

GUAM WATERWORKS AUTHORITY

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

YEAR ENDED SEPTEMBER 30, 2008

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

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, 2008, and have issued our report thereon dated April 23, 2009. 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 the Authority'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 the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 8 through 12) as items 2008-2 through 2008-4 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.

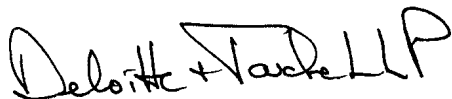
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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 the Authority in a separate letter dated April 23, 2009.

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

This report is intended solely for the information of the management of the Guam Waterworks Authority, the Consolidated Commission on Utilities, the Office of the Public Auditor of Guam, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies, and others within the entity 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 stylized and written in a cursive-like font.

April 23, 2009

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE 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, 2008. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs (pages 8 through 12). 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 2008-1 and 2008-2 in the accompanying Schedule of Findings and Questioned Costs, the Authority did not comply with requirements regarding special tests and provisions and equipment and real property management that are applicable to its major federal programs as described in the federal award findings and questioned costs section (page 6) of the accompanying Schedule and Findings and Questioned Costs. 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, 2008.

Internal Control Over Compliance

The management of the Authority 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 the Authority'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 the Authority'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 the Authority'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 2008-1 through 2008-2 to be significant deficiencies.

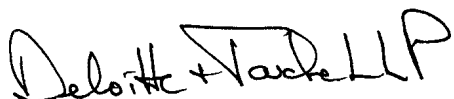
A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We 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 the Guam Waterworks Authority as of and for the year ended September 30, 2008, and have issued our report thereon dated April 23, 2009. 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 the Authority. 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.

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

This report is intended solely for the information of the management of the Guam Waterworks Authority, the Consolidated Commission on Utilities, the Office of the Public Auditor of Guam, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies, and others within the entity 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.



April 23, 2009

GUAM WATERWORKS AUTHORITY

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2008

CFDA #	Federal Grantor/Program Title	Receivable (Deferred) Balance at September 30, 2007	Expenditures	Cash Receipts	Adjustment	Receivable (Deferred) Balance at September 30, 2008
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	\$ 291,403	\$ 6,257	\$ -	\$ -	\$ 297,660
	Total U.S. Department of the Interior	<u>291,403</u>	<u>6,257</u>	<u>-</u>	<u>-</u>	<u>297,660</u>
U.S. Environmental Protection Agency						
Direct Grant						
66.418	Construction Grants for Wastewater Treatment Works	129,182			(53,279) **	75,903
66.468	Capitalization Grants for Drinking Water State Revolving Funds	135,551	1,043,628 *	(1,094,184)		84,995
66.610	Surveys, Studies, Investigation and Special Purpose Grants	-	871,537 *	(605,861)		265,676
	Total U.S. Environmental Protection Agency	<u>264,733</u>	<u>1,915,165</u>	<u>(1,700,045)</u>	<u>(53,279)</u>	<u>426,574</u>
Department of Homeland Security/Federal Emergency Management Agency						
Pass-Through Government of Guam Department of Administration						
97.004	State Homeland Security Grant Program	-	108,629 *	-	-	108,629
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disaster)	(1,214,976)	420,162 *	(420,162)	-	(1,214,976)
	Total U.S. Department of Homeland Security	<u>(1,214,976)</u>	<u>528,791</u>	<u>(420,162)</u>	<u>-</u>	<u>(1,106,347)</u>
	Total Federal Assistance	<u>\$ (658,840)</u>	<u>\$ 2,450,213</u>	<u>\$ (2,120,207)</u>	<u>\$ (53,279)</u>	<u>\$ (382,113)</u>

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

** Adjustment to correct ending balance.

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

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended September 30, 2008

Part I - Summary of Auditors' Results

1. The Independent Auditors' Report on the financial statements expressed an unqualified opinion.
2. Significant deficiencies 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. Significant deficiencies in internal control over compliance with requirements applicable to major federal award programs were identified, which were not 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>
Capitalization Grants for Drinking Water State Revolving Funds	66.468
Surveys, Studies, Investigations and Special Purpose Grants	66.610
State Homeland Security Grant Program	97.004
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036

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>
2008-2	Fixed Asset Physical Count
2008-3	Federal Compliance Officer
2008-4	Procurement Documentation

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Part III - Federal Award Findings and Questioned Costs Section

<u>Reference Number</u>	<u>CFDA Number</u>	<u>Finding</u>	<u>Questioned Costs</u>
2008-1	66.468	Special Test and Provision	\$ -
2008-2	All Major	Equipment and Real Property Management	\$ -

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No: 2008-1
Federal Agency: U.S. Environmental Protection Agency
CFDA Program: 66.468 Capitalization Grants for Drinking Water State Revolving Funds
Grant Award No.: FS-97911902, FS-97910501
Area: Special Tests and Provisions
Questioned Costs: \$0

Criteria:

Recipients must conduct reviews of the potential environmental impacts of all infrastructure projects and those set-aside activities that impact the quality of the human environment receiving assistance from the Drinking Water State Revolving Funds (DWSRF) program.

Condition:

No environmental review was performed for this program.

Cause:

The underlying cause appears to be a lack of internal controls to ensure that the environmental review was performed prior to proceeding with the project.

Effect:

No known material effect on the financial statements results from this finding. However, noncompliance with the criteria may affect the Authority's ability to receive future federal funds.

Prior Year Status:

The above condition is reiterative of a condition identified in the prior year audit of the Authority.

Recommendation:

Management should obtain environmental reviews before proceeding with projects to ensure compliance with the criteria.

Auditee Response: The Office of the Chief Financial Officer (CFO) will be responsible to ensure that all grant applications pertaining to the DWSRF contain an environmental review in conjunction with the Engineering Department. The CFO will send a memorandum to the Engineering Department in June 2009 to initiate the project to resolve this requirement completely by September 2009.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No: 2008-2
CFDA No.: All Major Programs
Area: Equipment and Real Property Management
Questioned Costs: \$0

Criteria:

Per 40 CFR section 30.34 (f) (2) and (3), 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:

The Authority 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.

Cause:

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

Effect:

The Authority is in noncompliance with the criteria.

Recommendation:

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

Auditee Response: GWA concurs with this finding. The Office of the Chief Financial Officer (CFO) will commence a fixed asset management project team in June 2009 to plan for a bi-annual federal inventory by September 2010.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding Number 2008-3 – Federal Compliance Administrator

Criteria:

The Authority should consider establishing a Federal Compliance Administrator function to perform, among other duties, check and review procedures on transaction processing, revenue protection, and ensuring adherence with federal requirements.

Condition:

There are no checks and review procedures performed independently of a specific department to ensure adherence to Federal compliance requirements.

Cause:

The Authority does not have a federal compliance administrator.

Effect:

With the lack of Federal compliance administrator, the Authority faces a greater risk of loss, misuse of federal funds 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 a federal compliance administrator position or should vest that authority in an existing position.

Auditee Response: GWA concurs with this finding. Our Human Resources Department announced the position in April 2008 and will make another attempt to recruit in Fiscal Year 2010.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding Number 2008-4 – Procurement Documentation

Criteria:

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

Condition:

- 1) Procurement documents could not be located in file for the following.

P.O. Number	Amount
TA# 135-008	\$ 7,324
290283	\$ 80,036
290870	\$ 28,000

Vendor #	Inv. #	Amount
21966	62020	\$ 27,355

- 2) Procurement packets contained copy of newspaper advertisements; however, the actual publication date could not be verified for the following:

IFB Number
2008-01
2008-02
2008-03
2008-04
2008-05
2008-10
2008-14
2008-15
2008-16

- 3) The lowest vendor was not selected.

P.O. Number	Amount
290182	\$ 10,486

- 4) The actual newspaper clipping was not provided for examination for IFB 2008-07.
- 5) Purchases were procured through a small purchase procurement method. However, the total amount of the services purchased from the same vendor during the year exceeded the \$15,000 set by Guam Administration Rules.

P.O. Number	Amount
290823	\$ 14,500

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding Number 2008-4 – Procurement Documentation, Continued

- 6) The Authority did not follow procurement procedures in obtaining the contract for the purchase order below.

P.O. Number	Amount
290870	\$ 28,000

- 7) Three (3) price quotations were not solicited for the purchase order below as the vendor was selected based on an inadequate sole source determination.

P.O. Number	Amount
290704	\$ 14,948

Cause:

It appears the Authority’s documentation did not reflect the requirements of the criteria.

Effect:

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

Recommendation:

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

Auditee Response: GWA concurs with this finding. The Office of the Assistant General Manager for Administration in collaboration with the Office of the Chief Financial Officer will commence a project resolution team in June 2009 and develop pertinent solutions by September 2010.

GUAM WATERWORKS AUTHORITY

Resolution of Prior Year Findings and Questioned Costs
Year Ended September 30, 2008

The status of unresolved questioned costs from prior year Single Audit Reports is as follows:

Questioned Costs per the September 30, 2005 to 2007 audit reports	\$ 445,931
Questioned Costs per the September 30, 2008 audit report	<u> -</u>
Total unresolved questioned costs as of September 30, 2008	\$ <u>445,931</u>