



OFFICE OF THE PUBLIC AUDITOR

**Guam Waterworks Authority
DRAFT- FY 2005 Financial Highlights**

May 1, 2006

For the first time in 14 years the Guam Waterworks Authority (GWA) closed its books with an increase in net assets. The fiscal year 2005 audited financial statements prepared by Deloitte Touche LLP reports an increase in net assets of \$1.5 million. This is a significant turnaround from the \$1.8 million dollar loss in FY 2004, the \$7.4 million loss in FY 2003 and \$14.7 million loss in FY 2002.

In October 2004, GWA continued on its schedule of rate increases as a 6.5% rate increase was assessed to customers. With the increase in rates, GWA was able to increase total operating revenues by \$5.6 million going from \$38.8 million in FY 2004 to \$44.4 million in FY 2005. The increase in rates resulted in a net increase of \$4 million after water and power purchases from the prior year.

Operating expenses increased by \$2.2 million dollars primarily due to a \$1 million increase in materials and supplies, and a \$2.4 million increase in bad debt expense to \$3.5 million. On the other hand these increases were offset by an overall decline in salary and benefits of \$1.3 million.

In FY 2005, GWA received a \$2.3 million increase in Environmental Protection Agency grants from the U.S government, and a \$500,000 increase in other contributions. With the increase in capital contributions GWA was able to report a \$1.5 million increase in net assets.

GWA continued to have difficulties with accounts receivable. GWA had a total of \$21.6 million in receivables, with an allowance for doubtful receivables totaling \$11.8 million. During the year, GWA's management wrote-off \$8.5 million in bad debt. As a result of the write off, GWA's allowance for doubtful accounts improved to 54 cents on the dollar from the 68 cents on the dollar in a FY 2004. To ensure a reasonable allowance for doubtful accounts it was necessary to increase the allowance by \$3.5 million after the write off.

GWA's Board was aware that write-offs were eminent, however the Board did not formally approve the \$8.5 million write-off at the time of occurrence. The Board subsequently ratified the write-off when it was brought to their attention in April 2006.

The FY 2005 audit reveals GWA has improved its cash position, although most of the cash (\$19.6 million) is restricted for capital projects.

In a related matter, GWA journeyed into the bond market and received a \$101 million Bond in January 2006.

Although the Bond was not investment grade, it represents acknowledgment from nationally recognized credit agencies that GWA made substantial improvements in the last few years. The purpose of the bond is for funding capital improvements to GWA's water and wastewater systems, refinancing certain outstanding obligations and financing new water meters. The bond is set to mature in 2035, reporting will start in FY 2006.

The report on compliance and internal controls had five findings, three of which are repeat findings. The five findings are 14 fewer compared to the 19 findings in FY 2004. There were no questions costs among the five findings. The five findings include:

Cash Management. Federal funds in transfer were disbursed more than three days from the time of grant receipt. The underlying cause was the lack of internal controls to ensure awards were disbursed upon receipt.

Meter reading. Meter readings for 25% of transactions tested were not comparable with previous and subsequent billings. GWA had little to no control over ensuring adequate efforts were made by their meter readers.

Federal Compliance Officer. There are no checks or review procedures performed independently of departments to ensure adherence to Federal compliance requirements.

Documentation. GWA did not properly safeguard all supporting documents. Vendor's invoices, requisitions, and procurement documents could not be located for ten purchase orders tested.

Internal audit. GWA did not establish a qualified internal audit department to perform check and review procedures, revenue protection, and departmental adherence to standard operating procedures.

A separate management letter detailed seven findings. Among the findings discussed include; a discrepancy of \$174,668 between the accounts payable subledger and the general ledger, and an unlocated difference of \$3,059 in GWA's main account due to untimely bank reconciliation.

For a more detailed commentary of GWA's operations, refer to the Management Discussion and Analysis in the audit report.