

GUAM WATERWORKS AUTHORITY

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

YEAR ENDED SEPTEMBER 30, 2007

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT 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, 2007, and have issued our report thereon dated April 29, 2008. 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 responses to be significant deficiencies in internal control over financial reporting. The significant deficiencies are described in the accompanying Schedule of Findings and Questioned Costs (pages 6 through 18) as items 2007-1 through 2007-8.

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.

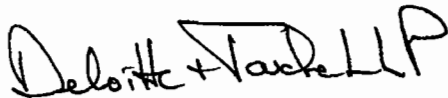
Compliance and Other Matters

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 29, 2008.

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.



April 29, 2008

**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, 2007. 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 6 through 18). 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 2007-1 to 2007-3 in the accompanying Schedule of Findings and Questioned Costs, the Authority did not comply with requirements regarding cash management, reporting, and special tests and provisions that are applicable to its Environmental Protection Agency (CFDA # 66.468) program. Compliance with such requirements is necessary, in our opinion, for the Authority to comply with requirements applicable to that program.

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, 2007.

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.

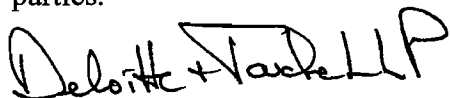
A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal 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 2007-1 through 2007-3 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. However, we believe that none of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs is a material weakness.

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, 2007, and have issued our report thereon dated April 29, 2008. 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.

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.



April 29, 2008

GUAM WATERWORKS AUTHORITY

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2007

CFDA #	Federal Grantor/Program Title	Receivable (Deferred) Balance at September 30, 2006	Expenditures	Cash Receipts	Adjustment	Receivable (Deferred) Balance at September 30, 2007
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	\$ 289,117	\$ 2,286	\$ -	\$ -	\$ 291,403
	Total U.S. Department of the Interior	<u>289,117</u>	<u>2,286</u>	<u>-</u>	<u>-</u>	<u>291,403</u>
U.S. Environmental Protection Agency						
Direct Grant						
66.418	Construction Grants for Wastewater Treatment Works	81,608	75,903	(28,329)	-	129,182
66.468	Capitalization Grants for Drinking Water State Revolving Funds	-	1,381,484 *	(1,270,933)	25,000 **	135,551
66.600	Environmental Protection Consolidated Grants Program Support	-	50,000	(50,000)	-	-
66.606	Surveys - Studies, Investigation - Special	-	12,600	(50,400)	37,800 **	-
	Total U.S. Environmental Protection Agency	<u>81,608</u>	<u>1,519,987</u>	<u>(1,399,662)</u>	<u>62,800</u>	<u>264,733</u>
Department of Homeland Security/Federal Emergency Management Agency						
Pass-Through Government of Guam Department of Administration						
97.036	Public Assistance Grants	(1,289,050)	74,074	-	-	(1,214,976)
	Total Department of Homeland Security/Federal Emergency Management Agency	<u>(1,289,050)</u>	<u>74,074</u>	<u>-</u>	<u>-</u>	<u>(1,214,976)</u>
	Total Federal Assistance	<u>\$ (918,325)</u>	<u>\$ 1,596,347</u>	<u>\$ (1,399,662)</u>	<u>\$ 62,800</u>	<u>\$ (658,840)</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, 2007

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

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>
2007-4	Procurement Documentation
2007-5	Safeguarding of Capitalizable Assets
2007-6	Capitalization of Completed Projects
2007-7	Federal Compliance Administrator
2007-8	Internal Audit

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Part III - Federal Award Findings and Questioned Costs Section

<u>Reference Number</u>	<u>CFDA Number</u>	<u>Finding</u>	<u>Questioned Costs</u>
2007-1	66.468	Cash Management	\$ -
2007-2	66.468	Special Tests and Provisions	\$ -
2007-3	66.468	Reporting	\$ -

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No: 2007-1
 CFDA No.: 66.468
 Grant Award No.: FS-97911902-2, FS-97910501-2
 Program Name: Capitalization Grants for Drinking Water State Revolving Funds
 Area: Cash Management
 Questioned Costs: \$0

Criteria:

Per 40CFR Section 31.21, the grantee should minimize the time elapsing between the transfer of Federal funds from the recipient and the pay out of funds for program purposes. The clearance pattern approved for the Government of Guam, which includes its state agencies or instrumentalities (any organization of the primary government, as defined by GAAP), is as follows: 1) payroll transactions – 3 business days; 2) vendor payments – on island – 7 business days; 3) vendor payments – off-island – 14 business days.

Condition:

1) We noted the following cash disbursements cleared after more than seven business days from the time of grant receipt.

US Environmental Protection Agency

<u>CFDA No.</u>	<u>Program Title</u>	<u>Grant Award</u>	<u>Check Clearance Date</u>	<u>Award Receipt Date</u>	<u>Interest Amount</u>
66.468	Capitalization Grants for Drinking Water State Revolving Funds	\$ 61,906	5/30/07	5/16/07	\$ 62
66.468	Capitalization Grants for Drinking Water State Revolving Funds	69,147	7/23/07	7/5/07	109
66.468	Capitalization Grants for Drinking Water State Revolving Funds	204,258	8/9/07	7/31/07	61
66.468	Capitalization Grants for Drinking Water State Revolving Funds	78,471	8/31/07	8/14/07	<u>107</u>
	Total				\$ <u>339</u>

Cause:

The underlying cause appears to be a combination of a lack of internal controls to ensure grant awards are cleared after more than seven days of receipt.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2007

Finding No: 2007-1, Continued
CFDA No.: 66.468
Grant Award No.: FS-97911902-2, FS-97910501-2
Program Name: Capitalization Grants for Drinking Water State Revolving Funds
Area: Cash Management
Questioned Costs: \$0

Effect:

No known material effect on the financial statements results from this finding. However, non compliance with the federal requirement may affect the entity's ability to receive future federal funds. No questioned costs result from the finding as the projected questioned costs do not exceed the threshold.

Recommendation:

Management should minimize the time elapsing between the transfer of Federal funds from the recipient and the pay out of funds in accordance with its program purposes and Federal requirements.

Auditee Response:

GWA has corrected the process to comply in accordance to the federal requirements in regards to reimbursement process. However, it is beyond GWA's control in terms of clearance date.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2007

Finding No: 2007-2
CFDA No.: 66.468
Grant Award No.: FS-97911902-2, FS-97910501-2
Program Name: Capitalization Grants for Drinking Water State Revolving Funds
Area: Special Tests and Provisions
Questioned Costs: \$0

Criteria:

Per 40CFR Section 35.3580, grant 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:

There was no environmental review done on the following grant awards.

Cause:

The underlying cause appears to be a combination of a lack of internal controls to ensure an environment review was performed prior to proceeding with the projects.

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.

Recommendation:

Management should obtain an environmental review before proceeding with infrastructure projects to ensure that the Authority is in accordance with its program purposes and Federal requirements.

Auditee Response:

We concur that no documentation existed to substantiate that environmental reviews existed. However, the Guam Environmental Protection Agency would not have approved permits of the projects without a review.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2007

Finding No: 2007-3
CFDA No.: 66.468
Grant Award No.: FS-97911902-2, FS-97910501-2
Program Name: Capitalization Grants for Drinking Water State Revolving Funds
Area: Reporting
Questioned Costs: \$0

Criteria:

Per 40CFR Section 31.41, grant recipients are required to submit a *Financial Status Report*, SF-269 or SF-269A (an original and no more than two copies) no later than 30 days after the end of each specified reporting period for quarterly and semi-annual reports, and no later than 90 calendar days after the reporting period for annual and final reports.

Condition:

No SF-269 report was prepared and submitted to the federal awarding agency.

Cause:

The underlying cause appears to be a combination of a lack of internal controls to ensure that reports are prepared and submitted on a timely manner.

Effect:

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

Recommendation:

Management should ensure that financial reports are timely submitted in accordance with program requirements.

Auditee Response:

EPA was informed that prior SF269 were not submitted since 2004, however, GWA has prepared these forms as of 2007 for submission.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2007

Finding Number 2007-4 – Procurement Documentation

Criteria:

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

Condition:

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

Contract

GWA 07-01
GWA 07-02
GWA 07-04
GWA 07-05

IFB Number

2007-4
2007-8
2007-18

P.O. Number

Amount

280446	\$ 41,455
280735	\$ 485,605
280407	\$ 14,986
280103	\$ 14,972
280589	\$ 21,294
271523	\$ 14,800
280034	\$ 14,900
280533	\$ 14,995
280044	\$ 14,500

Vendor

Inv.

Amount

20770	408951	\$ 9,260
21844	651490	\$ 59,019
21966	60727	\$ 27,457
22131	507	\$ 101,616
21831	980	\$ 13,584
22065	4187	\$ 4,315

- 2) The following purchase orders did not have a requisition # on the P.O.:

P.O. Number

Amount

280073	\$ 96,379
280426	\$ 269,100
280504	\$ 31,590

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding Number 2007-4 – Procurement Documentation, Continued

- 3) Procurement packets contained missing documents including newspaper advertisements and letter of acceptance/contract agreements for the following:

IFB Number

2007-19
2007-17
2007-15
2007-6
2007-2

- 4) The justification for sole source procurement was not adequate because the merchandise could have been solicited from other vendors for the following:

<u>P.O. Number</u>	<u>Amount</u>
280790	\$ 79,500
280407	\$ 14,986
280143	\$ 272,068
280073	\$ 96,379

- 5) Procurement regulations were not satisfied due to GWA not providing all price quotations from vendors and the IFB supporting the PO was not provided:

<u>P.O. Number</u>	<u>Amount</u>
280589	\$ 21,294
280563	\$ 103,730
281345	\$ 6,714

- 6) The latest price quotations from different vendors were not obtained. Also, the solicitation lacks the full description of the services being procured.

<u>P.O. Number</u>	<u>Amount</u>
280745	\$ 14,500
280857	\$ 14,500
281220	\$ 14,500

- 7) The lowest vendor was not selected.

<u>P.O. Number</u>	<u>Amount</u>
280048	\$ 14,500
280557	\$ 14,500

- 8) The newspaper clipping did not indicate the date when the advertisement was published for IFB 2007-22. The advertisement for RFP 2007 – 03 did not specify the submittal date.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding Number 2007-4 – Procurement Documentation, Continued

9) Per Guam Administration Rules, a minimum of 15 days shall be provided for bidding time. The following IFB/RFP/Contract was not advertised in the newspaper for at least 15 days.

IFB 2007-10	8 days
RFP 2007-4	7 days
GWA 2007-6	10 days

10) Purchase order number 280426 did not indicate if sole source approval by the General Manager occurred.

11) Purchases were procured through small purchase procurement method. However, the total amounts for the materials or services to be purchased from same vendor were greater than the \$15,000 as set by Guam Administration Rules.

<u>P.O. Number</u>	<u>Amount</u>
280745	\$ 14,500
280857	\$ 14,500
281220	\$ 14,500
280371	\$ 13,500
280294	\$ 10,979

Cause:

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

Effect:

While individually these items may not have 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 local laws and regulations.

Auditee Response: We concur and management will review existing standard operating procedures and implement new or revised procedures as deemed appropriate. It is further understood that majority of these conditions existed in the beginning of Fiscal Year 2007.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2007

Finding Number 2007-5 – Safeguarding of Capitalizable Assets

Criteria:

Capitalizable assets stored in the warehouse should be safeguarded against theft or pilferage.

Condition:

During the physical count, we noted that 428 pieces of brass fittings, 1 1/4 x 1 1/2 CTS Corporation Stop, aggregating \$41,772 was stolen from the warehouse.

Cause:

There appears to be lack of internal control over safeguarding of assets.

Effect:

The theft resulted in a loss to the Authority.

Recommendation:

Access to the warehouse should be limited to authorized personnel. In addition, a warehouse log should be kept to monitor activity.

Auditee Response:

We concur. To prevent further loss, we immediately installed video security cameras in the warehouse.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding Number 2007-6 – Capitalization of Completed Projects

Criteria:

Completed projects should be transferred from construction in progress to applicable fixed asset accounts. In addition, the associated depreciation should be recognized once the project has been placed in service.

Condition:

Two construction projects were completed and were placed in service during the year. However, the Authority transferred the projects from the construction in progress account at September 30, 2007.

<u>Project Name</u>	<u>Completed</u>
Water/Wastewater Master Plan	June 2007
Hagatna Sewage Treatment Plant	January 2007

Cause:

The Authority did not transfer the completed project in a timely manner.

Effect:

There is no effect in the financial statements. However, the underlying depreciation cost was not timely recognized.

Recommendation:

We recommend that management monitor project status to ensure that completed projects that are placed in use are capitalized and that associated depreciation expense is recognized in a timely manner.

Auditee Response:

GWA concurs with this finding; however, a monthly status report is in place to improve internal communication among the departments involved.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2007

Finding Number 2007-7 – 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 federal compliance administrator position.

Auditee Response:

The recruitment effort is currently in process. We anticipate hiring by July 1, 2008. There is an employee detailed to serve in this capacity as a grants administrator.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2007

Finding Number 2007-8 – Internal Audit

Criteria:

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

Condition:

There are no checks and review procedures performed independently of the specific department adherence to Standard Operating Procedures.

Cause:

The Authority does not have an internal auditor in place to perform this function.

Effect:

With the lack of an Internal Audit Department, the Authority faces a greater risk of loss, misuse of assets 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 an Internal Audit department to ensure adherence to Standard Operating Procedures.

Auditee Response:

There are current recruitment efforts in progress. GWA anticipates the hiring by July 1, 2008.

GUAM WATERWORKS AUTHORITY

**Resolution of Prior Year Findings and Questioned Costs
Year Ended September 30, 2007**

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

Questioned Costs per the September 30, 2005 and 2006 audit reports	\$ 445,931
Questioned Costs per the September 30, 2007 audit report	<u> -</u>
Total unresolved questioned costs as of September 30, 2007	\$ <u>445,931</u>