

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

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

YEAR ENDED SEPTEMBER 30, 2012

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 (the Authority) as of and for the year ended September 30, 2012, and have issued our report thereon dated May 30, 2013. 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

Management of the Authority is responsible for establishing and maintaining effective 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.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs (pages 7 through 10), that we consider to be significant deficiencies in internal control over financial reporting as item 2012-1. A *significant deficiency* is a deficiencies, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

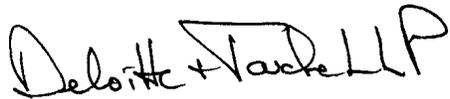
Compliance and Other Matters

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 separate letters dated May 30, 2013.

The Authority's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Authority's response and, accordingly, we express no opinion on it.

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

May 30, 2013

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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 Guam Waterworks Authority's (the Authority) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended September 30, 2012. 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 7 through 10). 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 of the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2012-2.

Internal Control Over Compliance

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

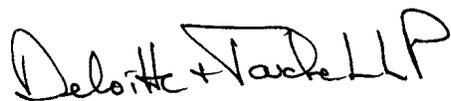
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying Schedule of Findings and Questioned Costs as item 2012-2. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The Authority's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Authority's response and, accordingly, we express no opinion on it.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of Guam Waterworks Authority as of and for the year ended September 30, 2012, and have issued our report thereon dated May 30, 2013, which contained an unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

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



May 30, 2013

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

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2012

CFDA #	Grantor/Program Title	Expenditures
U.S. Department of the Interior		
Pass-Through Government of Guam Bureau of Budget Management and Research		
15.875	Economic, Social and Political Development of the Territories	\$ <u>211,011</u>
	Total U.S. Department of the Interior	<u>211,011</u>
U.S. Environmental Protection Agency		
Direct Grant		
66.418	Construction Grants for Wastewater Treatment Works	11,565
66.418	ARRA Construction Grants for Wastewater Treatment Works	15,015
66.468	Capitalization Grants for Drinking Water State Revolving Fund	1,790,986
66.468	ARRA Capitalization Grants for Drinking Water State Revolving Fund	1,079,269
66.600	Environmental Protection Consolidated Grants for the Insular Areas - Program Support	1,481,909 *
66.606	Surveys, Studies, Investigations and Special Purpose Grants	<u>56,034</u>
	Total U.S. Environmental Protection Agency	<u>4,434,778</u>
U.S. Department of Energy		
Pass-Through Government of Guam Energy Office		
81.041	ARRA State Energy Program	<u>1,382,504</u>
	Total U.S. Department of Energy	<u>1,382,504</u>
	Total Federal Awards	\$ <u><u>6,028,293</u></u>
Reconciliation to the basic financial statements:		
	Capitalized as construction work in progress	\$ 4,446,152
	Federal program expenditures recorded as nonoperating expenses	<u>1,582,141</u>
		\$ <u><u>6,028,293</u></u>

*Noncash awards

See Accompanying notes to Schedule of Expenditures of Federal Awards.

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

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2012

(1) Scope of Audit

Guam Waterworks Authority (the Authority) is a component unit of the Government of Guam (GovGuam). The Authority is subject to the regulations of the Public Utilities Commission of Guam (PUC). The Authority became an autonomous agency in 1996 under Public Law 23-119. Only the federal expenditures of the Authority are included within the scope of the OMB Circular A-133 audit (the "Single Audit").

Programs Subject to Single Audit

The Schedule of Expenditures of Federal Awards presents each Federal program related to the U.S. Department of the Interior, U.S. Environmental Protection Agency and U.S. Department of Energy which are subject to OMB A-133.

(2) Summary of Significant Accounting Policies

Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Authority and is presented on the accrual basis of accounting, consistent with the manner in which the Authority maintains its accounting records. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. All expenses and capital outlays are reported as expenditures.

(3) Noncash Awards

As of September 30, 2012, the Authority had a noncash award of \$8,703,412 from the U.S. Environmental Protection Agency CFDA number 66.600 for technical assistance. For the year ended September 30, 2012, the related noncash federal expenditures amounted to \$1,481,909.

(4) American Recovery and Reinvestment Act of 2009 (ARRA)

In February 2009, the Federal Government enacted the American Recovery and Reinvestment Act of 2009 (ARRA). As of September 30, 2012, the Authority's expenditures and grant award notifications are as follows:

<u>CFDA Program</u>	<u>Grant Amount</u>	<u>FY 2012 Expenditures</u>
66.418 Construction Grants for Wastewater Treatment Works	\$ 2,371,500	\$ 15,015
66.468 Capitalization Grants for Drinking Water State Revolving Fund	2,124,000	1,079,269
81.041 State Energy Program	<u>1,500,000</u>	<u>1,382,504</u>
	<u>\$ 5,995,500</u>	<u>\$ 2,476,788</u>

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

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? | 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? | Yes |
| 7. Type of auditors' report issued on compliance for major programs: | Unqualified |
| 8. Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133? | Yes |
| 9. Identification of major programs: | |

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
66.468	Capitalization Grants for Drinking Water State Revolving Fund
66.600	Environmental Protection Consolidated Grants for the Insular Areas – Program Support
81.041	State Energy Program

- | | |
|--|-----------|
| 10. Dollar threshold used to distinguish between Type A and Type B Programs: | \$300,000 |
| 11. Auditee qualified as low-risk auditee? | No |

Part II – Financial Statement Findings Section

<u>Finding Number</u>	<u>Finding</u>
2012-1	Fixed Assets

Part III - Federal Award Findings and Questioned Costs Section

<u>CFDA Number</u>	<u>Finding Number</u>	<u>Finding</u>	<u>Questioned Cost</u>
66.600	2012-2	Reporting	\$ -

GUAM WATERWORKS AUTHORITY
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-1
Area: Fixed Assets

Criteria: Fixed asset transactions should be supported and scrutinized. Further, fixed asset records and pertinent reports should be timely reviewed.

Condition: During tests of fixed assets, the following were noted:

1. Fiscal year 2012 additions included \$3,801,301 of meter change outs and installations. During related tests, we noted that an analysis of meter disposals and/or retirements during the fiscal year was performed subsequent to year-end. As a result of this analysis, GWA identified \$912,399 of disposals.
2. Of nineteen (19) fixed asset additions tested aggregating \$19,335,165, the following were noted:
 - a. Nine additions totaling \$921,859 related to asset replacements; however, the replaced asset was not identified and associated disposals were unrecorded.
 - b. An assessment of the reasonableness (i.e. to consider frequency of change outs/replacements/repairs, remaining life of main asset, etc.) of estimated useful lives assigned to thirteen (13) assets totaling \$2,696,193 did not timely occur.
 - c. Eighteen (18) transfers from completed projects were recorded in the fixed asset register between 95 to 454 days from the date of asset completion or receipt.
3. Three fixed asset disposals tested with total costs of \$42,295 were disposed of in September 2011; however, the disposal was recorded in the fixed asset register in January 2013. As represented by the fixed asset accountant, this occurred because of delay in the submission of relevant documents to the Accounting Department.
4. During tests of the fixed asset register, the following were noted:
 - a. The comprehensive fixed assets inventory initiated in September 2010 was completed in December 2012. While the reconciliation to property records for federal equipment has been completed, the reconciliation for all other fixed assets is ongoing.
 - b. At September 30, 2012, a total of 3,080 assets in the fixed asset register were not assigned costs. These are sub-assets and only the main assets were assigned costs. However, the main asset to which these sub-assets relate is not determinable.
 - c. At September 30, 2012, GWA has 3,570 fully depreciated assets in the fixed asset register with original costs of \$40,306,177. A reconciliation of these assets to the Geographic Information System (GIS) has not been completed as of September 30, 2012.

Cause: The cause of the above condition appears to be due to lack of timely monitoring and review of fixed assets and the lack of timely communication between the construction in progress accountants and related departments.

GUAM WATERWORKS AUTHORITY
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-1, Continued
Area: Fixed Assets

Effect: The effects of the above condition are a potential misstatement of fixed assets, depreciation and related accounts, a prolonged fixed asset reconciliation process and significant year-end adjustments.

Recommendation:

1. We recommend that periodic (i.e. monthly) analysis of meter disposals and retirements be performed.
2. We recommend fixed asset additions be scrutinized and timely recorded.
3. We recommend that communication with Accounting and related departments be enhanced to allow timely identification and recording of disposals.
4. We recommend that the fixed asset register be reconciled to the GIS system.

Auditee Response and Corrective Action Plan:

Contact Person: Yukari Hechanova, Controller

Corrective Action: One accountant is assigned to fixed assets accounting whose duties include a massive reconciliation of all fixed asset records to the GIS. In addition, dramatic increases in construction projects have delayed timely recording and review of fixed asset transactions. However, GWA accounting has enhanced communications with other GWA departments. Examples include a Pump and Motor Accountability SOP, involvement in the asset management steering committee, verification of estimated useful lives by the engineering department, and coordination with Procurement and Supply's scrap sales bids.

GWA accounting will explore options to increase fixed assets accounting capacity.

Proposed Completion Date: Immediately

**GUAM WATERWORKS AUTHORITY
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-2
Federal Agency: U.S. Environmental Protection Agency
CFDA Program: 66.600 Environmental Protection Consolidated Grants for the Insular Areas –
Program Support
Requirement: Reporting
Questioned Cost: \$0

Criteria: In accordance with grant award terms and conditions, GWA shall submit interim Federal Financial Reports/Standard Form 425.

Condition: Federal financial reports were not prepared and submitted during fiscal year 2012.

Cause: Compliance with applicable reporting requirements does not appear to have occurred.

Effect: The effect of the above condition is noncompliance with applicable reporting requirements.

Recommendation: We recommend that compliance with the criteria occur.

Auditee Response and Corrective Action Plan:

Contact Person: Yukari Hechanova, Controller

Corrective Action: The required federal financial reports have been filed on May 8, 2013 and will be timely filed hereafter.

Proposed Completion Date: Completed

GUAM WATERWORKS AUTHORITY
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Resolution of Prior Findings and Questioned Costs
Year Ended September 30, 2012

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 2011 audit reports	\$ 357,727
Questioned Costs per the September 30, 2012 audit report	_____ -
Total unresolved questioned costs as of September 30, 2012	\$ <u>357,727</u>