

**GUAM WATERWORKS AUTHORITY**

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**INDEPENDENT AUDITORS' REPORT ON  
COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING**

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**SEPTEMBER 30, 2001**



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED UPON THE AUDIT PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Guam Waterworks Authority:

We have audited the financial statements of the Guam Waterworks Authority (GWA) as of and for the year ended September 30, 2001, and have issued our report thereon dated December 31, 2002. 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.

Compliance

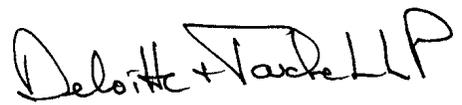
As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operations of the internal control over financial reporting that, in our judgment, could adversely affect the Authority's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as item numbers 2001-1 through 2001-16.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended for the information of the management and the Board of Directors of the Guam Waterworks Authority, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies, and is not intended to be, and should not be, used by anyone other than those specified parties.

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

December 31, 2002

**GUAM WATERWORKS AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2001

Finding No. 2001-1 - Supporting Documents

Criteria:

Effort should be made to ensure the proper safekeeping of supporting documents for transactions.

Condition:

The following supporting documents, i.e. deposits slips, invoices, purchase orders, receipts, statement of work, certificate of payment, performance report, could not be provided for examination:

A. Account Receivables (Check Copy, Payment Coupon, Deposit Slips):

	<u>Account #</u>	<u>Payment Date</u>	<u>Amount</u>
1	W9529355	12/11/01	\$ 11,355
		2/14/02	\$ 21,705
2	W9525292	12/1/01	\$ 18,670
3	W9525076	12/18/01	\$ 10,147
4	W0003112	1/9/02	\$ 52,161
5	W9803086	1/2/02	\$ 9,532
6	W9531271	4/2/02	\$ 300

B. Inventory (Purchase Orders, Invoices):

	<u>Part Number</u>	<u>Description</u>	<u>Unit Cost per Listing</u>
1	03-0100	Strainer with Components	\$2,075
2	80-0415	Tee, Reducer 12X4	\$495
3	04-0030	Submersible Motor 8X15	\$7,850

C. Expenditures (Invoice, Check Copy, etc.)

	<u>Batch Number</u>	<u>Description</u>	<u>Amount</u>
1	138874	Central District Tem	\$ 28,862
2	140826	Construction	\$ 14,595
3	134097	Construction	\$ 13,730
4	134097	Heavy Equipment	\$ 27,172
5	136295	Northern District	\$ 23,625
6	137634	Holding Unit	\$ 16,610
7	136294	Transmission & Distr	\$ 6,175

Cause:

There appears to be lack of internal control over safekeeping of accounting documents.

Effect:

No known material effect on the financial statements results from this condition. However, the propriety of underlying account balances may be questioned.

**GUAM WATERWORKS AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2001

Finding No. 2001-1 - Supporting Documents, Continued

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 ensure proper safekeeping of supporting documents.

Auditee Response and Corrective Action Plan:

- A. Accounts Receivables: The Typhoon Chata'an has caused certain accounting documents to be displaced. Among them were deposit slips under audit, in particular the above listed 7 deposit slips which could not be found. We are currently reorganizing the office spaces as a result of the termination of the lease term in our Tiyan offices. We plan to dedicate a space to accommodate accounting records that have not been audited.
- B. Inventory: It was found that these 3 items are under our obsolete listing of inventory. As such, an allowance for obsolescence have been provided for in the books.
- C. Expenditures: The Typhoon Chata'an has caused certain accounting documents to be displaced. Among them are these 9 items listed above. The plan for the new GWA office space is to dedicate a space to accommodate accounting records that have not been audited.

**GUAM WATERWORKS AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2001

Finding No. 2001-2 - Processing Received Payment

Criteria:

The Guam Waterworks Authority should process payments (input to the system) and deposit payments in a timely manner.

Condition:

During subsequent receipt testing, we discovered that the following payments received were not processed until several weeks later.

<u>Account #</u>	<u>Payment Received (\$)</u>	<u>Payment Date</u>	<u>Payment Processed</u>
W9803086	\$ 15,836	9/28/2001	10/20/2001
W9505857	\$ 15,333	9/22/2001	10/12/2001

Further, we noted one payment received was never processed.

<u>Account #</u>	<u>Payment Received (\$)</u>	<u>Payment Date</u>
W9505884	\$ 1,766	9/3/01

Cause:

There may be a lack of manpower allocated to processing payments received. Further, there appears to be lack of supervisory reviews ensuring all payments received are properly processed.

Effect:

No known material effect on the financial statements results from this condition. However, the propriety of underlying account balances and cut-off may be questioned.

Recommendation:

The Authority should ensure that all payments received are processed in a timely manner.

Auditee Response and Corrective Action Plan:

Items 1 and 2: Due to lack of manpower support, the Cashier Section has had backlogs that created this condition. We have meanwhile advertised for one Cashier I position to address the staffing shortage.

Item 3: The check for \$1,766 was inadvertently left out in its envelope while processing the batch for the day. However, because the payment was never processed in the system, the customer's balance remained correct. Meanwhile, the customer has made subsequent payments against his account. Cashiers have been instructed to exercise due care in processing mail payments.

**GUAM WATERWORKS AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2001

Finding No. 2001-3 - Disconnection Policies

Criteria:

The Guam Waterworks Authority should enforce policies and procedures regarding disconnection of non-paying customers.

Condition:

Of twenty non-paying customers tested, we found that only one non-paying customer was actually disconnected. The following details the non-paying customers who were not disconnected:

<u>Account #</u>	<u>Outstanding Balance</u>
W9549801	\$52,111
W9801061	\$43,770
W9528437	\$37,129
W0003098	\$1,843
W0002704	\$4,477
W9807053	\$6,542
W9545610	\$5,204
W9806921	\$4,400
W9806898	\$4,436
W9806894	\$4,363
W0100741	\$13,291
W9509532	\$3,405
W9900900	\$77,725
W9603437	\$11,000
W9801678	\$16,066
W9507132	\$7,482
W9520615	\$6,389
W0004244	\$13,207
W9900900	\$77,725

Cause:

Guam Waterworks Authority may not have sufficient manpower or have knowledge of the exact location of the meter to disconnect non-paying customers.

Effect:

Due to lack of enforcement, the probability of the collectibility of accounts receivable results in a significant bad debt provision.

Recommendation:

GWA should follow existing policies and procedures regarding disconnection of non-paying customers.

# **GUAM WATERWORKS AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2001

## Finding No. 2001-3 - Disconnection Policies, Continued

### Auditee Response and Corrective Action Plan:

While there are policies and procedures in place, the disconnection crew has not been properly staffed in the past. The Authority's present management and board members have stepped up the disconnection and collection efforts as well as staffing. Effective the month of March 2003, the disconnection crew now reports under the Customer Service Section. A meeting among the staff of Disconnection/Reconnection, Customer Service, and Collection Sections occur on a daily basis to ensure efficiency and proper communication in the disconnection/reconnection process.

# **GUAM WATERWORKS AUTHORITY**

## Schedule of Findings and Questioned Costs Year Ended September 30, 2001

### Finding No. 2001-4 - Policies and Procedures, Systems Control Over New Accounts

#### Criteria:

The Guam Waterworks Authority should ensure that policies and procedures and systems control exist that prevent customers from opening another account (in the same physical location) whenever the original account outstanding balance is significant and remains outstanding.

#### Condition:

It appears the IBM/JD Edwards System does not prevent customers from applying for a new account even though the application for a new account is for an exact location where an outstanding balance exists. We further noted that disconnected customers with outstanding balances do request family members to open a new account in the same physical location.

#### Cause:

Due to a lack of manpower, there appears to be a deficiency in creating and implementing policies and procedures with regard to opening new accounts in the same physical location where a prior account with an existing outstanding balance remains unpaid.

#### Effect:

Due to lack of internal controls, policies and procedures, accounts receivable balances may not be collectible.

#### Prior Year Status:

The above condition is reiterative of conditions identified in the prior year audit of the Guam Waterworks Authority.

#### Recommendation:

GWA should implement policies and procedures and computer system controls with regard to customers applying for a new account in the same physical location where a prior account with an outstanding balance already exists. Further, documents such as new renter's agreement, deed of sale, or other items should be reviewed to prevent family members from opening new accounts with the same location.

#### Auditee Response and Corrective Action Plan:

The Customer Service Section of the Authority is now a) screening customers by location to ensure that the new tenant is not appearing twice in the database; b) conducting a joint effort with Collection Dept. to flag customer accounts with outstanding balances but with same site location; c) requiring from the new tenant an updated information from landlords, to include a map location of the property.

**GUAM WATERWORKS AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2001

Finding No. 2001-5 - Inventory

Criteria:

Receiving and issuance reports should be numbered in sequential order.

Condition:

Receiving and issuance reports are not issued in sequential order.

Cause:

There appears to be lack of internal control over recording of inventory received or issued.

Effect:

No known material effect on the financial statements results from this condition. However, the underlying account balances may be questioned.

Recommendation:

GWA should ensure that all goods received or issued are numbered and are in sequential order.

Auditee Response and Corrective Action Plan:

While the inventory module under the JDEdwards system is in place, there is a need to retrain the respective staff on data manipulation to ensure that recordkeeping is accurately performed within the system. A training is planned during the month of May 2003 for the respective staff.

**GUAM WATERWORKS AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2001

Finding No. 2001-6 - Property, Plant and Equipment: Subsidiary Ledger

Criteria:

Property, plant and equipment (PP&E) should be properly supported by an accurate subsidiary ledger. Information maintained should include the original cost and subsequent related improvements or betterments. Accurate related depreciation listings should also be maintained.

Condition:

During 2001, the Authority did not maintain accurate PP&E listings. This condition was not resolved in a timely manner, thereby prolonging the audit.

Cause:

The cause of this condition is the shortage of knowledgeable personnel to whom the duties of recording capital purchases and maintaining PP&E listings could be assigned.

Effect:

The propriety of underlying accounting balances may be questioned. Furthermore, the control procedure of attempting to reconcile physical assets with accounting records is rendered ineffective.

Recommendation:

Once accurate PP&E listings are established, the Authority should assign a qualified accountant to the duty of maintaining the listings, properly recording all capital purchases and calculating and recording depreciation expense.

Auditee Response and Corrective Action Plan:

In FY 2002, Guam Waterworks Authority contracted a Fixed Asset Consultant to train and reconcile our property, plant and equipment listing. Training was provided to six GWA employees with two individuals, the Accounting Supervisor and an Administrative Aide designated to reconcile all PP&E accounts. The accounts were since reconciled up through FY 01. However, since both individuals have since left the Agency, we have announced for an Accountant III position which should be filled some time in May 2003 to assume/continue the responsibility over maintaining the Fixed Asset Module.

**GUAM WATERWORKS AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2001

Finding No. 2001-7 - Accrued Expenses

Criteria:

Accruals should be reversed on a periodic basis.

Condition:

Per review of accrued expenses, it was noted that the accrual and subsequent reversal of the following were not performed timely and were not performed as of September 30, 2001.

Accrued payroll expense	\$481,270 (unreversed accrual)
Accrued contractor retention payable	\$199,092 (unreversed accrual)

Cause:

There may be a shortage of accounting personnel equipped to deal with required accounting entries.

Effect:

The above condition overstated liabilities at September 30, 2001, prior to proposed audit adjustments.

Recommendation:

The Authority should train and assign staff to properly accrue and reverse accruals.

Auditee Response and Corrective Action Plan:

Generally accepted accounting procedures require that accruals need to be reversed the following period in order to not materially overstate the accounts. Accounting personnel will receive proper training to ensure that proper reversals occur.

**GUAM WATERWORKS AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2001

Finding No. 2001-8 - Guarantee Deposit Liability

Criteria:

The guarantee deposit liability should be properly monitored.

Condition:

There appears to be a sequence of erroneous entries from the time a new customer is assessed the deposit, to the collection of cash by the Authority, to the eventual refund of the deposit, or application to a outstanding balance when the customer account is closed. There also appears to be a lack of reconciliation of the liability to the cash balance on deposit with the Authority's financial institution.

Cause:

The cause of the erroneous entries is apparently the faulty setup of accounts for use in the system. The apparent cause for the lack of reconciliation may be the shortage of accounting manpower.

Effect:

The deposit liability was overstated by a material amount at September 30, 2001, prior to current year proposed audit adjustments.

Recommendation:

A process for performing regular and frequent reconciliations of deposit liabilities should be immediately adopted. Through doing so, problems with the recording of deposit transactions can be identified and resolved in a timely manner. With respect to the erroneous entries now occurring in the system, accounting department should discuss with the data processing department the apparent errors and correct them immediately.

Auditee Response and Corrective Action Plan:

We will ensure that a reconciliation of accounts occur in a timely and regular manner. The Accounts Receivable Accountant shall be tasked to perform such reconciliation.

## **GUAM WATERWORKS AUTHORITY**

### Schedule of Findings and Questioned Costs Year Ended September 30, 2001

#### Finding No. 2001-9 - Exceptions In Meter Readings

##### Criteria:

Abnormal readings (those appearing on exception reports) should be verified by the Authority's Task Force. Adjustments made should be reflected on all applicable billings before delivery to customers.

##### Condition:

The Authority currently verifies only a small percentage of all exceptions.

##### Cause:

Meter readings are performed by a separate utility agency on behalf of the Authority. Therefore, the Authority has no control over ensuring that every effort is made to keep exceptions proportionally low in comparison to total meters read. As a result, the Authority's Task Force may be overwhelmed when faced with investigating the number of exceptions currently experienced.

##### Effect:

Revenue may be misstated due to the absence of adjustments to unverified accounts. Non-registering meters left unidentified will result in unbilled consumption and increased water loss.

##### Prior Year Status:

The above condition is reiterative of conditions identified in the prior year audit of the Guam Waterworks Authority.

##### 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 most likely is responsible for a substantial percentage of abnormal readings.

##### Auditee Response and Corrective Action Plan:

Our meter reading is currently outsourced and the resulting exception reports are a direct result of inefficient meter reading. The GWA task force only serves as verifiers and does not prevent the high volume of exception reports.

To address this condition, the new management has instituted a "shadowing" process whereby GWA employees work concurrently with the meter readers with the intent of taking over the GWA meter reading process. In addition, an Obstruction Policy Deposit is currently being discussed to integrate into the GWA's rules and regulations whereby consumers are required to ensure that the meters are accessible and free from any obstruction. Doing otherwise will generate a penalty deposit and will reverse only when the condition is corrected.

**GUAM WATERWORKS AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2001

Finding Number 2001-10 – Water Revenue

Criteria:

Billing routes should be regularly rotated among the Authority's Task Force to prevent the possibility of illegal acts by employees and customers (which could occur in the form of meter readers entering a lower reading into the computer in exchange for receiving money from the customer).

Condition:

Per our discussions with billing personnel, the Authority does not rotate billing routes among the four members of the Task Force. If one member is sick, on leave, absent from work or otherwise cannot take the readings, a different member will take readings for that route. However, this appears to be the only time that route rotation occurs.

Cause:

There is no explanation for the lack of rotation of billing routes.

Effect:

Revenue may be understated due to false readings being reported.

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 develop and implement a plan to rotate billing routes among Task Force members on a regular basis.

Auditee Response and Corrective Action Plan:

The realignment of the Authority's processes brought about by the Best Practices Initiative attempts to address this situation. The Authority plans to take over the meter reading management and implement the Automated Meter Reading devices which will facilitate efficient and accurate meter reading processes.

## **GUAM WATERWORKS AUTHORITY**

### Schedule of Findings and Questioned Costs Year Ended September 30, 2001

#### Finding Number 2001-11 - Revenues – Water Production vs. Consumption

##### Criteria:

Water losses should be properly monitored to identify weaknesses in the distribution system such as leaks, non-registering meters, theft and other unbilled consumption. A basic monitoring procedure is the comparison of water production vs. consumption, which should be done on a regular basis using reliable data.

##### Condition:

No reliable data exists supporting production figures for FY99 or FY00; therefore, no meaningful comparisons between production and consumption can be made in the current year.

##### Cause:

The cause of this condition is unknown.

##### Effect:

Because no meaningful information can be produced, the Authority is not precisely aware of the extent of existing leaks, non-registering meters, theft and other unbilled consumption. Efforts to improve water distribution are hampered, and the amount of lost revenues cannot be quantified.

##### Prior Year Status:

The above condition is reiterative of conditions identified in the prior year audit of the Guam Waterworks Authority.

##### Recommendation:

Accurate monthly water production records should be maintained. Comparisons of production vs. consumption using reliable information should be performed monthly.

##### Auditee Response and Corrective Action Plan:

A program to monitor unaccounted-for water will be implemented.

# **GUAM WATERWORKS AUTHORITY**

## **Schedule of Findings and Questioned Costs Year Ended September 30, 2001**

### Finding Number 2001-12 - Project Costs - Equipment Rental

#### Criteria:

The Authority undertakes numerous projects. Consequently, tracking project costs should be an essential function within the Authority. Accumulated costs should be maintained in a systematic way to allow for efficient analysis and reporting. Comparing expected costs against historical costs is intrinsic to the planning process and should be done for every project. Furthermore, purchase orders, and respective contracts with vendors, should be limited to expected amounts.

#### Condition:

During our testing of equipment rental, we noted that the invoices usually reported the project worked on, the type of equipment rented and a certain number of hours charged, usually per day. Management could not provide us with representation as to what was a reasonable amount of charges to expect for such billings, considering the type of project involved and the type of equipment rented. Also, per our review of the purchase order log, we noted several instances when consecutive PO's were issued to the same vendor, on the same date, for the same service and the same amount. Apparently, the procurement process is not being utilized in these instances to limit costs as much as possible.

#### Cause:

The cause of this condition is due to the lack of historical information providing expected costs, considering type of project and type of equipment. This is primarily due to the lack of use of the Project Cost Tracking module within the new IBM JDE system, which has the capability to provide such historical information. Project managers and those preparing requisitions cannot utilize any such information.

#### Effect:

Operating expenses, particularly equipment rental, may be uncontrolled. As such, the Authority may be paying for excessive charges and may be experiencing cost overruns. Future projects cannot be properly planned in terms of predicting and controlling costs.

#### 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 immediately implement and fully utilize the Project Cost Tracking module for all projects. Members of accounting and engineering should do a field audit to ensure costs are reasonable. For instance, the actual number of hours per day a particular piece of equipment is utilized can be observed. That information can be conveyed to management and compared against resulting project cost to corroborate the reasonableness of amounts being paid.

**GUAM WATERWORKS AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2001

Finding Number 2001-12 - Project Costs - Equipment Rental, Continued

Auditee Response and Corrective Action Plan:

The Authority is implementing material changes in the procurement procedure, which includes procurement of equipment rental. To better track and control rental costs, Blanket Purchase Orders are no longer permitted, and instead, are now job specific.

# **GUAM WATERWORKS AUTHORITY**

## **Schedule of Findings and Questioned Costs Year Ended September 30, 2001**

### Finding Number 2001-13 - Internal Audit Department

#### Criteria:

The Authority should consider establishing a qualified Internal Audit Department to perform, among other duties, check and review procedures on transaction processing, revenue protection, and ensuring departmental adherence to Standard Operating Procedures.

#### Condition:

There is no existing Internal Audit Department. Hence, none of the above procedures are performed.

#### Cause:

The cause of this condition is unknown.

#### Effect:

With the lack of an Internal Audit Department, the Authority faces a greater risk of loss, potential misuse of assets and a potential misstatement of account balances. As a result, a weaker foundation underlies management's assertions about the amounts presented in the financial statements.

#### 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 creation of an Internal Audit Department staffed by qualified professional accountants to perform the necessary duties mentioned above.

#### Auditee Response and Corrective Action Plan:

The Consolidated Commission on Utilities have recognized the need to create an Internal Audit Section. The management of the GWA has been instructed to incorporate GWA staff into the current GPA Internal Audit Section to serve both utilities.

## **GUAM WATERWORKS AUTHORITY**

### Schedule of Findings and Questioned Costs Year Ended September 30, 2001

#### Finding Number 2001-14 - Overtime

##### Criteria:

Overtime is a tool necessary for the Authority to adequately address emergencies, reporting deadlines, shortages in staff and similar problems. All overtime should be pre-approved by department heads, and overtime claimed by employees should be reviewed by the employee's supervisor for reasonableness and correctness. It should be management's policy to minimize overtime.

##### Condition:

- 1) We noted 12 instances when an error was made by paying an employee overtime in excess of sixteen hours on a weekday, as eight regular hours plus sixteen overtime hours equals 24 total hours in the day.
- 2) We noted 372 instances when overtime of between ten to sixteen hours was paid to employees on weekdays. It would appear unreasonable when considering the employee worked an additional eight regular hours (totaling eighteen or more hours) and would need time to drive to and from work and time to sleep. Several times, employees claimed apparently excessive overtime hours two days in a row, which forces the question of sleep and travel time.
- 3) An arbitrary amount of 30% was chosen as the threshold when considering excessiveness of total overtime paid and hours worked during the year compared to annual salary and hours. We noted 95 and 43 employees, respectively, who earned overtime in excess of this threshold.

##### Cause:

The cause of this condition is unknown.

##### Effect:

Without proper management control, excessive overtime results, some of which may not be legitimate, and some of which is legitimate but could be reduced or eliminated. Salaries and wages could be overstated by an undetermined amount.

##### Prior Year Status:

The above condition is reiterative of conditions identified in the prior year audit of the Guam Waterworks Authority.

##### Recommendation:

Management should pre-approve all overtime. Overtime claimed by employees should be reviewed by the supervisor for reasonableness and correctness. Options to overtime should be explored, such as outsourcing the necessary manpower in times of emergency, report deadlines or staff shortages.

##### Auditee Response and Corrective Action Plan:

Management is working closely with the new board members of the Consolidated Commission on Utilities in monitoring specific budget line items in the FY2003 Budget, overtime included. In addition, the implementation of the 32-hr workweek has forced the Authority to completely eliminate overtime under both the administrative and operational side, except for emergency conditions.

# **GUAM WATERWORKS AUTHORITY**

## **Schedule of Findings and Questioned Costs Year Ended September 30, 2001**

### Finding Number 01-15 - Construction Contract Management and Accounting

#### Criteria:

An accurate construction work in progress (CWIP) subsidiary ledger should be maintained through constant coordination between the engineering and accounting departments. The contract management system should be designed to provide for an accurate flow of significant information. At any point in time, the CWIP subledger total should agree with the amount in the general ledger.

#### Condition:

During 2001, the Authority did not maintain an accurate CWIP subledger. This condition was not resolved in a timely manner, thereby prolonging the audit.

#### Cause:

The cause of this condition is the lack of coordination between the engineering and accounting departments, compounded by the shortage of knowledgeable personnel to whom the duties of recording capital purchases and maintaining property, plant and equipment listings could be assigned.

#### Effect:

The propriety of underlying accounting balances may be questioned. Furthermore, the control procedure of attempting to reconcile ongoing and completed projects with accounting records is rendered ineffective.

#### Recommendation:

The Authority should define and implement a system of construction contract management involving both qualified and knowledgeable personnel from the engineering and accounting departments, with the objective being the accurate accounting for projects. In this regard, JDEdwards use should be maximized to limit human error and to optimize efficiency.

#### Auditee Response and Corrective Action Plan:

The Engineering Department has complete utilization and ownership of the Construction Management Module. All account numbers, certificate of payment requests and budget set-up are done by the engineering department. Current procedures have the accounting department's involvement when payments are requested through the accounts payable module.

Changes are being implemented to the procedures to include the accounting department in the implementation and closing stages of each project in order to increase efficiency and accuracy of the information provided by the CWIP subledger. An Accountant III has been assigned to begin the process.

# GUAM WATERWORKS AUTHORITY

## Schedule of Findings and Questioned Costs Year Ended September 30, 2001

### Finding Number 01-16 - Fixed Assets

#### Criteria:

Fixed assets should be properly tagged and safeguarded against loss and not misused or neglected in any way. The duty to ensure that this occurs should be vested in a Fixed Asset Accountant, a person in charge solely of additions, issues, receipts, and disposals of fixed assets. The impairment, loss or damage of fixed assets should be reflected on the books via write down entries.

#### Condition:

During physical existence testing, the following items could not be traced from the subsidiary listing to the physical asset.

<u>Temp #</u>	<u>Description</u>	<u>Year</u>	<u>Bus Unit</u>	<u>Cost</u>	<u>NBV at 9/30/01</u>
4064	DSI Pentium 133 mhz	96	2105	\$4,450	\$2,329
4023	Model 80 Computer comp.	92	2105	\$9,274	\$1,902
4111	STP166 WF ES1000C Color Image	96	2105	\$3,626	\$1,955
8204	1998 Toyota Tacoma 4x2 Pickup	97	2105	\$11,788	\$6,383
7002	MTS2000 III Portable 800M	96	5265	\$1,586	\$870
3101	Telexon Meter Reading Device	95	5265	\$2,516	\$1,119

#### Cause:

During 2001, the Authority did not maintain accurate property, plant and equipment listings (Finding Number 2001-7). Furthermore, the Authority has no formal policy creating accountability for fixed assets.

#### Effect:

As a result of this condition, assets are susceptible to loss and or misuse. Because the lost, damaged or stolen assets must be replaced years before the end of their useful lives, cash outflow increases unnecessarily. The failure to write-down impaired assets to their fair market value or to increase depreciation when required will leave fixed assets overstated. The expense for non-capitalized tools and equipment increases, lowering net income.

#### 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 establish, implement and monitor a firm policy over accountability for fixed assets and equipment purchases. A qualified, trained person should be appointed as fixed asset (plant) accountant, and should perform duties stated in the policy to ensure assets are safeguarded from loss and/or misuse.

## **GUAM WATERWORKS AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2001

### Finding Number 01-16 - Fixed Assets, Continued

#### Auditee Response and Correction Action Plan:

The implementation of a firm policy over accountability had started several years ago, including tagging of all GWA assets and signing receipt by employees of those items. However, there did not appear to be a strict adherence to this policy by Business Unit Managers, thereby creating weak controls over accountability. With the hiring of a Fixed Assets Accountant (May 2003), strict adherence and oversight of such procedures are expected to be fully implemented.

In addition, in an effort to improve accountability on small tools and equipment, the Authority has created a tool room within the Procurement and Supply office to handle the distribution and accountability of these assets.