

February 13, 2013

Ms. Cathyann Gogue
General Manager
Guam Educational Telecommunications Corporation
P.O. Box 21449
Hagatna, GU 96921

Dear Ms. Gogue:

In planning and performing our audit of the financial statements of the Guam Educational Telecommunications Corporation (PBS Guam), as of and for the year ended September 30, 2012 (on which we have issued our report dated February 13, 2013), 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, we considered PBS Guam's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PBS Guam's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of PBS Guam'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 was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to PBS Guam's internal control over financial reporting and other matters as of September 30, 2012 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated February 13, 2013, on our consideration of PBS Guam's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The definition of a deficiency is also set forth in the attached Appendix I.

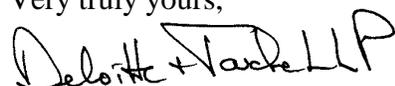
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of the Office of the Public Accountability - Guam, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of PBS Guam for their cooperation and assistance during the course of this engagement.

Very truly yours,



SECTION I – CONTROL DEFICIENCIES

We identified, and have included below, deficiencies involving PBS Guam's internal control over financial reporting as of September 30, 2012 that we wish to bring to your attention:

(1) Procurement Procedures

For purchases greater than \$1,000, PBS Guam's procurement procedures require three price quotations. Of eighteen non-payroll expenditures tested totaling \$111,977, the following lacked three price quotes and indicated an absence of documentation supporting the basis of vendor selection:

<u>Date</u>	<u>Ref.</u>	<u>Description</u>	<u>Amount</u>
10/19/11	WH# 12263	Gift Certificates	\$ 6,629
11/10/11	Inv# 1111	Monthly ground maintenance	\$ 645
07/26/12	Inv# 12-1130	Monthly accounting services	\$ 975

We recommend that management strengthen controls over the procurement process. Documentation of the efforts made to contact other available vendors should be evident.

(2) Prior Year Audit Adjustments

Ending fund balance of \$490,447 from prior year did not agree to the current year opening fund balance of \$482,595, resulting in a variance of \$7,852. This variance was the result of proposed audit adjustments from prior year not recorded by PBS Guam resulting in an overstatement of accounts payable of \$33,499, an overstatement of accrued wages payable of \$31,577, an overstatement of payroll liabilities of \$2,563, and an understatement of deferred revenue of \$61,138. Furthermore, proposed audit adjustments from prior year for fixed asset additions of \$27,219 were not recorded. Audit adjustments were proposed in the current year to rectify this condition. We recommend that the general ledger be timely updated for proposed audit adjustments.

(3) Revenue Recognition

PBS Guam's accounting policy for revenue recognition relating to restricted grants requires that revenue be recognized when expenditures are incurred. During the year ended September 30, 2012, PBS Guam incurred expenditures under the Digital Distribution Fund (DDF) grant and the Community Service Grant (CSG) of \$140,032 and \$711,579, respectively. Although total recorded revenues amounted to \$851,611, audit adjustments were proposed to recognize a receivable due from grantor for the DDF grant of \$40,032 and a correction of deferred revenue of \$96,896. We recommend that management require that grant revenues be recognized in accordance with established accounting policy and that related receivables/deferred revenue accounts be correctly recorded.

(4) Payroll

Of thirty-one payroll expenditures tested totaling \$35,197, eleven items (check #s 6967, 7034, 7115, 7206, 7209, 7225, 7233, 7325, 7387, 7416 and 7425), indicated that the supporting timesheets were not signed by employees and/or the employee's supervisor. We recommend that management strengthen controls over timesheet approval.

SECTION II – OTHER MATTERS

Our observations concerning other matters related to operations and best practices involving internal control over financial reporting that we wish to bring to your attention are as follows:

(1) Board of Trustees

Article IV of the GETC bylaws indicate that the Board of Trustees are to meet in a regular session at least once a month at a time and place designated by the chairman. No board meetings were held during the year ended September 30, 2012 due to the lack of a quorum because of expired board member terms. We recommend that management petition the Governor of Guam to appoint the seven board members and obtain the advice and consent of the Legislature on these appointments.

SECTION III – DEFINITIONS

The definition of a deficiency that is established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, is as follows:

A *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 and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

PBS Guam's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.