

**GUAM WATERWORKS AUTHORITY  
(A COMPONENT UNIT OF THE  
GOVERNMENT OF GUAM)**

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

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**YEAR ENDED SEPTEMBER 30, 2010**

**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**

The Board of Commissioners  
Consolidated Commission on Utilities:

We have audited the financial statements of Guam Waterworks Authority (the Authority) as of and for the year ended September 30, 2010, and have issued our report thereon dated March 10, 2011. 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 Authority'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 Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A *deficiency in internal control* 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 *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

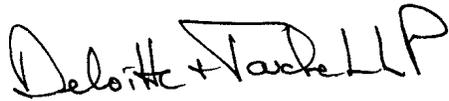
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority'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*.

We noted certain matters that we reported to management of the Authority in a separate letter dated March 10, 2011.

This report is intended solely for the information and use of the Consolidated Commission on Utilities, management of the Authority, others within the entity, the Office of Public Accountability - Guam, federal awarding agencies, pass-through entities, and 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. However, this report is also a matter of public record.

A handwritten signature in black ink that reads "Deloitte + Tatchell LLP". The signature is written in a cursive, stylized font.

March 10, 2011

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

The Board of Commissioners  
Consolidated Commission on Utilities:

Compliance

We have audited Guam Waterworks Authority's (the Authority) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended September 30, 2010. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs (pages 9 and 10). Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

As described in item 2010-1 in the accompanying Schedule of Findings and Questioned Costs, the Authority did not comply with requirements regarding equipment and real property management that are applicable to its Construction Grants for Wastewater Treatment Works (CFDA 66.418) and Capitalization Grants for Drinking Water State Revolving Funds (CFDA 66.468). Compliance with such requirements is necessary, in our opinion, for the Authority to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2010.

### Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

*A deficiency in internal control over compliance* 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, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

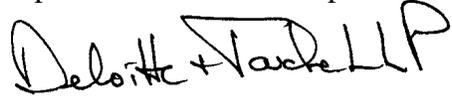
Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying Schedule of Findings and Questioned Costs as item 2010-1. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance yet important enough to merit attention by those charged with governance

The Authority's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Authority's response and, accordingly, we express no opinion on it.

### Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of Guam Waterworks Authority as of and for the year ended September 30, 2010, and have issued our report thereon dated March 10, 2011. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (page 7) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of the Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Consolidated Commission on Utilities, management of the Authority, others within the entity, the Office of Public Accountability - Guam, federal awarding agencies, pass-through entities, and 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. However, this report is also a matter of public record.

A handwritten signature in black ink that reads "Deloitte + Tatchell LLP". The signature is written in a cursive, flowing style.

March 10, 2011

**GUAM WATERWORKS AUTHORITY**  
(A Component Unit of the Government of Guam)

Schedule of Programs Selected for Audit  
in Accordance with OMB Circular A-133  
Year Ended September 30, 2010

The following list specifies programs selected for detailed compliance testing in accordance with applicable OMB Circular A-133 requirements.

<u>Grantor</u>	<u>CFDA #</u>	<u>Amount of</u> <u>Description</u>	<u>Expenditures</u>
U.S. Environmental Protection Agency	66.418	Construction Grants for Wastewater Treatment Works	\$ 1,848,109
	66.418	ARRA Construction Grants for Wastewater Treatment Works	594,302
	66.468	Capitalization Grants for Drinking Water State Revolving Funds	<u>1,720,970</u>
		Total program expenditures tested	\$ <u>4,163,381</u>
		Total federal program expenditures	\$ <u>4,791,273</u>
		% of total federal program expenditures tested	<u>87%</u>

**GUAM WATERWORKS AUTHORITY**  
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Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2010

CFDA #	Federal Grantor/Program Title	Federal Expenditures
<b>U.S. Environmental Protection Agency</b>		
Direct Grant		
66.418	Construction Grants for Wastewater Treatment Works	\$ 1,848,109
66.418	ARRA Construction Grants for Wastewater Treatment Works	594,302
66.468	Capitalization Grants for Drinking Water State Revolving Funds	1,720,970
66.468	ARRA Capitalization Grants for Drinking Water State Revolving Funds	-
66.600	Environmental Protection Consolidated Grants Program Support	34,508
66.606	Surveys, Studies, Investigation and Special Purpose Grants	<u>18,911</u>
	Total U.S. Environmental Protection Agency	<u>4,216,800</u>
<b>U.S. Department of Homeland Security</b>		
Pass-Through Government of Guam Department of Administration		
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	288,473
97.067	Homeland Security Grant Program	<u>286,000</u>
	Total U.S. Department of Homeland Security	<u>574,473</u>
	Total Federal Assistance	<u>\$ 4,791,273</u>

See Accompanying notes to Schedule of Expenditures of Federal Awards.

**GUAM WATERWORKS AUTHORITY**  
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Notes to Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2010

(1) Scope of Audit

Guam Waterworks Authority (GWA) is a component unit of the Government of Guam (GovGuam). GWA is subject to the regulations of the Public Utility Commission of Guam (PUC). GWA became an autonomous agency in 1996 under Public Law 23-119. Only the federal expenditures of the Authority are included within the scope of the OMB Circular A-133 audit (the "Single Audit").

a. Programs Subject to Single Audit

The Schedule of Expenditures of Federal Awards presents each Federal program related to the U.S. Environmental Protection Agency and U.S. Department of Homeland Security which are subject to OMB A-133.

(2) Summary of Significant Accounting Policies

a. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Authority and is presented on the accrual basis of accounting, consistent with the manner in which the Authority maintains its accounting records. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statement. All program award amounts represent the total allotment or grant award received. All expenses and capital outlays are reported as expenditures.

(3) Noncash Awards

The Authority had noncash award from the U.S. Environmental Protection Agency CFDA 66.600 for Interagency Personnel Agreement of \$715,256. For the year ended September 30, 2010, the related noncash cash federal expenditures amount to \$34,508.

(4) American Recovery and Reinvestment Act of 2009 (ARRA)

In February 2009, the Federal Government enacted the American Recovery and Reinvestment Act of 2009 (ARRA). As of September 30, 2010, the Authority's expenditures and grant award notifications are as follows:

<u>CFDA Program</u>	<u>Grant Amount</u>	<u>FY 2010 Expenditures</u>
66.418 ARRA Construction Grants for Wastewater Treatment Works	\$ 2,371,500	\$ 594,302
66.468 ARRA Capitalization Grants for Drinking Water State Revolving Funds	<u>2,124,000</u>	<u>          -</u>
	<u>\$ 4,495,500</u>	<u>\$ 594,302</u>

**GUAM WATERWORKS AUTHORITY**  
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Schedule of Findings and Questioned Costs  
Year Ended September 30, 2010

**Part I - Summary of Auditors' Results Section**

*Financial Statements*

- |  |               |
|--|---------------|
| 1. Type of auditors' report issued:                      | Unqualified   |
| Internal control over financial reporting:               |               |
| 2. Material weakness(es) identified?                     | No            |
| 3. Significant deficiency(ies) identified?               | None reported |
| 4. Noncompliance material to financial statements noted? | No            |

*Federal Awards*

- |  |           |
|--|-----------|
| Internal control over major programs:  |           |
| 5. Material weakness(es) identified?   | No        |
| 6. Significant deficiency(ies) identified?   | Yes       |
| 7. Type of auditors' report issued on compliance for major programs:   | Qualified |
| 8. Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133? | Yes       |
| 9. GWA's major programs were as follows:   |           |

Name of Federal Program or Cluster	CFDA Number
Construction Grants for Wastewater Treatment Works	66.418
Capitalization Grants for Drinking Water State Revolving Funds	66.468
10. Dollar threshold used to distinguish between Type A and Type B Programs, as those terms are defined in OMB Circular A-133:	\$300,000
11. GWA qualified as a low-risk auditee as that term is defined in OMB Circular A-133?	No

**Part II - Federal Award Findings and Questioned Costs Section**

<u>Reference Number</u>	<u>CFDA Number</u>	<u>Finding</u>	<u>Questioned Costs</u>
2010-1	66.418/66.468	Equipment and Real Property Management	\$ -

**GUAM WATERWORKS AUTHORITY**  
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Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No: 2010-1  
Federal Agency: U.S. Environmental Protection Agency  
CFDA Program: 66.418 Construction Grants for Wastewater Treatment Works  
CFDA Program: 66.468 Capitalization Grants for Drinking Water State Revolving Funds  
Grant Award No.: C-66945101, FS-97911902, FS-97910601  
Area: Equipment and Real Property Management  
Questioned Costs: \$0

Criteria: In accordance with the applicable equipment management requirements, grantees that acquire equipment with Federal funds are required to perform a physical inventory of the property and reconcile results with property records at least once every two years.

Condition: The Authority has not performed the required comprehensive physical inventories of its property in fiscal year 2010 or in the two prior years. We are unable to assess the overall cumulative monetary value of this deficiency.

Cause: Noncompliance with applicable equipment and real property management requirements has been a continuing finding from prior audits, and the Authority's management is still in the process of effecting corrective action and of developing an equipment management system that complies with applicable equipment management standards.

Effect: The effect of the above condition is noncompliance with applicable equipment and real property management requirements. The underlying capital outlays are not considered questioned costs as corrective action is in progress.

Prior Year Status: The above condition is reiterative of conditions identified in the prior year audit of the Authority.

Recommendation: The Authority should conduct a physical inventory and reconcile results with property records at least once every two years.

Auditee Response: GWA Accounting personnel are in the process of conducting a comprehensive physical inventory of its equipment to include acquisitions with federal funds. A staff has been dedicated to resolve the finding with the assistance of other GWA personnel. The target completion date is March 2012.

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Resolution of Prior Year Findings and Questioned Costs  
Year Ended September 30, 2010

Questioned Costs

The status of unresolved questioned costs from prior year Single Audit Reports is as follows:

Questioned Costs per the September 30, 2005 to 2009 audit reports	\$ 472,727
Questioned Costs per the September 30, 2010 audit report	<u>          -</u>
Total unresolved questioned costs as of September 30, 2010	\$ <u>472,727</u>

Unresolved Prior Year Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 9 and 10).