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April 29, 2008

Consolidated Commission on Utilities:

In planning and performing our audit of the financial statements Guam Waterworks Authority (the Authority) for the year ended September 30, 2007, on which we have issued our report dated April 29, 2008, we developed the following recommendations concerning matters related to its internal control.

The Authority's response to the recommendations identified in our audit are summarized below. We did not audit Authority's response and, accordingly, we express no opinion on it.

Finding Number 1 - Capitalization of Construction Costs

Criteria:

Construction related costs should be recorded and capitalized to the appropriate project.

Condition:

Construction costs of \$341,110 were not properly reported to the appropriate project.

Recommendation:

The Authority should ensure that construction costs are properly recorded and capitalized.

Auditee Response:

GWA concurs with the finding and recommendation.

Finding Number 2 - Proper Valuation of Final Inventory Listing

Criteria:

The actual physical inventory count should be transferred to the final inventory listing for general ledger recording.

Condition:

Per examination of the final inventory listing, we noted the following:

1. Inventory items were over recorded

<u>Description</u>	<u>Quantity</u>	<u>Cost</u>
METER, WATER 8"	11	\$74,217

Finding Number 2 - Proper Valuation of Final Inventory Listing, Continued

2. Inventory items were under recorded

<u>Description</u>	<u>Quantity</u>	<u>Cost</u>
2" Coupling Socket	29	\$ 116
2" Meter Box w/ Accessories (sets)	3	\$1,733

Recommendation:

We recommend that review procedures be implemented to ensure that all transferred count sheets are reviewed. Such procedures would include reviewers initialing sheets checked and another supervisor randomly inspecting the sheets to ascertain whether actual counts have been properly transferred to the final inventory listing.

Auditee Response:

GWA concurs with the above finding.

Finding Number 3 - Non-Registering Meter

Criteria:

Non-registering meters should be changed out to reflect actual readings.

Condition:

In fourteen of two hundred seven transactions tested, the meter did not register the consumption of water.

Recommendation:

The Authority should weigh the benefit of reducing the likely misstatement of revenue against the cost of paying additional people to verify abnormal readings. The Authority has already addressed the concern of defective, non-registering meters, which are most likely causing a substantial percentage of abnormal readings.

Auditee Response:

The island-wide meter replacement program with the automatic meter radio (AMR) project is approximately 75% complete. The revised target completion date is FY2009.

Finding Number 4 - Back Billing

Criteria:

According to 28 GAR - PUBLIC UTILITIES Section 2107 (2), in the event of billing errors or omissions, GWA shall not back bill customers for additional consumption of water based upon estimated usage, except for back billing not to exceed the four billing cycles immediately preceding the discovery by GWA of such an error, and not to exceed four (4) months.

Finding Number 4 - Back Billing, Continued

Condition:

Of two hundred seven revenue accounts examined, two accounts were back billed for more than the four billing cycles set by the regulations.

Recommendation:

We recommend that non-registering meter be replaced in a timely manner and application be processed and activated to ensure that water consumption is billed in the proper period.

Auditee response:

Task Force was created effective March 2008 to handle these problems.

Finding Number 5 - Customer Refund

Criteria:

In accordance with 28 GAR Public Utilities Section 2104 13 e,) upon discontinuance of services, GWA will refund the balance of the customer's deposit in excess of unpaid bills for the services at no interest.

Condition:

In one of two hundred and seven revenue items tested, the customer account was discontinued. However, the customer credit balance was not refunded on a timely basis.

Recommendation:

The Authority should enforce controls that ensure existing regulations on customer refunds are consistently followed.

Auditee Response:

The refund is still booked as a liability, however, refund was not processed on a timely manner because of the possibility that the same customers will incur future charges where this refund can be applied as a payment to minimize uncollectible accounts. On the other hand, most customers prefer to apply the credits to their outstanding balance but can be refunded upon customer's request.

Finding Number 6 - Allowance for Inventory Obsolescence

Criteria:

The Authority provides a certain percentage as an allowance for inventory obsolescence.

Condition:

The Authority did not perform an evaluation of inventory allowance as of September 30, 2007.

Finding Number 6 - Allowance for Inventory Obsolescence, Continued

Recommendation:

The Authority should document the basis for its obsolescence reserve.

Auditee Response:

Standard operating procedure will be established as the basis of determining the amount to be reserved.

Finding Number 7 – Exception in Meter Readings

Criteria:

Abnormal readings (those appearing on exception reports) should be verified by the Authority. Adjustments should be made and reflect applicable billings before delivery to customers.

Condition:

In twenty one of two hundred seven (10%) transactions tested, the estimated readings, which are based on a 6-month average billing, if available or the previous month's billing, were not adjusted to reflect actual readings.

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. The Authority has already addressed the concern of defective, non-registering meters, which are most likely causing a substantial percentage of abnormal readings.

Auditee Response:

"Exception" Task Force was created to handle these problems.

Finding Number 8 - Recording of Transactions in Proper Period

Criteria:

Costs should be recorded during the period when services/goods have been rendered/received.

Condition:

One invoice totaling \$14,800 from vendor # 21958 was not properly reported in the correct period.

Recommendation:

We recommend that liabilities be recognized upon receipt of goods and invoices.

Auditee response:

GWA concurs to the above finding.

Finding Number 9 - Capitalization Policy

Criteria:

The Authority's capitalization policy is to capitalize assets with an individual cost that exceeds \$5,000.

Condition:

Six assets recorded in the fixed asset register were below the capitalization threshold.

Recommendation:

We recommend that the Authority adhere to its policy and ensure that only assets above the capitalization policy are recorded in the register.

Auditee Response:

GWA will comply and ensure that the capitalization policy is adhered.

Finding Number 10 - Percentage Completion of Construction in Progress

Criteria:

The Authority should document the status of all projects in progress or completed during the year.

Condition:

The Authority could not provide the percentage of completion on certain projects carried in construction in progress (CIP).

Recommendation:

The Authority should ensure that the responsible department maintains and updates the percentage completion schedule of CIP projects on a timely basis.

Auditee Response:

We concur on certain projects; however, a monthly status report is in place to have updated information to include percentage of completion (please refer response in Finding Number 2007-7).

Finding Number 11 - Reconciliation of Vendor's Account

Criteria:

Vendor balances recorded in the accounts payable subsidiary ledger should reconcile to vendor statements.

Condition:

Reconciliation of major vendor accounts is not consistently performed.

Finding Number 11 - Reconciliation of Vendor's Account, Continued

Recommendation:

We recommend that reconciliations be performed of major vendors to ensure that invoices are captured and recorded in a timely manner.

Auditee Response:

GWA concurs with the above finding and recommendation.

Finding Number 2007-12 – Safekeeping of Personnel Action Forms

Criteria:

Approved Personnel Action Forms should be kept on file to memorialize changes in pay rates.

Condition:

Two (2) of sixty-eight (68) employees tested did not have an approved personnel action form on file to support a change in pay rates.

<u>Employee #</u>	<u>PPE</u>
364	10/26/06
364	12/23/06

Recommendation:

The Authority should enhance internal controls to ensure safekeeping of supporting documents.

Auditee Response:

We concur. Management will assess current procedures as to their effectiveness and efficiency and implement changes, accordingly.

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This report is intended solely for the information and use of the Consolidated Commission on Utilities, the management of Guam Waterworks Authority and the Office of the Public Auditor of Guam.

We wish to express our appreciation for the cooperation of the staff and management of GWA during the course of our audit. We would be available to discuss any questions that you may have concerning the above comments at your convenience.

Very truly yours,

