

GUAM WATERWORKS AUTHORITY

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

SEPTEMBER 30, 2003



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED UPON THE AUDIT PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Consolidated Commission on Utilities:

We have audited the financial statements of the Guam Waterworks Authority (the Authority) as of and for the year ended September 30, 2003, and have issued our report thereon dated August 31, 2004. 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.

Compliance

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 grants, 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 that are required to be reported under *Government Auditing Standards*.

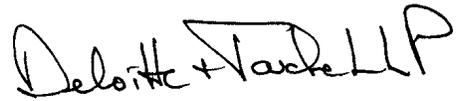
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operations of the internal control over financial reporting that, in our judgment, could adversely affect the Authority's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as item numbers 2003-03 through 2003-20.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Authority in a separate letter dated August 31, 2004.

This report is intended for the information of the management of the Guam Waterworks Authority, the Consolidated Commission on Utilities, 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 those specified parties.

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

August 31, 2004



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL
OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM
AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Consolidated Commission on Utilities:

Compliance

We have audited the compliance of the Guam Waterworks Authority (the Authority) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2003. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. 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 on the Authority's compliance with those requirements.

As described in items 2003-01 and 2003-02 in the accompanying Schedule of Findings and Questioned Costs, the Authority did not comply with requirements regarding procurement and allowable costs that are applicable to its Federal Emergency Management Agency (83.544 & 83.548), Environmental Protection Agency (66.418) and Department of the Interior (15.875) programs. Compliance with such requirements is necessary, in our opinion, for the Authority to comply with 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 requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2003.

Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with 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 requirements that could have a direct and material effect on a major federal program in order to determine our 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.

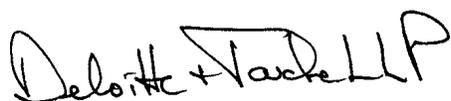
We noted matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Authority's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. The reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2003-01 and 2003-02.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions described above are not material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Guam Waterworks Authority as of and for the year ended September 30, 2003, and have issued our report thereon dated August 31, 2004. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Supplementary Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. This schedule is the responsibility of the management of the Authority. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated, in all material respects when considered in relation to the financial statements taken as a whole.

This report is intended for the information of the management of Guam Waterworks Authority, the Consolidated Commission on Utilities, 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 those specified parties.



August 31, 2004

GUAM WATERWORKS AUTHORITY

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2003

CFDA #	Federal Grantor/Program Title	Accrued (Deferred) Balance at September 30, 2002	Expenditures	Cash Receipts	Accrued (Deferred) Balance at September 30, 2003
U.S. Department of the Interior					
Pass-Through Government of Guam Department of Administration					
15.875	Economic, Social and Political Development of the Territories and Freely Associated States	\$ 279,624	\$ 642,019	\$ 634,082	\$ 287,561
	Total U.S. Department of the Interior	<u>279,624</u>	<u>642,019</u>	<u>634,082</u>	<u>287,561</u>
U.S. Environmental Protection Agency					
Direct Grant					
66.418	Construction Grants for Wastewater Treatment Works	-	143,037	258,037	(115,000)
	Total U.S. Environmental Protection Agency	<u>-</u>	<u>143,037</u>	<u>258,037</u>	<u>(115,000)</u>
Federal Emergency Management Agency					
Pass-Through Government of Guam Department of Administration					
83.544	Public Assistance Grants	15,526	1,460,659	1,614,523	(138,338)
83.548	Hazard Mitigation Grant	-	365,104	365,104	-
	Total Federal Emergency Management Agency	<u>15,526</u>	<u>1,825,763</u>	<u>1,979,627</u>	<u>(138,338)</u>
	Total Federal Assistance	<u>\$ 295,150</u>	<u>\$ 2,610,819</u>	<u>\$ 2,871,746</u>	<u>\$ 34,223</u>

The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.

Funds received under FEMA Hazard Mitigation Grant were received in current year, though expended in prior periods. As items were previously not included for Single Audit, they are included for current year.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2003

Part I - Summary of Auditors' Results

1. The Independent Auditors' Report on the financial statements expressed an unqualified opinion.
2. Reportable conditions in internal control over financial reporting were identified, none of which were considered to be material weaknesses.
3. No instances of noncompliance considered material to the financial statements were disclosed by the audit.
4. Reportable conditions in internal control over compliance with requirements applicable to major federal award programs were identified, none of which were considered to be material weaknesses.
5. The Independent Auditors' Report on compliance with requirements applicable to major federal award programs expressed a qualified opinion.
6. The audit disclosed findings required to be reported by OMB Circular A-133.
7. The Authority's major programs are:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Federal Emergency Management Agency	83.544
Federal Emergency Management Agency	83.548
Environmental Protection Agency	66.418
Department of the Interior	15.875

8. A threshold of \$300,000 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. The Authority did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

Part II - Financial Statement Findings Section

<u>Reference Number</u>	<u>Finding</u>	<u>Questioned Costs</u>
2003-03	Supporting Documents	\$ -
2003-04	Disconnection Policies	\$ -
2003-05	Policies and Procedures, Systems Control Over New Accounts	\$ -
2003-06	Inventory	\$ -
2003-07	Property, Plant and Equipment: Subsidiary Ledger	\$ -
2003-08	Exceptions in Meter Readings	\$ -
2003-09	Revenues – Water Production vs. Consumption	\$ -
2003-10	Project Costs - Equipment Rental	\$ -
2003-11	Internal Audit Department	\$ -
2003-12	Overtime	\$ -
2003-13	Construction Contract Management and Accounting	\$ -
2003-14	Fixed Assets Existence	\$ -
2003-15	Lost Cash Deposits	\$ -

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2003

Part II - Financial Statement Findings Section, Continued

<u>Reference Number</u>	<u>Finding</u>	<u>Questioned Costs</u>
2003-16	Accounts Payable Reconciliations	\$ -
2003-17	Fixed Assets: Capitalization Policy	\$ -
2003-18	Surcharge Receipts & Transmittals	\$ -
2003-19	Account Receivables: Delayed Resolution of Billing Disputes	\$ -
2003-20	Inventory Costing	\$ -

Part III - Federal Award Findings and Questioned Cost Section

<u>Reference Number</u>	<u>CFDA Number</u>	<u>Finding</u>	<u>Questioned Costs</u>
2003-01	All Programs	Procurement	\$ 930,560
2003-02	15.875	Allowable Costs	\$ -

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding Number 2003-01 – Procurement – Single Audit Funds

Criteria:

Management should ensure that procurement files related to Federal funds are safeguarded throughout the duration of the project and for a specified period thereafter in accordance with federal requirements.

Condition:

The Authority is unable to provide procurement documentation substantiating the following:

Federal Emergency Management Agency: Public Assistance Grants (CFDA #83.544)

<u>Invoice No.</u>	<u>Description</u>	<u>Amount</u>
Various	Fuel purchases	\$ 233,855
Various	Equipment rental	<u>36,997</u>
		\$ <u>270,852</u>

Federal Emergency Management Agency: Hazard Mitigation Grant (CFDA #83.548)

<u>Invoice No.</u>	<u>Description</u>	<u>Amount</u>
Various	Design/construct wastewater wells	\$ <u>267,842</u>

U.S. Environmental Protection Agency (CFDA #66.418)

<u>Invoice No.</u>	<u>Amount</u>
COP #2	\$ 48,546
COP #1	<u>48,647</u>
	\$ <u>97,193</u>

U.S. Department of the Interior (CFDA #15.875)

<u>Invoice No.</u>	<u>Purchase Order Amount</u>	<u>Invoiced</u>
220842	\$ 129,200	\$ 129,200
241285	52,000	52,000
230943	63,949	63,949
230944	76,080	<u>49,524</u>
		\$ <u>294,673</u>

Total Questioned Costs \$ 930,560

Cause:

The underlying cause appears to be a combination of a lack of internal controls with respect to the safeguarding of procurement files and that some of these projects began five to ten years ago, when no formal retention policy was in place.

Effect:

No known material effect on the financial statements results from this finding. However, questioned costs may affect the entity's ability to receive future federal funds.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding Number 2003-01 – Procurement – Single Audit Funds, Continued

Recommendation:

Management should maintain procurement files for the duration of the particular project in accordance with federal requirements.

Auditee Response and Corrective Action Plan:

GWA is developing a Standard Operating Procedure to establish processes for all procurement transactions. The SOP assigns responsibility for maintaining procurement files and sets forth the minimum requirements for the contents of a procurement file.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding Number 2003-02 – Allowable Costs

Criteria:

Federal reimbursable costs should be adequately supported by vendors' invoices indicating items and/or services received.

Condition:

Management has not complied with requirements to maintain evidence of allowable costs by way of safekeeping of vendor invoices with respect to the following:

Federal Emergency Management Agency (CFDA #83.544)

<u>Invoice No.</u>	<u>Amount</u>
Various	\$ <u>2,700</u>
	\$ <u>2,700</u> *

U.S. Environmental Protection Agency (CFDA #66.418)

<u>Invoice No.</u>	<u>Amount</u>
COP #2	\$ 48,546
COP #1	<u>48,647</u>
	\$ <u>97,193</u> *

U.S. Department of the Interior (CFDA #15.875)

<u>Invoice No.</u>	<u>Amount</u>
98888	\$ 62,000
98271	66,080
99993	1,120
1955	<u>52,000</u>
	\$ <u>181,200</u> *

* Noted as Questioned Costs in Finding 2003-01

Cause:

The underlying cause appears to be the lack of internal control over the safekeeping of accounting documents.

Effect:

No known material effect on the financial statements results from this finding.

Recommendation:

Management should ensure proper safekeeping of supporting documents.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2003

Finding Number 2003-02 – Allowable Costs, Continued

Auditee Response and Corrective Action Plan:

The Authority has hired a Chief Financial Officer who has restructured the process in which invoices are received and processed by GWA. A standard operating procedure has been drafted and is in the process of being finalized. There has been no formal procedure in place until this time. We are confident these actions will prevent this finding from recurring.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding Number 2003-03 - Supporting Documents

Criteria:

Effort should be made to ensure the proper safekeeping of supporting documents.

Condition:

The following supporting documents, i.e. deposits slips, invoices, purchase orders, receipts, statement of work, certificate of payment, performance report, could not be provided for examination:

A: Expenditures (invoice, check copy, purchase order, etc.)

	Batch/Doc. Number	Description	Amount
1	157604	Recognize Expenses	\$ 24,125.00
2	157603	Recognize Expenses	52,434.48
3	156603	Reclassification	30,831.45
4	157603	Recognize Expenses	72,718.97
5	156603	Reclassification	28,949.00
6	156603	Reclassification	48,757.50
7	158549	Reclassification	200,000.00
8	158426	Accrue Equip Rental Mar 03	95,000.00
9	164110	Detry Pumping Service	13,020.00
10	164123	Ben Lujan Wrecker & Equip	34,303.50
11	158183	Shell Guam Inc.	140,839.47
12	164172	Dept of Administration	11,791.24
13	164172	Dept of Administration	4,517.76
14	157838	Reclass to 9002 pong	85,648.79
15	155392	Todo Mauleg Porta Toilet	4,770.00
16	164615	Detry Pumping Service	<u>6,240.00</u>
		Total	\$ <u>853,947.11</u>

B: Procurement (requisition, purchase order, supervisor approvals, etc.)

	PO Number	Date	Description	Amount
1	241652	7/2/03	150 lbs Chlorine	\$ 41,670.00
2	230908	7/30/02	Belco Model ECS-F46	16,142.00
3	241125	1/22/03	50 HP Franklin Sub	18,000.00
4	240887	12/12/02	Blanket Purchase Agreement	45,000.00
5	240112	10/9/02	4" x 15 Stages Submers	31,250.00
6	240900	12/11/02	Blanket Purchase Agreement	14,990.00
7	240996	12/18/02	2 HP Teel Chlorina	31,325.00
8	240889	12/12/02	Blanket Purchase Agreement	45,000.00
9	240934	12/13/02	50 HP Franklin Sub	66,783.00
10	241099	1/16/03	Blanket Purchase Agreement	14,999.00
11	241649	7/2/03	Quincy Compressor	13,512.00
12	241653		5/8" x 3/4" Water Meter	14,985.00
13	241372	5/23/03	40' High Cube Alum	<u>8,600.00</u>
				\$ <u>362,256.00</u>

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding Number 2003-03 - Supporting Documents, Continued

Condition, Continued:

C: Grants Revenue (invoice, drawdown certification, check copy, etc.)

	JE Number	Date	Description	Amount
1	83959	1/16/03	Drawdown #53	\$ 123,930.00
2	83967	1/22/03	Drawdown #52	86,280.00
3	84168	5/1/03	Drawdown #78	39,150.00
4	84009	2/19/03	Drawdown #66	<u>23,233.39</u>
			Total	\$ <u>272,593.39</u>

D: Labor Details

Reference Number	Date
TR #02-08967	1/4/03
TR #6035	12/17/02

Cause:

There appears to be lack of internal control over the safekeeping of accounting documents.

Effect:

No known material effect on the financial statements results from this condition. However, the propriety of underlying account balances may be questioned.

Prior Year Status:

The above condition is reiterative of conditions identified in the prior year audit of the Guam Waterworks Authority.

Recommendation:

The Authority should ensure proper safekeeping of supporting documents.

Auditee Response and Corrective Action Plan:

The Authority has hired a Chief Financial Officer who has restructured the process in which invoices are received and processed by GWA. A standard operating procedure has been drafted and is in the process of being finalized. There has been no formal procedure in place until this time. We are confident these actions will prevent this finding from recurring.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2003

Finding No. 2003-04 - Disconnection Policies

Criteria:

Pursuant to the provisions of Guam Waterworks Authority's Rules and Regulations of Water and Sewer Services, delinquent accounts shall be subject to discontinuation of services.

Condition:

Of fifty-five revenue accounts reviewed, five were still classified as "active" while delinquent and were incurring additional monthly charges. These accounts should have been disconnected per GWA's disconnection policies, but had not as of year-end.

Cause:

Guam Waterworks Authority represents that it does not have the manpower on both the customer service side to track the account and on the operations side to remove or have the knowledge of the exact location of the meter to disconnect the non-paying customers.

Effect:

Due to non-enforcement of the collection of outstanding water charges, the collectibility of current charges and prior balances are questionable.

Prior Year Status:

The above condition is reiterative of conditions identified in the prior year audit of the Guam Waterworks Authority.

Recommendation:

The Authority should ensure that nonpaying customers are disconnected in accordance with applicable policies and procedures.

Auditee Response and Corrective Action Plan:

GWA is addressing this problem, however, the problem is very large. About 10% of GWA accounts are problematic. There are hundreds of accounts that GWA has been unable to locate for disconnection. GWA also has substantial resource limitations due to significant payables that have built up over the years. GWA has initiated an automated meter reading program which includes the establishment of a team to identify unlocatable meters and to obtain a global positioning coordinate for each meter installed to ensure the problem of difficult to locate meters does not recur.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2003

Finding Number 2003-05 - Policies and Procedures, Systems Control Over New Accounts

Criteria:

The Guam Waterworks Authority should ensure that policies and procedures and systems controls exist that prevent customers from opening another account (in the same physical location) if the original account outstanding balance is significant and remains outstanding.

Condition:

It appears the IBM/JD Edwards System does not prevent customers from applying for a new account even though the application for a new account is for an exact location where an outstanding balance exists. We further noted that disconnected customers with outstanding balances request family members to open a new account in the same physical location.

Cause:

Currently, the Authority's service rules and regulations do not allow the agency to refuse service under these circumstances.

Effect:

Due to lack of internal control policies and procedures, the collection of accounts receivable may be in question.

Prior Year Status:

The above condition is reiterative of conditions identified in the prior year audit of the Guam Waterworks Authority.

Recommendation:

The Authority should implement policies and procedures and computer system controls relating to application for a new account in the same physical location where a prior account with an outstanding balance already exists. Further, documents such as new renter agreements, deeds of sale, or other items should be reviewed to deter family members from opening new accounts at the same location.

Auditee Response and Corrective Action Plan:

GWA concurs with this finding. GWA's legal counsel is currently working on a revision of GWA's service rules and regulations.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding Number 2003-06 - Inventory

Criteria:

Transactions related to inventory maintenance should be recorded in the proper accounts and in a timely manner. Receiving and issuance reports should be properly filed and safeguarded.

Condition:

Based on our initial inquiry, we found that some items were not properly recorded. Movements of inventory items could not be supported by the appropriate issuance and receiving documents as noted:

<u>Item Description</u>	<u>Per Client Detail</u>	<u>PY End</u>	<u>CY Additions</u>
5/8 x 3 Ly Meter	2,104	-	200
Fire Hydrant	149	-	95
3/4" with Swivel Nut	503	-	294

Cause:

There appears to be lack of internal control over the safeguarding of documentation related to the recording of inventory received or issued.

Effect:

No known material effect on the financial statements results from this condition. However the underlying account balances may be questioned.

Recommendation:

The Authority should ensure that all documentation related to goods received or issued is properly filed and safeguarded.

Auditee Response and Corrective Action Plan:

GWA concurs with this finding. There are some significant problems with inventory at the Authority. GWA has assigned a staff member to address this problem. Additional training on the financial system software is being provided.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding Number 2003-07 - Property, Plant and Equipment: Subsidiary Ledger

Criteria:

Property, plant and equipment (PP&E) should be properly supported by an accurate subsidiary ledger. Information maintained should include the original cost and subsequent related improvements or betterments. Accurate related depreciation listings should also be maintained.

Condition:

During 2003, the Authority did not maintain accurate PP&E listings. We were provided a listing of fixed assets. However, items listed did not necessarily reflect fixed assets on hand. Moreover, the listing indicated an assignment of duplicate numbers to various assets.

Cause:

The cause of this condition is a shortage of knowledgeable personnel to maintain PP&E listings.

Effect:

The propriety of underlying accounting balances may be questioned. Furthermore, the control procedure of attempting to reconcile physical assets with accounting records is rendered ineffective.

Prior Year Status:

The above condition is reiterative of conditions identified in the prior year audit of the Guam Waterworks Authority.

Recommendation:

The Authority should establish accurate PP&E listings. Once accurate PP&E listings are established, the Authority should assign a qualified accountant to the duty of maintaining the listings, properly recording all capital purchases and calculating and recording depreciation expense.

Auditee Response and Corrective Action Plan:

GWA has assigned a qualified accountant to work on this problem. We believe the problem will be greatly improved for the Fiscal Year 2004 audit.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2003

Finding Number 2003-08 - Exceptions in Meter Readings

Criteria:

Abnormal readings (those appearing on exception reports) should be verified by the Authority's Task Force. Adjustments made should be reflected on all applicable billings before delivery to customers.

Condition:

The Authority currently verifies only a small percentage of all exceptions.

Cause:

The Authority began performing meter readings in late fiscal year 2003. Until that time, the Authority had no control over ensuring that every effort was made to keep exceptions proportionally low in comparison to total meters read (since another Authority was tasked with the meter reading). As a result, the Authority's Task Force may be overwhelmed when faced with investigating the number of exceptions currently experienced.

Effect:

Revenue may be misstated due to the absence of adjustments to unverified accounts. Non-registering meters left unidentified will result in unbilled consumption and increased water loss.

Prior Year Status:

The above condition is reiterative of conditions identified in the prior year audit of the Guam Waterworks Authority.

Recommendation:

All readings appearing on the exception report should be verified. The Authority should weigh the benefit of reducing the likely misstatement of revenue against the cost of paying additional people to verify abnormal readings.

Auditee Response and Corrective Action Plan:

GWA concurs with this finding. GWA believes the number of readings appearing on exception reports will be reduced as the automated meter reading program is implemented.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2003

Finding Number 2003-09 - Revenues – Water Production vs. Consumption

Criteria:

Water losses should be monitored to identify weaknesses in the distribution system such as leaks, non-registering meters, theft and other unbilled consumption. A basic monitoring procedure is the comparison of water production vs. consumption, which should be performed on a regular basis using reliable data. Water consumption and revenue are directly correlated and analysis should be performed if the contrary is the case.

Condition:

No reliable data exists supporting production figures for FY00 through FY03; therefore, no meaningful comparisons between production and consumption can be made. Moreover, comparisons of water consumption between fiscal years do not support revenue movement.

Cause:

The Authority does not have a mechanism in place to accumulate water production data.

Effect:

Because no meaningful information can be produced, the Authority is not precisely aware of the extent of existing leaks, non-registering meters, theft and other unbilled consumption. Efforts to improve water distribution are hampered, and the amount of lost revenues cannot be quantified. Additionally, projections on revenue movement are rendered ineffective as effect on revenue cannot be quantified.

Prior Year Status:

The above condition is reiterative of conditions identified in the prior year audit of the Guam Waterworks Authority.

Recommendation:

Accurate monthly water production and consumption records should be maintained. Comparisons of production vs. consumption and consumption vs. revenue using reliable information should be performed.

Auditee Response and Corrective Action Plan:

GWA concurs with this finding. GWA is planning to issue bonds in 2005. GWA will try to install more meters at the well sites and institute a meter reading program to ensure that this type of data is captured.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2003

Finding Number 2003-10 - Project Costs - Equipment Rental

Criteria:

The Authority undertakes numerous projects. Consequently, tracking project costs should be an essential function within the Authority. Accumulated costs should be maintained in a systematic manner to allow for efficient analysis and reporting. Comparing expected costs against historical costs is intrinsic to the planning process and should occur for every project. Furthermore, purchase orders and respective contracts with vendors should be limited to expected amounts.

Condition:

Equipment rental invoices report the project worked on, the type of equipment rented and the number of hours charged per day. Management could not provide a reasonable amount of charges to expect for such billings, based on project type and necessary equipment.

Cause:

The cause of this condition is the lack of historical information on project costs. This is due to non-utilization of the Project Cost Tracking module within the IBM/JDE system. Project managers and end-users cannot utilize any portion of the module.

Effect:

Operating expenses, particularly equipment rental, may be uncontrolled. The Authority may be paying excessive charges and may be experiencing cost overruns. Future projects cannot be adequately planned in terms of projecting and controlling costs.

Prior Year Status:

The above condition is reiterative of conditions identified in the prior year audit of the Guam Waterworks Authority.

Recommendation:

The Authority should implement and utilize the Project Cost Tracking module for all projects. Members of accounting and engineering should conduct periodic field audits to ensure costs are reasonable.

Auditee Response and Corrective Action Plan:

GWA is in the process of hiring a Chief Engineer. The Chief Engineer will be tasked with working with current GWA Engineering staff to provide engineering estimates for projects prior to initiation. Unfortunately, a lot of the work performed by GWA is done on an emergency basis which makes these types of estimates difficult to obtain.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding Number 2003-11 - Internal Audit Department

Criteria:

The Authority should consider establishing a qualified Internal Audit Department to perform, among other duties, check and review procedures on transaction processing, revenue protection, and ensuring departmental adherence to Standard Operating Procedures.

Condition:

There are no checks and review procedures performed independently of the specific department ensuring compliance with Standard Operating Procedures.

Cause:

The Authority does not have an internal auditor in place to perform this function.

Effect:

With the lack of an Internal Audit Department, the Authority faces a greater risk of loss, misuse of assets and a potential misstatement of account balances.

Prior Year Status:

The above condition is reiterative of conditions identified in the prior year audit of the Guam Waterworks Authority.

Recommendation:

The Authority should consider creating an Internal Audit Department staffed by qualified, professional internal auditors.

Auditee Response and Corrective Action Plan:

The Consolidated Commission on Utilities has assigned the Internal Auditor for the Guam Power Authority to oversee audits performed on the Guam Waterworks Authority. The audits are scheduled to begin in Fiscal Year 2005.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding Number 2003-12 - Overtime

Criteria:

Overtime is a tool necessary for the Authority to adequately address emergencies, reporting deadlines, shortages in staff and similar problems. All overtime should be pre-approved by department heads, and overtime claimed by employees should be reviewed by the employees' supervisor for reasonableness and correctness. It should be management's policy to minimize overtime.

Condition:

- 1) We noted 4 instances when an error was made by paying an employee overtime in excess of 16 hours on a weekday, as 8 regular hours plus 16 overtime hours equals 24 total hours in the day.
- 2) We noted 313 instances when overtime of between 10 to 16 hours was paid to employees on weekdays. It would appear unreasonable when considering the employee worked an additional 8 regular hours (totaling 18 or more hours) and would need time to drive to and from work and time to sleep. Several times, employees claimed apparently excessive overtime hours two days in a row, which forces the question of sleep and travel time.
- 3) An arbitrary amount of 30% was chosen as the threshold when considering excessiveness of total overtime paid and hours worked during the year compared to annual salary and hours. We noted 30 and 8 employees, respectively, who earned overtime in excess of this threshold.
- 4) The Authority could not locate timesheets related to overtime worked for the following employees:

Employee No.	Work Dates	OT Hours	\$ OT paid
57	12/3 – 12/23/02	42.5	\$ 1,128.39
123	12/7 - 12/31/02	116.0	2,975.40
205	12/10 – 12/31/02	97.0	2,859.14
63	10/1 – 10/30/02	128.0	3,066.24
472	01/01 – 01/31/03	234.5	5,624.52
142	01/01 – 01/31/03	183.0	3,952.80

- 5) Total overtime approximates 9.5% of total salaries and wages.

Cause:

There is no protocol in place for the safekeeping of overtime support.

Effect:

Without proper management control, excessive overtime results, some of which may not be legitimate, and some of which is legitimate but could be reduced or eliminated. Salaries and wages could be overstated by an undetermined amount.

Prior Year Status:

The above condition is reiterative of conditions identified in the prior year audit of the Guam Waterworks Authority.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding Number 2003-12 – Overtime, Continued

Recommendation:

Management should pre-approve all overtime. Overtime claimed by employees should be reviewed by the supervisor for reasonableness and correctness. Options to overtime should be explored, such as outsourcing the necessary manpower in times of emergency, report deadlines or staff shortages.

Auditee Response and Corrective Action Plan:

The responsibility for maintaining payroll documentation has been centralized with the payroll section. The payroll section will enforce that no payments are to be made unless proper documentation is present. We do not expect this problem to recur in the Fiscal Year 2004 audit. We do not believe it is possible nor appropriate for management to pre-approve all overtime work.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding Number 2003-13 - Construction Contract Management and Accounting

Criteria:

An accurate construction work in progress (CWIP) subsidiary ledger should be properly maintained through constant coordination between the engineering and accounting departments. The contract management system should be designed to provide for accurate flow of significant information. At any point in time, the CWIP subledger total should agree with the general ledger.

Condition:

While many of the CWIP projects were closed and/or expensed during FY03, the following projects should have been closed prior to FY03, but were not.

<u>Fiscal Year</u>	<u>Project Name</u>	<u>Project Total</u>
Prior to FY03	Chaot Wastewater Improvement	\$ 821,073
Prior to FY03	TAWSA	80,520
Prior to FY03	Accion	<u>68,760</u>
	Total	\$ <u>970,353</u>

Cause:

The cause of this condition is the lack of coordination between the engineering and accounting departments, compounded by the shortage of knowledgeable personnel to whom the duties of recording capital purchases and maintaining PP&E listings could be assigned.

Effect:

The propriety of underlying accounting balances may be questioned. Depreciation expense is understated as projects remain in CWIP, and are not depreciated. Furthermore, the control procedure of attempting to reconcile ongoing and completed projects with accounting records is rendered ineffective.

Prior Year Status:

The above condition is reiterative of conditions identified in the prior year audit of the Guam Waterworks Authority.

Recommendation:

The Authority should define and implement a system of construction contract management involving both qualified and knowledgeable personnel from the engineering and accounting departments. The JDEdwards system should be utilized to the fullest extent possible to limit human error and to optimize efficiency.

Auditee Response and Corrective Action Plan:

GWA is trying to establish a job cost system within the utility. Each job will be reviewed at the end of each year to determine the status and ensure the status is properly reflected in the financial statements.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding Number 2003-14 - Fixed Assets Existence

Criteria:

Fixed assets should be properly tagged and safeguarded against loss and should not be subject to misuse. Fixed asset accountability should be vested in a Fixed Asset Accountant. Any impairment, loss or damage of fixed assets should be reflected on the books.

Condition:

Five out of sixteen (16) fixed assets, with a total cost of \$1,588,556 and a net book value of \$758,532, could not be located.

Asset #	Description	Purchase Date	Cost	NBV at 9/30/03
28388	Computer DT Equip for Teleme	1992	\$ 320,700.00	\$ 55,231.00
39642	Telemetry System Sensors	1992	479,536.00	81,032.00
32379	Meter Reading Device Telexon	1995	2,516.00	932.00
22787	1993 Truck Mounted High Velocity	1993	88,824.00	3,819.00
23780	1993 Vacuum Mobile Indust LD	1993	142,424.00	115,126.00

Cause:

The Authority has no formal policy for the accountability over fixed assets.

Effect:

As a result of this condition, assets are susceptible to loss and/or misuse. Because the lost, damaged or stolen assets must be replaced years before the end of their useful lives, cash outflows increase unnecessarily. The failure to write-down impaired assets to fair market value or to increase depreciation when required results in the overstatement of fixed assets. The expense for non-capitalized tools and equipment increases, thereby lowering net income.

Prior Year Status:

The above condition is reiterative of conditions identified in the prior year audit of the Guam Waterworks Authority.

Recommendation:

The Authority should establish, implement and monitor a firm policy for the accountability over fixed assets and equipment purchases. A qualified, trained person should be appointed as a fixed asset (plant) accountant, and should perform duties stated in the policy to ensure assets are safeguarded from loss and/or misuse.

Auditee Response and Corrective Action Plan:

GWA is developing a policy for the maintenance of fixed assets.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding Number 2003-15 – Lost Cash Deposits

Criteria:

Proper safeguarding of assets is necessary to circumvent the possibility of theft.

Condition:

In June 2004, the Authority suffered a loss of approximately \$20,000 due to burglary. Individual(s) broke into the Authority's main office and stole cash collections from the previous day.

Cause:

There appears to be lack of security systems within the cashiers' area of the GWA main office.

Effect:

Lack of safeguarding cash may lead to unnecessary losses.

Recommendation:

The Authority should ensure all payments received are deposited in a timely manner to avoid possible losses. The Authority should also consider upgrading current physical security systems (i.e. video cameras, upgrading vault, etc.).

Auditee Response and Corrective Action Plan:

GWA has moved the deposit bag pick up time to a later hour to ensure less cash remains on the premises after closing.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding Number 2003-16 – Accounts Payable Reconciliations

Criteria:

Accounts payable balances should be regularly reconciled.

Condition:

Eleven (11) accounts payable confirmation replies from vendors reported variances with the Authority's records. Approximately \$610k in adjustments were necessary to reconcile accounts payable subsidiary ledgers with the general ledger.

Cause:

There appears to be a shortage of accounting manpower who are trained in accounts payable management.

Effect:

No known material effect results from this condition. However, the underlying account balances may be questioned. Furthermore, the control procedure of reconciling individual accounts to overall accounting records is rendered ineffective.

Recommendation:

The Authority should train and assign staff to properly reconcile accounts on a regular basis.

Auditee Response and Corrective Action Plan:

GWA has hired a qualified accountant to work in the Accounts Payable section. GWA believes the discrepancies will be reduced to an acceptable level in time for the Fiscal Year 2004 audit.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding Number 2003-17 – Fixed Assets: Capitalization Policy

Criteria:

Additions to fixed assets should represent actual utility plant in service or general plant additions, and should not include parts and materials. The duty to ensure that this occurs should be given to a Fixed Asset Accountant. The impairment, loss or damage of fixed assets should be reflected on the books via write down entries.

Condition:

During our audit of asset additions, the following assets appear more appropriately categorized as materials inventory rather than fixed assets:

Account Name	Item Description	\$ Amount
Services TD	various	140,153.00
Pumping Equipment	Submersible cables	9,500.00

Moreover, many of these items were included on the inventory listing and may have been counted twice. These matters were brought to the attention of management during the audit process and corrections occurred at that time.

Cause:

The Authority has no formal policy for the accountability over fixed assets.

Effect:

As a result of this condition, assets may be overstated. Given the double counting of items as both inventory and fixed assets, there is a probability that other account balances could be questionable as the expense for non-capitalized tools and equipment is not recorded, thereby potentially inflating net income.

Prior Year Status:

The above condition is reiterative of conditions identified in the prior year audit of the Guam Waterworks Authority.

Recommendation:

The Authority should establish, implement and monitor accountability over fixed asset and equipment purchases. A qualified, trained person should be appointed as fixed asset (plant) accountant, and should perform duties stated in the policy to ensure assets are safeguarded from loss and/or misuse.

Auditee Response and Corrective Action Plan:

GWA has strengthened its accounting staff during the last year. GWA believes these types of errors will be greatly reduced in the future.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding Number 2003-18 – Surcharge Receipts & Transmittals

Criteria:

Per PUC Docket 01-08, GWA shall maintain a separate interest bearing account for the express purpose of receipt and transmittal of surcharge revenues to appropriate parties. To ensure compliance, GWA must file monthly bank statements with the PUC.

Condition:

Pursuant to Public Law 26-81, the one-year moratorium on the surcharge expired in May 2003. Monies collected related to these charges were not tracked via a separate account until August 2003. Moreover, GWA failed to provide the PUC with copies of bank statements.

Cause:

This condition resulted from lack of oversight in transferring the monies in a timely manner.

Effect:

The Authority is not in compliance with the aforementioned PUC order.

Recommendation:

The Authority should comply with the PUC rate order.

Auditee Response and Corrective Action Plan:

According to GWA's records the separate account was created in December 2001 when the initial surcharge was created. GWA's records indicate the funds began to be segregated shortly after the surcharge went into effect. The PUC staff consultants have been monitoring the activity of the account. GWA has been providing information to the consultants informally ever since the surcharge was established. The consultants and the PUC have never indicated the informal filings have been deficient.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding Number 2003-19 – Account Receivables: Delayed Resolution of Billing Disputes

Criteria:

Billing disputes should be addressed in a timely manner.

Condition:

Out of twenty-four accounts tested, seven accounts (29.1%) have had longstanding disputes with the Authority, as noted below. One of these accounts should have had credits applied to the balances, but at year-end, credits still had not been applied. The Authority is currently unable to adequately address all items of dispute (i.e. leaks, problem water lines, etc.) in a timely manner.

<u>Account Number</u>	<u>09/30/03 Balance</u>	<u>Credit Memos</u>
W9528031	\$ 446,070.05	(\$443,110.96)
W9900900	\$ 101,513.57	-
W9523909	\$94,074.92	-
W9900870	\$70,878.11	-
W9900713	\$259,808.88	-
W9900935	\$22,792.74	-
W9528437	\$39,112.95	-

Cause:

Customers either call in or personally file disputes. Depending on manpower, customers may have an individual inspect their water lines within the week, or in many cases, not at all.

Effect:

Revenue may be misstated due to the absence of adjustments to disputed accounts. The result will be overstated revenue as customers will not pay disputed amounts.

Recommendation:

All disputes should be addressed in a timely manner.

Auditee Response and Corrective Action Plan:

GWA is developing a new policy for handling customer disputes. Key management changes have been made to the operations groups in GWA. GWA believes the communication between customer service and the field crews will be improved as a result of these changes.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding Number 2003-20 – Inventory Costing

Criteria:

Inventory costing should be consistent with current policy (weighted average FIFO methodology).

Condition:

We tested fourteen items with a total book value of approximately \$689,000. Cost of the following items were misstated:

Item No	Description	Unit Cost			Qty	Total
		Book	Curr Invoice	Variance		Variance
0202	Full Circle clamp 18 x 15	110	645	(535)	6	\$ (3,210)
0308	Full Circle clamp double band C-150 10 x 15	315	300	15	10	151
13-0052	10" Water Meter	1,600	5,457	(3,857)	6	(23,143)
13-0050	2" Water Meter	394	506	(113)	178	(20,094)
11-0270	5/8 x 3 Ly Meter	110	59	51	2,104	107,400
0269	2" Gate Valve	57	30	27	491	13,110
17-0100	2" PVC Coupling S/S	4	1	3	4,921	14,222
0411	Fire Hydrant	1,000	792	208	149	30,992
	3/4" W/Swivel Nut	15	34	(19)	503	(9,557)
10-0060	Cordstop 2 x 1 1/2	120	69	51	317	16,167
01-0081	6" MJ Gate Valve	450	264	186	119	22,134
	6" x 20' PVC Pipe C900	77	90	(13)	617	(7,774)
	4" x 21' Galv Pipes	122	90	32	217	<u>6,944</u>
						\$ <u>147,340</u>

Cause:

Inventory movements were not tracked and the costing application included within the inventory module was not scrutinized.

There appears to be lack of internal control over inventory receipts and issuances. There also is a lack of control over the safeguarding of documentation related to recording inventory receipts and issuances.

Effect:

Inventory is immaterially misstated.

Recommendation:

The Authority should ensure procedures are in place to identify inventory items and properly record items as they are received and issued. All documentation related to goods received or issued should be properly filed and safeguarded.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding Number 2003-20 – Inventory Costing, Continued

Auditee Response and Corrective Action Plan:

GWA concurs with this finding. There are some significant problems with inventory at the Authority. GWA has assigned a staff member to address this problem. Additional training on the financial system software is being provided.