

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

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

YEAR ENDED SEPTEMBER 30, 2009

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 (GWA) as of and for the year ended September 30, 2009, and have issued our report thereon dated March 25, 2010. 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 GWA'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 GWA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of GWA's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs (pages 6 through 12) as items 2009-3 and 2009-4 to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

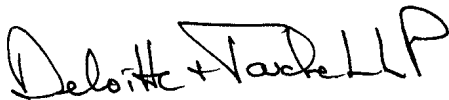
Compliance and Other Matters

As part of obtaining reasonable assurance about whether GWA'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 GWA in a separate letter dated March 25, 2010.

GWA's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit GWA's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Consolidated Commission on Utilities, management of GWA, 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 + Touche LLP". The signature is written in a cursive, stylized font.

March 25, 2010

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO 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 the compliance of Guam Waterworks Authority (GWA) 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, 2009. GWA's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs (pages 6 through 12). Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of GWA's management. Our responsibility is to express an opinion on GWA'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 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. Our audit does not provide a legal determination on GWA's compliance with those requirements.

As described in items 2009-1 through 2009-3 in the accompanying Schedule of Findings and Questioned Costs, GWA did not comply with requirements regarding cash management, procurement and suspension and debarment, and equipment and real property management that are applicable to its major federal programs. Compliance with such requirements is necessary, in our opinion, for GWA to comply with requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, GWA 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, 2009.

Internal Control Over Compliance

The management of GWA 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 GWA's internal control over compliance with the 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 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.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in GWA's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in an entity's 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2009-1 through 2009-3 to be significant deficiencies.

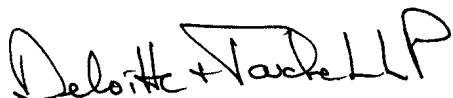
A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

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, 2009, and have issued our report thereon dated March 25, 2010. 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 5) 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 GWA. 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.

GWA's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit GWA's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Consolidated Commission on Utilities, management of GWA, 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.



March 25, 2010

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

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2009

CFDA #	Federal Grantor/Program Title	Grant Award	Receivable (Deferred) Balance at September 30, 2008	Expenditures	Cash Receipts and other Adjustments	Receivable (Deferred) Balance at September 30, 2009
U.S. Department of the Interior						
Pass-Through Government of Guam Department of Administration						
15.875	Economic, Social and Political Development of the Territories	\$ -	\$ 297,660	\$ 78,645	\$ (375,512)	\$ 793
	Total U.S. Department of the Interior	<u>-</u>	<u>297,660</u>	<u>78,645</u>	<u>(375,512)</u>	<u>793</u>
U.S. Environmental Protection Agency						
Direct Grant						
66.418	Construction Grants for Wastewater Treatment Works	-	75,903	1,867,974 *	(1,680,476)	263,401
66.418	ARRA Construction Grants for Wastewater Treatment Works	535,000	-	-	-	-
66.468	Capitalization Grants for Drinking Water State Revolving Funds	-	84,995	3,101,161 *	(2,466,416)	719,740
66.610	Surveys, Studies, Investigation and Special Purpose Grants	-	265,676	355,727 *	(591,618)	29,785
	Total U.S. Environmental Protection Agency	<u>535,000</u>	<u>426,574</u>	<u>5,324,862</u>	<u>(4,738,510)</u>	<u>1,012,926</u>
U.S. Department of Homeland Security						
Pass-Through Government of Guam Department of Administration						
97.004	State Domestic Preparedness Equipment Support Program	-	108,629	-	(108,629)	-
83.544	Public Assistance Grants	-	(1,214,976)	1,364,095 *	(773,508)	(624,389)
	Total U.S. Department of Homeland Security	<u>-</u>	<u>(1,106,347)</u>	<u>1,364,095</u>	<u>(882,137)</u>	<u>(624,389)</u>
	Total Federal Assistance	<u>\$ 535,000</u>	<u>\$ (382,113)</u>	<u>\$ 6,767,602</u>	<u>\$ (5,996,159)</u>	<u>\$ 389,330</u>

*Denotes a major program as defined by OMB Circular A-133.

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

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2009

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 that are not considered to be material weakness(es)? | Yes |
| 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 that are not considered to be material weakness(es)? | 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: | |
| <u>Name of Federal Program or Cluster</u> | <u>CFDA Number</u> |
| Construction Grants for Wastewater Treatment Works | 66.418 |
| Capitalization Grants for Drinking Water State Revolving Funds | 66.468 |
| Surveys, Studies, Investigations and Special Purpose Grants | 66.610 |
| Public Assistance Grants | 83.544 |
| 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 – Financial Statement Findings Section

<u>Finding Number</u>	<u>Findings</u>
2009-3	Fixed Asset Physical Count
2009-4	Procurement Documentation

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

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Part III - Federal Award Findings and Questioned Costs Section

<u>Reference Number</u>	<u>CFDA Number</u>	<u>Finding</u>	<u>Questioned Costs</u>
2009-1	83.544	Cash Management	\$ -
2009-2	83.544	Procurement and Suspension and Debarment	\$ 26,796
2009-3	All Major	Equipment and Real Property Management	\$ -

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

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No: 2009-1
Federal Agency: U.S. Department of Homeland Security
CFDA Program: 83.544 Public Assistance Grants
Grant Award No.: DR-1446
Area: Cash Management
Questioned Costs: \$0

Criteria:

40 CFR Section 31.21 states that the grantee should minimize the time elapsing between the transfer of Federal funds from the recipient and the pay out of funds for program purposes. The clearance pattern approved for the Government of Guam, which includes its state agencies or instrumentalities (any organization of the primary government, as defined by GAAP), is as follows: 1) payroll transactions – 3 business days; 2) vendor payments – on island – 7 business days; 3) vendor payments – off-island – 14 business days.

Condition:

We noted the following cash disbursement did not clear until nearly three years after the grant receipt.

<u>PW</u>	<u>Grant Award</u>	<u>Check clearance Date</u>	<u>Award Receipt Date</u>	<u>Interest Amount</u>
998	\$ 41,646	6/14/06	6/19/03	\$1,509

Cause:

The underlying cause appears to be a lack of internal control over compliance with cash management requirements to ensure grant award is cleared after more than seven days of receipt.

Effect:

No known material effect on the financial statements results from this finding. However, non compliance with the federal requirement may affect the entity's ability to receive future federal funds. No questioned cost exists.

Recommendation:

Management should minimize the time elapsing between the transfer of Federal funds from the recipient and the payout of funds in accordance with its program purposes and Federal requirements.

Auditee Response:

GWA concurs with this finding. To minimize a repeat of this finding in the future, the prevailing practice (depending on payout required) is to request draw downs on a reimbursable basis.

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

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No: 2009-2
Federal Agency: U.S. Department of Homeland Security
CFDA Program: 83.544 Public Assistance Grants
Grant Award No.: DR-1426, DR-1446
Area: Procurement and Suspension and Debarment
Questioned Costs: \$26,796

Criteria:

In accordance with applicable procurement requirements, the grantee will conduct procurement transactions in a manner providing full and open competition, and will maintain records sufficient to detail the significant history of procurement. These records will include a rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

Condition:

Procurement documents could not be located on file for the following:

<u>P.O. Number</u>	<u>Amount</u>	
230807	\$17,389	
<u>Vendor #</u>	<u>Inv. #</u>	<u>Amount</u>
13637	3725875	\$ 3,361
13637	3725874	\$ 3,344
13637	3725916	\$ 2,675

Cause:

GWA did not appear to follow established procurement regulations.

Effect:

GWA is in noncompliance with applicable procurement requirements. A questioned cost of \$26,796 exists.

Recommendation:

GWA's management should follow established procurement regulations and should ensure the rationale for selecting each vendor is documented in accordance with applicable procurement regulations.

Auditee Response:

GWA concurs with this finding. The missing procurement documents date back to purchases made in 2002 during the aftermath and devastation of super typhoon Chata'an and Ponsonga of July 2002 and December 2002, respectively. There were related to the declaration of emergency procurement by the Governor of Guam for purchases during post-super typhoon recovery efforts.

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

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No: 2009-3
CFDA No.: All Major Programs
Area: Equipment and Real Property Management
Questioned Costs: \$0

Criteria:

40 CFR section 30.34 (f) (2) and (3) states that equipment owned by the Federal Government shall be identified to indicate Federal ownership. Also, a physical inventory of equipment must be taken and the results reconciled with the equipment records at least once every two years. Any differences between quantities determined by the physical inspection and those shown in the accounting records must be investigated to determine the causes of the difference. The recipient shall, in connection with the inventory, verify the existence, current utilization, and continued need for the equipment.

Condition:

GWA has not conducted the required comprehensive physical inventory of its fixed assets and has not specifically identified assets acquired with federal funding in the fixed asset module.

<u>CFDA</u>		<u>FY 09</u>		<u>FY 08</u>		<u>FY 07</u>
66.418	\$	1,867,974	\$	-	\$	75,903
66.468	\$	3,010,354	\$	1,043,628	\$	1,406,484
66.610	\$	355,727	\$	871,537	\$	50,400
83.544	\$	767,803	\$	420,162	\$	74,074

Cause:

GWA has not set a schedule to perform the physical count and to identify federally funded assets in the fixed asset module.

Effect:

GWA is in noncompliance with the criteria.

Prior Year Status:

The above condition is reiterative of conditions identified in the prior year audit of GWA.

Recommendation:

GWA should conduct a physical inventory and identify assets acquired with federal funding in accordance with the criteria.

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

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No: 2009-3, Continued
CFDA No.: All Major Programs
Area: Equipment and Real Property Management
Questioned Costs: \$0

Auditee Response:

GWA concurs with this finding. However, in an effort to properly identify all fixed assets of the Guam Waterworks Authority, the Authority will engage on a undertaking to map all its assets, whether above or below ground, into a Geographical Information System (GIS) application that will incorporate spatial maps and database information to identify assets by location to include an electronic image of the asset. GWA is currently a licensed user of a GIS application and has personnel who are trained on using the software. Because of the magnitude of this undertaking and recognizing the fact that federal funded assets are predominantly underground water and wastewater infrastructure, our best estimate to complete the mapping and identification process is approximately two (2) years.

GWA's fixed asset module is now capable of capturing information to identify funding sources and the physical location of the asset.

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

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding Number 2009-4 – Procurement Documentation

Criteria:

GWA should ensure that procedures are performed and adequate records maintained to document activities undertaken to comply with procurement regulations.

Condition:

Local purchases were procured through small purchase procurement method. However, the total amounts for the services to be purchased from the same vendor during the year were greater than the \$15,000 as set by Guam Administration Rules.

<u>P.O. Number</u>	<u>Amount</u>
291267	\$ 9,600
291269	\$ 12,000
291270	\$ 10,000

Cause:

It appears GWA's documentation did not reflect the requirements of the criteria.

Effect:

While individually these items may not have direct financial statement impact, the possibility of noncompliance with the criteria can result from this condition.

Recommendation:

GWA should ensure that transactions are executed in accordance with applicable laws and regulations.

Auditee Response:

GWA concurs with this finding.

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

Resolution of Prior Year Findings and Questioned Costs
Year Ended September 30, 2009

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 2008 audit reports	\$ 445,931
Questioned Costs per the September 30, 2009 audit report	<u>26,796</u>
Total unresolved questioned costs as of September 30, 2009	\$ <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 6 through 12).