



OFFICE OF THE PUBLIC AUDITOR

**Guam Educational Telecommunications Corporation
(KGTF Channel 12)
FY 2007 Financial Highlights**

March 20, 2008

Independent Auditors, Deloitte & Touche, LLP, identified 10 material weaknesses in the FY 2007 financial audit of the Guam Educational Telecommunications Corporation (KGTF), which indicate KGTF's accounting structure is not at an acceptable level. This can be attributed to KGTF's inability to hire a qualified accountant or outsource its accounting function. As a result, the auditors proposed 18 audit adjustments to bring the financial statements in conformance with generally accepted accounting principles. In addition, FY 2006 account balances were restated.

Ultimately, it is management's responsibility to have a system in place to ensure proper financial reporting. While a weak accounting structure has been an on-going challenge, KGTF continues to upgrade its capital assets in an effort to have a digital signal for all transmissions by February 2009 as mandated by the Federal Communications Commission (FCC).

Weak Accounting Structure

Ten findings compared to four findings in FY 2006 affect management's ability to prevent or detect material misstatements in their financial statements. In one finding, the independent auditors, at the request of management, drafted the financial statements and footnote disclosures. Other findings indicating weaknesses in KGTF's accounting structure include:

- Receivables were not recorded in accordance with established accounting principles; therefore, of the \$61,343 recorded by KGTF in FY 2007, \$54,706 is considered to be uncollectible. This means only 11 cents of every dollar may be collected.
- Bank reconciliations are prepared by an independent consultant; however, no review is performed by KGTF management over the accuracy of the bank reconciliations.
- Capital assets purchased prior to 1996 were not being depreciated from their date of acquisition.
- No account analysis was performed at year end to determine the actual amount required to be accrued for annual leave.
- Journal entries are prepared by an 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.
- Auditors made 18 adjustments that resulted in a decrease in total assets of \$263,000, a decrease in liabilities of \$187,000 and a decrease in net assets of \$77,000.

Digital Requirement

Despite the accounting problems, KGTF continues to upgrade its capital assets by spending \$181,000 in FY 2007 for studio and broadcasting equipment as well as transportation. This is in effort to comply with the FCC's mandate of transmitting a digital signal by February 2009. The

digital requirement change-over, however, poses a potential risk that KGTF's current equipment may become obsolete. The extent of the obsolescence cannot be determined at this time.

For a more detailed discussion on KGTF's operations, see the Management's Discussion and Analysis.