

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

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

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**YEAR ENDED SEPTEMBER 30, 2014**

**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**

Commissioners  
Consolidated Commission on Utilities:

We have audited, 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, the financial statements of Guam Waterworks Authority (GWA), a component unit of the Government of Guam, which comprise the statement of net position as of September 30, 2014, and the related statements of revenues, expenses and changes in net position, and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 26, 2015.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered GWA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of GWA's internal control. Accordingly, we do not express an opinion on the effectiveness of GWA's internal control.

*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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be significant deficiencies or material weaknesses. However, significant deficiencies or material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

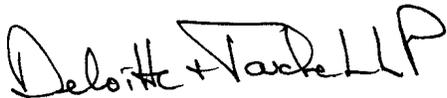
As part of obtaining reasonable assurance about whether GWA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2014-001.

## **GWA's Response to Findings**

GWA's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. GWA's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

June 26, 2015

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133**

Commissioners  
Consolidated Commission on Utilities:

### **Report on Compliance for Each Major Federal Program**

We have audited Guam Waterworks Authority's (GWA's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of GWA's major federal programs for the year ended September 30, 2014. GWA's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of GWA's major federal programs based on our audit of the types of compliance requirements referred to above. 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 GWA'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 on compliance for each major federal program. However, our audit does not provide a legal determination of GWA's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, GWA complied, in all material respects, with the types of 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, 2014.

## Report on Internal Control Over Compliance

Management of GWA is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered GWA's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 GWA's internal control over compliance.

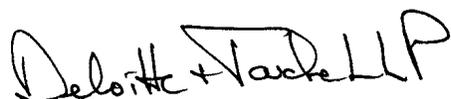
*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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 a 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in 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.

Our consideration of 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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses or significant deficiencies. However, material weaknesses or significant deficiencies may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

## Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the Guam Waterworks Authority as of and for the year ended September 30, 2014, and have issued our report thereon dated June 26, 2015, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.



June 26, 2015

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

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2014

CFDA #	Grantor/Program Title	Expenditures
<b>U.S. Department of the Interior</b>		
Pass-Through Government of Guam Bureau of Budget Management and Research		
15.875	Economic, Social and Political Development of the Territories	\$ <u>429,400</u>
	Total U.S. Department of the Interior	<u>429,400</u>
<b>U.S. Environmental Protection Agency</b>		
Direct Programs:		
66.202	Congressionally Mandated Projects	482,200
66.468	Capitalization Grants for Drinking Water State Revolving Fund	57,710
66.600	Environmental Protection Consolidated Grants for the Insular Areas - Program Support	2,590,195 *
66.606	Surveys, Studies, Investigations and Special Purpose Grants	<u>                    </u>
	Total U.S. Environmental Protection Agency	<u>3,130,105</u>
	Total Federal Awards	<u>\$ 3,559,505</u>
	Reconciliation to the basic financial statements:	
	Capitalized as construction work in progress	<u>\$ 3,559,505</u>

\*Noncash awards

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, 2014

(1) Scope of Audit

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

Programs Subject to Single Audit

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

(2) Summary of Significant Accounting Policies

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 statements. All expenses and capital outlays are reported as expenditures.

(3) Noncash Awards

As of September 30, 2014, the Authority had a noncash award of \$10,007,936 from the U.S. Environmental Protection Agency under CFDA number 66.600 for technical assistance. For the year ended September 30, 2014, the related noncash federal expenditures amounted to \$2,590,195.

**GUAM WATERWORKS AUTHORITY**  
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Schedule of Findings and Questioned Costs  
Year Ended September 30, 2014

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

*Financial Statements*

- |  |               |
|--|---------------|
| 1. Type of auditors' report issued:                      | Unmodified    |
| 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? | Yes           |

*Federal Awards*

Internal control over major federal programs:

- |  |               |
|--|---------------|
| 5. Material weakness(es) identified?   | No            |
| 6. Significant deficiency(ies) identified?   | None reported |
| 7. Type of auditors' report issued on compliance for major federal programs:   | Unmodified    |
| 8. Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133? | No            |
| 9. Identification of major federal programs:   |               |

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
15.875	Economic, Social and Political Development of the Territories
66.202	Congressionally Mandated Projects
66.600	Environmental Protection Consolidated Grants for the Insular Areas – Program Support

- |  |           |
|--|-----------|
| 10. Dollar threshold used to distinguish between Type A and Type B Programs: | \$300,000 |
| 11. Auditee qualified as low-risk auditee?                                   | No        |

**Section II – Financial Statement Findings**

<u>Finding Number</u>	<u>Finding</u>
2014-001	Local Procurement

**Section III - Federal Award Findings and Questioned Costs**

No matters were reported.

**GUAM WATERWORKS AUTHORITY**  
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Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-001  
Area: Local Procurement

Criteria: Under Chapter 5, Guam Procurement Law, Section 5211 *Competitive Sealed Bidding*, states that contracts shall be awarded by competitive sealed bidding except as otherwise provided in Section 5210.

Section 5213 *Small Purchases*, states the following:

Any procurement not exceeding the amount established by regulation may be made in accordance with small purchase procedures promulgated by the Policy Office, provided, however, that procurement requirements shall not be artificially divided so as to constitute a small purchase under this Section.

Condition: Tests of expenses noted exceptions which appear to represent noncompliance with the above criteria:

- Training expenses of \$22,000 were not supported by adequate documentation of the procurement method used.
- The following appear to represent split purchase orders:

<u>PO Number</u>	<u>PO Date</u>	<u>Description</u>	<u>PO Amount</u>
295041-000 OP	08/19/2013	Vacuum Regulator Assym. 3,000	\$ 14,222
295042-000 OP	08/19/2013	Kit Inlet Valve Repair CL2	14,798
295043-000 OP	08/19/2013	Gaskets, filters, filter pads, disc perforated	11,134
295044-000 OP	08/19/2013	Tubing, Spring	<u>7,422</u>
			\$ <u>47,576</u>

For PO 295042, the Request for Quotation indicated 120 units of Kit Inlet Valve (Severn Trent), of which 2 vendors responded in the amounts of \$19,514 and \$22,194, respectively. The vendor evaluation sheet indicated that units were reduced to 91, and that the same vendors provided updated quotes of \$14,798 and \$23,200, respectively. The reduction of units resulted in a quotation being below the Small Purchase threshold of \$14,999 and therefore, such would not be subject to competitive sealed bidding processes.

Effect: The transactions appear noncompliant with procurement regulations.

Recommendation: We recommend that GWA comply with established local procurement regulations.

Auditee Response and Corrective Action Plan: Related to training expenses, GWA's corrective action is to ensure proper documentation are provided prior to award. Related to split purchase orders, GWA's corrective action is to ensure proper procurement procedures and reviews are followed.

**GUAM WATERWORKS AUTHORITY  
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Summary Schedule of Prior Audit Findings  
Year Ended September 30, 2014

1. Finding No.: 2006-02  
CFDA Program No.: 97.036  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$330,931  
Status: Partially resolved  
Planned Corrective Action: In March 2010, GWA auditors informed the GWA General Manager that \$207,609 of the questioned costs from Finding 2006-02 was supported. To our knowledge, this letter was not transmitted to FEMA to clear the finding. In May 2013, the Controller informed the GWA grants office to forward the letter to FEMA to clear the finding. Once the letter is forwarded, GWA will notify FEMA that the finding will be removed per OMB Circular A-133's two year rule.
  
2. Finding No.: 2012-1  
CFDA Program: Local Finding  
Area: Fixed Assets  
Questioned Costs: Not applicable  
Status: Partially resolved  
Planned Corrective Action: The reconciliation of the fixed assets register to the GIS and Gamma System is currently being undertaken while CDM Smith is conducting an ongoing physical inventory of all GWA assets. The estimated target date for completion is October 2016.
  
3. Finding No.: 2013-001  
CFDA Program: 15.875  
Area: Davis-Bacon Act  
Questioned Costs: \$0  
Status: Not resolved  
Planned Corrective Action: Currently in communication with the grantor agency