



OFFICE OF THE PUBLIC AUDITOR

Guam Waterworks Authority FY 2002 Financial Highlights

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February 15, 2004

The audited financial statements of the Guam Waterworks Authority (GWA) for the fiscal year ending September 30, 2002, prepared by Deloitte Touche LLP, have been issued seven months after the required due date of June 30th.

GWA had a \$14.7 million loss compared to a loss of \$639,033 in FY 2001. For the past 12 years, GWA had both operating and net losses.

The substantial loss occurred due to an increase in operating expenses and decline in other income. Operating expenses increased \$6.2 million from \$49.9 million to \$56 million, mainly due to an increase in bad debt expense of \$5.6 million. Bad debts expenses almost tripled from the prior year going from \$3.6 million to \$9.2 million. Salaries, wages, and benefits increased another \$404,000 despite a reduction in personnel of five, going from 316 to 311 employees.

The increase in bad debt expense is a result of the poor quality of accounts receivable. As of September 30, 2002, GWA's aggregate accounts receivable was \$25 million. Of that amount, there were doubtful accounts totaling \$10 million for private customers and \$7.6 million for government customers, for a combined total of \$17.6 million in receivables with an unlikely chance of being collected. A simple calculation will reveal 74 cents of every dollar that GWA is owed may not be collected.

GWA wrote-off \$1.3 million due to abandoned projects, \$639,000 attributed to Ga'an Point and \$500,000 for Faifai Beach. The auditors restated the FY 2001 loss to include \$610,000 of abandoned projects not previously written off, arising from information gathered from the engineering department of GWA during the FY 02 audit. This information called in to question representations made in the 2001 audit, thus increasing GWA's FY 2001 previously reported loss of \$29,138 to \$639,033.

Other income and grants from the federal government and the government of Guam dropped \$8.8 million from \$11.1 million to only \$2.3 million. GWA paid \$572,000 of interest expense to IBM for the lease financing of computer software and equipment. The interest rate of this lease agreement is a staggering 21.9%.

In GWA's report on compliance and internal controls, a total of 24 findings were cited. Among those findings, GWA was not enforcing disconnection policies, thus allowing nonpaying customers to accumulate large water bills and not processing customer transactions in a timely manner.

In finding 16, Deloitte found 448 instances of excessive overtime and lack of control over overtime policies, of which 224 instances where overtime between 10 to 16 hours was paid to employees on weekdays, 183 instances where overtime of 24 hours or more was paid to employees on a single day. OPA's report on Typhoon Chata'an expenditures revealed similar overtime abuses.

Finding 22 stated that GWA fixed assets were not properly tagged and safeguarded against loss. GWA does not have a qualified, trained fixed assets accountant to monitor and control additions, issuances, receipts, and disposals of fixed assets.

Finding 21 stated that GWA did not reconcile their accounts payable balances because they were not adequately staffed or trained to properly reconcile accounts on a regular basis.

The findings in the FY 2002 audit occurred under previous management and the Consolidated Commission on Utilities stated that they have taken measures to improve fiscal accountability in FY 2003 and forward. For a more detailed discussion of GWA's comments, see the Management's Discussion and Analysis in the audit report.