA pays its vendors based on the oldest invoices. GTA agrees that outstanding payables should be examined to determine whether such payables still represent obligations of the government. GTA's Accounting division is working diligently to resolve any disputed amounts so they can be removed from the aging report or paid and resolved.

Should you have any questions, comments or concerns, please contact me at your earliest convenience.

Senseramente,

for 
Vincent P. Affiola
General Manager

Analysis of AR Balances as of 12/31/2000
GTA v. OPA

		Less than 60	AGE 60	AGE 90	AGE 120	Totals	Total Delinquent	Percent	(After applying pmt)		Inactive Accts of Total Delinquent	Adjusted Total Delinquent		
									Total Delinquent	Percent				
Sub-Totals - Res (1,2,3)	GTA	748,851	28,958	19,873	106,754	904,435	155,584	3%	155,584	3%	0	155,584	4%	
Sub-Totals - Bus (4)	GTA	1,696,291	65,800	40,856	1,067,013	2,869,959	1,173,669	22%		22%		214,742	5%	
Sub-Totals - Fed (5)	GTA	112,050	31,894	32,302	668,000	844,245	732,196	14%		14%		706,426	17%	
Sub-Totals - Govt (6)	GTA	752,539	225,061	238,826	2,846,694	4,073,119	3,310,580	62%		61%		3,139,824	74%	
Grand Total	GTA	3,319,730	351,712	331,856	4,688,460	8,691,758	5,372,028	100%	5,178,742	100%	962,166	4,216,576	100%	
									(193,286)			(1,155,452)		
Less Payments	GTA					(2,426,126)						0.466083559	Adj del/OPA AR Total	
Plus Debit Adjustments	GTA					51,802		8,743,560				0.572437533	Ttl del unadj/OPA AR Ttl	
Less Credit Adjustments	GTA					(13,610)	(2,387,934)	0						
Total	GTA					6,303,824								
(After applying pmt)														
		Less than 60	AGE 60	AGE 90	AGE 120	Totals	Total Delinquent	Percent	Total Delinquent	Percent	Inactive Accts of Total Delinquent	Adjusted Total Delinquent	Adjusted Accounts Rec Totals	
Sub-Totals - Res (1,2,3)	OPA	1,009,341	30,175	21,351	121,429	1,182,296			172,955	3%	0	172,955	4%	1,182,296
Sub-Totals - Bus (4)	OPA	1,744,481	65,984	41,044	1,073,178	2,924,687				22%		214,742	5%	2,000,919
Sub-Totals - Fed (5)	OPA	130,696	31,894	32,302	671,080	865,972				14%		706,426	17%	865,972
Sub-Totals - Govt (6)	OPA	763,290	225,061	238,825	2,846,694	4,073,870				61%		3,139,824	74%	4,035,473
		3,647,808	353,114	333,522	4,712,381	9,046,825			5,196,113	100%	962,166	4,233,947	100%	8,084,660
									(202,904)			(1,165,070)		
Variance GTA v OPA												52.37%	Adj del tll/Adj AR tll	
Credit balances removed by OPA														
Sub-Totals - Res (1,2,3)		(260,490)	(1,217)	(1,478)	(14,675)	(277,861)								
Sub-Totals - Bus (4)		(48,190)	(184)	(188)	(6,165)	(54,728)								
Sub-Totals - Fed (5)		(18,646)	(0)	(0)	(3,080)	(21,727)								
Sub-Totals - Govt (6)		(751)	(0)	1	(0)	(751)								
		(328,078)	(1,402)	(1,666)	(23,921)	(355,067)								