

**GUAM EDUCATIONAL TELECOMMUNICATIONS
CORPORATION**
(A Public Corporation)

**INDEPENDENT AUDITORS' REPORT ON
COMPLIANCE AND ON INTERNAL CONTROL**

SEPTEMBER 30, 2007

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Guam Educational Telecommunications Corporation:

We have audited the financial statements of the Guam Educational Telecommunications Corporation (the "Corporation") as of and for the year ended September 30, 2007, and have issued our report thereon dated March 6, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses (pages 3 through 12) as items 2007-1 through 2007-10 to be significant deficiencies in internal control over financial reporting.

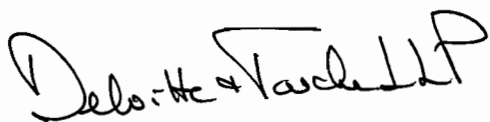
A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiencies described above as items 2007-1 through 2007-10 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

The Corporation's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Corporation's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Trustees and management of the Guam Educational Telecommunications Corporation, the Office of the Public Auditor of Guam, 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 these specified parties.



March 6, 2008

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
(A Public Corporation)

Schedule of Findings and Responses
Year Ended September 30, 2007

Finding No. 2007-1

Revenue recognition

Criteria: National Council on Governmental Accounting (NCGA) Statement 1, Governmental Accounting and Financial Reporting Principles, paragraph 62, establishes the standard for the modified-accrual recognition of revenues and other financial resource increments in governmental funds. It states that revenues should be recognized in the accounting period in which they become both measurable and available. Measurable refers to the ability to quantify in monetary terms the amount of the revenue and receivable. The term available generally means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Condition: The Corporation currently recognizes underwriting revenues on the accrual basis wherein the revenue is recognized when an invoice is issued to a customer rather than when the amount is actually collected. Accordingly, at September 30, 2007, the Corporation has recorded receivables in the amount of \$61,343, of which \$54,706 is considered uncollectible for which a corresponding allowance has been established.

Cause: The cause of the above condition is the lack of adherence to established accounting principles concerning revenue recognition.

Effect: The effect of the above condition is the possibility of overstatement of underwriting revenue balances.

Recommendation: We recommend that management ensure underwriting revenues be recognized based on actual collections. Additionally, we recommend that management implement and adopt a formal policy with respect to the recognition of revenues in accordance with governmental GAAP.

Auditee Response: Management has determined that the current processes of recognizing revenues are consistent with the Governmental Accounting and Financial Reporting Principles, but would have to be diligent in determining the ability to collect on a timely manner and would have to write-off receivables that are over 60 days.

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Schedule of Findings and Responses, Continued
Year Ended September 30, 2007

Finding No. 2007-2

Expenditures

Criteria: Expenditures should be recorded when the related liability is incurred.

Condition: At September 30, 2007, the Corporation did not record an accrual for program broadcasting expenditures even though the liability was incurred. Specifically, the Corporation made a payment on check # 4701 for \$105,243 subsequent to year end, of which \$53,850 related to the period of July 1, 2007 through September 30, 2007. An audit adjustment was proposed to record this amount as an expenditure and as a related liability as at year end.

Cause: The cause of the above condition is the lack of established policies and procedures requiring the accrual of expenditures in the period the related liabilities are incurred.

Effect: The effect of the above condition is the understatement of expenditures and related accrued liability balances.

Recommendation: We recommend that management ensure expenditures are recorded when the related liability is incurred.

Auditee Response: Management acknowledges that oversight in the recognition of expenditures but rest assured that we are currently developing policy and procedures to accurately capture all legitimate expenses.

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
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Schedule of Findings and Responses, Continued
Year Ended September 30, 2007

Finding No. 2007-3

Bank reconciliations

Criteria: Bank reconciliations should be independently reviewed for accuracy.

Condition: Bank reconciliations are currently prepared by the Corporation's independent consultant; however, no formal review of the consultant's monthly reconciliations is performed.

Cause: The cause of the above condition is the lack of established policies and procedures requiring the independent review of bank reconciliations for accuracy.

Effect: The effect of the above condition is the possibility of misstatement and misappropriation of cash balances going undetected.

Recommendation: We recommend that management ensure the monthly bank reconciliations be reviewed by the Administrative Officer and be independently reviewed by the General Manager.

Auditee Response: Management is currently working on its operating procedures to include the Administrator as the approving/reviewing authority of all bank reconciliations. It should be noted that the independent consultant has no access in preparing checks or transferring funds. However, we will be incorporating the need for inclusion of the Administrator as the approving authority on all future bank reconciliations.

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Schedule of Findings and Responses, Continued
Year Ended September 30, 2007

Finding No. 2007-4

Subledgers

Criteria: Balances recorded within the accounts receivable subsidiary ledger should represent valid amounts due from customers. In addition, balances recorded within the accounts payable subsidiary ledger should represent valid amounts due to vendors.

Condition: At September 30, 2007, the Corporation recorded a total of \$106,895 within the accounts receivable subsidiary ledger, of which \$94,106 represented balances 90 days or more past due. An allowance for uncollectable accounts was established in the amount of \$54,706; however, the subsidiary ledger included a receivable due from the Government of Guam in the amount of \$44,830 relating to a corresponding liability due to Public Broadcasting Services (PBS) of \$39,768 and Guam Power Authority (GPA) of \$4,768. An audit adjustment was proposed in the amount of \$44,536 to reverse the liability due to PBS and GPA against the corresponding receivable due from GovGuam as these amounts had already been paid directly by GovGuam.

Cause: The cause of the above condition is the lack of established policies and procedures requiring periodic review of the accounts receivable and accounts payable subsidiary ledgers for balances no longer considered valid.

Effect: The effect of the above condition is the misstatement of accounts receivable and accounts payable balances.

Recommendation: We recommend that management ensure the subsidiary ledgers for accounts receivable and accounts payable be scrutinized on a periodic basis for recorded balances that are no longer considered valid.

Auditee Response: We are currently working on the policy and procedures to reconcile our payable and receivable accounts with the accompanying sub-ledgers.

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Schedule of Findings and Responses, Continued
Year Ended September 30, 2007

Finding No. 2007-5

Prepaid items

Criteria: Payments made to vendors or persons for services that reflect costs applicable to future accounting periods should be recorded as prepaid items.

Condition: At September 30, 2007, the Corporation recorded prepaid items in the amount of \$105,069, which included \$82,836 that related to program broadcasting expenditures for the period of February 1, 2007 through June 30, 2007, and \$3,770 that related to insurance premiums for the period October 1, 2006 through September 30, 2007. An audit adjustment was proposed to reduce these prepaid account balances and to recognize the expenditures in the period the services were utilized.

Cause: The cause of the above condition is the lack of established policies and procedures requiring the periodic review of prepaid account balances to ensure expenditures are recorded in the period the services are utilized.

Effect: The effect of the above condition is the misstatement of expenditures and related prepaid account balances.

Recommendation: We recommend that management ensure prepayments made to vendors or persons for services applicable to the current accounting period are recorded as expenditures.

Auditee Response: We are aware of only a couple of items that should reflect any prepayment (Insurance and Equipment). We are currently working on our policy and procedures.

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
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Schedule of Findings and Responses, Continued
Year Ended September 30, 2007

Finding No. 2007-6

Capital assets

Criteria: Capital assets should be depreciated from date of acquisition based on their estimated useful lives.

Condition: At September 30, 2007, the Corporation recorded capital assets with a net book value of \$538,897. We examined the detailed fixed asset register and noted that certain capital assets purchased prior to 1996 were not being depreciated from their date of acquisition. We recalculated depreciation expense for the Corporation's capital assets and determined that accumulated depreciation was understated by \$75,392, including current year depreciation expense being understated by \$26,281. An audit adjustment was proposed to correctly record current year depreciation expense and accumulated depreciation.

Cause: The cause of the above condition is the lack of independent review of the fixed asset register, including the calculation of depreciation expense.

Effect: The effect of the above condition is the misstatement of capital asset balances.

Recommendation: We recommend that management ensure the calculation of depreciation expense be independently reviewed to ensure that such is a valid charge that is based on the capital asset's useful life from the date of acquisition.

Auditee Response: Management is aware of the timely recognition of assets based on the date of acquisition; however, we disagree with the notion that there was a lack of independent review when the error of capital asset recognition was not discovered by our previous auditors. However, we will be incorporating the policy and procedures in recognizing capital assets consistent with the Governmental Accounting and Financial Reporting Principles.

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
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Schedule of Findings and Responses, Continued
Year Ended September 30, 2007

Finding No. 2007-7

Compensated absences

Criteria: Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the employer and employee should be accounted for in the period those services are rendered or those events take place.

Condition: At September 30, 2007, the Corporation recorded accrued annual leave of \$36,298 within its General Fund as well as \$56,680 at the government-wide level. An audit adjustment was proposed in the amount of \$36,298 to reverse the liability recorded in the General Fund. In addition, no account analysis was performed at year end to determine the actual amount required to be accrued for annual leave. As a result of alternative audit procedures, an audit adjustment was proposed in the amount of \$2,957 to increase the liability at the government-wide level to \$59,638.

Cause: The cause of the above condition is the lack of understanding of the accounting for compensated absences within a governmental entity, and the lack of established policies and procedures requiring the periodic update of the accrued annual leave liability account.

Effect: The effect of the above condition is the misstatement of accrued annual leave balances.

Recommendation: We recommend that management ensure that the accrued annual leave liability account be updated on a periodic basis.

Auditee Response: Methods of determining compensated absences were consistent with the procedures formulated by the previous auditors; however, management would like some assistance in educating our staff in accurately calculating the accrued annual leave balances. We recognize that there are various ways of determining these balances and would like to be consistent with the policy and procedures set forth by the Government of Guam.

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
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Schedule of Findings and Responses, Continued
Year Ended September 30, 2007

Finding No. 2007-8

Deferred revenues

Criteria: Deferred revenues should represent monies received or revenues accrued which have not been earned or do not meet the “available” criterion for revenue recognition under the modified accrual basis of accounting.

Condition: At September 30, 2007, the Corporation recorded deferred revenue from the Government of Guam of \$26,775, which had been recorded since 2000 for which no supporting documentation was made available indicating the validity of the amount. Furthermore, the deferred revenue account for Community Service Grant (CSG) included cash collections of \$6,680 representing non-CSG grant revenues for projects that were completed. Audit adjustments were proposed to reverse the Government of Guam deferred revenue amount and to correctly record the non-CSG cash collections as grant revenues.

Cause: The cause of the above condition is the lack of established policies and procedures requiring the periodic review of deferred revenue account balances to ensure revenues are recorded when earned.

Effect: The effect of the above condition is the misstatement of revenues and related deferred revenue account balances.

Recommendation: We recommend that management ensure deferred revenues received are recognized as grant revenues when the amounts have been earned.

Auditee Response: Consistent with all the other findings, we are currently working on our policy and procedures that will incorporate your concerns and findings. We are taking steps in matching those funds received as earned revenues as opposed to those that are to be collected future months.

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
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Schedule of Findings and Responses, Continued
Year Ended September 30, 2007

Finding No. 2007-9

External Financial Reporting

Criteria: Generally accepted auditing standards requires that entity financial statements be the product of a financial reporting system that offers reasonable assurance that management is able to produce financial statements that comply with accounting principles generally accepted in the United States of America (GAAP).

Condition: At the request of management, the independent auditors were required to draft the financial statements, including attendant footnote disclosures, of the Corporation as of and for the year ended September 30, 2007.

Cause: The cause of the above condition is the lack of established internal controls over the preparation of the financial statements, including footnote disclosures.

Effect: The effect of the above condition is the potential inability to prevent or detect a misstatement or omission in the financial statements and related disclosures.

Recommendation: We recommend that management have control over the preparation of the financial statements, including related footnote disclosures.

Auditee Response: Consistent with the generally accepted auditing standards, management will continue the services of the Independent Auditor with direct supervision and guidance of the Administrator to maintain reasonable assurances that the financial statements and all accompanying footnote disclosures are relatively free of any misstatements or omissions.

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
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Schedule of Findings and Responses, Continued
Year Ended September 30, 2007

Finding No. 2007-10

Journal Entries

Criteria: Journal entries used to make non-systematic adjustments to the general ledger should be independently reviewed for accuracy.

Condition: Journal entries are currently prepared by the Corporation's independent consultant; however, no formal review of the consultant's work is performed nor are the journal entries independently reviewed and authorized for input to the general ledger.

Cause: The cause of the above condition is the lack of established policies and procedures requiring the independent review and authorization of journal entries prior to input to the general ledger.

Effect: The effect of the above condition is the possibility of misstatement of general ledger balances and the misappropriation of assets going undetected.

Recommendation: We recommend that management ensure journal entries be reviewed by the Administrative Officer and be independently reviewed and authorized by the General Manager.

Auditee Response: Management is currently working on the policy and procedures to incorporate the Administrator as the approving and reviewing authority of all future journal entries.