

GUAM WATERWORKS AUTHORITY

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

SEPTEMBER 30, 2006

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, 2006, and have issued our report thereon dated May 17, 2007. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion 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 operation 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. The reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as item numbers 2006-01 to 2006-07.

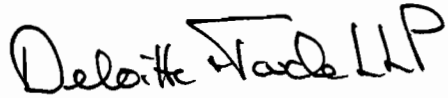
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being 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 the reportable conditions described above are not material weaknesses.

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 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*.

However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Authority in a separate letter dated May 17, 2007.

This report is intended 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 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 Touche LLP". The signature is written in a cursive, stylized font.

May 17, 2007

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL
OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM
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, 2006. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. 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 2006-01 to 2006-03 in the accompanying Schedule of Findings and Questioned Costs, the Authority did not comply with the requirements regarding cash management, procurement and reporting that are applicable to Environmental Protection Agency (66.418) and Public Assistance Grants (97.036) programs. Compliance with such requirements are necessary, in our opinion, for the Authority to comply with requirements applicable to the programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006.

Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with 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 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted matters involving the internal control over compliance 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 operation of the internal control over compliance that, in our judgment, could adversely affect the Authority's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. The reportable conditions are in the accompanying Schedule of Findings and Questioned Costs as items 2006-01 to 2006-03.

A material weakness is a reportable 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 noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program 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 compliance 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 the reportable conditions described above are not material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Guam Waterworks Authority as of and for the year ended September 30, 2006, and have issued our report thereon dated May 17, 2007. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Supplementary Schedule of Expenditures of Federal Awards 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 our audit of the financial statements and, in our opinion, is fairly stated, in all material respects when considered in relation to the basic financial statements taken as a whole.

This report is intended 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 is not intended to be, and should not be, used by anyone other than those specified parties.



May 17, 2007

GUAM WATERWORKS AUTHORITY

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2006

CFDA #	Federal Grantor/Program Title	Accrued (Deferred) Balance at September 30, 2005	Expenditures	Cash Receipts	Adjustment	Accrued (Deferred) Balance at September 30, 2006
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	\$ 287,561	\$ -	\$ -	\$ 1,556 **	\$ 289,117
	Total U.S. Department of the Interior	<u>287,561</u>	<u>-</u>	<u>-</u>	<u>1,556</u>	<u>289,117</u>
U.S. Environmental Protection Agency						
	Direct Grant					
66.418	Construction Grants for Wastewater Treatment Works	163,981	821,501 *	(903,874)	-	81,608
	Total U.S. Environmental Protection Agency	<u>163,981</u>	<u>821,501</u>	<u>(903,874)</u>	<u>-</u>	<u>81,608</u>
Department of Homeland Security/Federal Emergency Management Agency						
	Pass-Through Government of Guam Department of Administration					
97.036	Public Assistance Grants	(457,850)	608,398 *	(1,305,719)	(133,879) **	(1,289,050)
	Total Department of Homeland Security/Federal Emergency Management Agency	<u>(457,850)</u>	<u>608,398</u>	<u>(1,305,719)</u>	<u>(133,879)</u>	<u>(1,289,050)</u>
	Total Federal Assistance	<u>\$ (6,308)</u>	<u>\$ 1,429,899</u>	<u>\$ (2,209,593)</u>	<u>\$ (132,323)</u>	<u>\$ (918,325)</u>

*Denotes a major program as defined by OMB Circular A-113.

** 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, 2006

Part I - Summary of Auditors' Results

1. The Independent Auditors' Report on the financial statements expressed an unqualified opinion.
2. Reportable conditions 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. Reportable conditions 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>
Construction Grants for Wastewater Treatment Works	66.418
Public Assistance Grants	97.036

8. A threshold of \$300,000 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. The Authority did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

Part II – Financial Statement Findings Section

<u>Reference Number</u>	<u>Finding</u>
2006-01	Cash Management
2006-02	Procurement
2006-03	Reporting
2006-04	Procurement Documentation
2006-05	Safekeeping of Documents
2006-06	Federal Compliance Officer
2006-07	Internal Audit

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Part III - Federal Award Findings and Questioned Costs

<u>Reference Number</u>	<u>CFDA Number</u>	<u>Finding</u>	<u>Questioned Costs</u>
2006-01	66.418/97.036	Cash Management	\$ -
2006-02	97.036	Procurement	\$ 330,931
2006-03	97.036	Reporting	\$ -

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Finding No.: 2006-01
 CFDA No.: 66.418, 97.036
 Grantor: U.S. Environmental Protection Agency, Department of Homeland Security/FEMA
 Program Name: Construction Grants for Wastewater Treatment Works, Public Assistance Grants
 Grant Award No.: C660001030
 Area: Cash Management
 Questioned Costs: \$0

Criteria:

Per OMB A-133, 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. In accordance with 31 CFR 205.12.b.(4), cash advance (pre-issuance or post-issuance) funding means that a Federal Program Agency transfers the actual amount of Federal funds to a State that will be paid out by the State, in a lump sum, not more than three business days prior to the date the State issues checks or initiates EFT payments.

Condition:

- 1) The following cash disbursements were disbursed more than three days from the time of grant receipt.

US Environmental Protection Agency						
CFDA No.	Program Title	Grant Award	Check Clearance Date	Award Receipt Date	Interest Amount	
66.418	Construction Grants For WWT Works	\$ 382,674	5/15/06	5/10/06	\$ 105	
66.418	Construction Grants For WWT Works	103,422	8/21/06	7/5/06	608	
Total					\$ 713	

FEMA – Public Assistance Grants						
CFDA No.	Project Worksheet No.	Grant Award	Check Clearance Date	Award Receipt Date	Interest Amount	
97.036	54	\$ 7,824.50	5/22/06	10/19/05	\$ 169	
97.036	109	2,859.99	11/6/06	11/23/05	109	
97.036	114	2,338.89	9/28/06	11/23/05	79	
97.036	385	18,388.59	9/28/06	12/19/05	600	
97.036	388	3,485.75	9/11/06	12/19/05	107	
97.036	413	3,284.76	9/11/06	12/19/05	101	
97.036	420	2,338.89	9/28/06	12/19/05	76	
97.036	423	2,338.89	9/28/06	11/23/05	79	

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Finding No.: 2006-01, Continued
 CFDA No.: 66.418, 97.036
 Grantor: U.S. Environmental Protection Agency, Department of Homeland Security/FEMA
 Program Name: Construction Grants for Wastewater Treatment Works, Public Assistance Grants
 Grant Award No.: C660001030
 Area: Cash Management
 Questioned Costs: \$0

Condition, Continued:

FEMA – Public Assistance Grants					
<u>CFDA No.</u>	<u>Project Worksheet No.</u>	<u>Grant Award</u>	<u>Check Clearance Date</u>	<u>Award Receipt Date</u>	<u>Interest Amount</u>
97.036	464	13,264.50	5/25/06	12/19/05	280
97.036	501	4,711.83	9/12/06	11/23/05	150
97.036	512	5,147.59	11/6/06	12/19/05	191
97.036	517	521.10	9/12/06	11/23/05	17
97.036	519	6,452.38	9/19/06	11/23/05	211
97.036	580	978.05	9/28/06	12/19/05	32
97.036	597	2,451.24	8/4/06	12/19/05	64
97.036	598	5,528.78	8/30/06	11/23/05	168
97.036	599	1,293.44	10/7/06	12/19/05	44
Total					<u>\$ 2,477</u>

- 2) Cash management calculations could not be performed due to a lack of supporting documentation, such as cash receipts and bank validated deposit slips for the following:

FEMA – Public Assistance Grants		
<u>CFDA No.</u>	<u>Project Worksheet No.</u>	<u>Grant Award</u>
97.036	45	\$ 800
97.036	48	8,046
97.036	55	1,853
97.036	56	664
97.036	119	1,635
97.036	141	1,149
97.036	170	8,911
97.036	173	1,900
97.036	201	1,847
97.036	219	1,136
97.036	227	3,018
97.036	292	510
97.036	294	953
97.036	352	4,238

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Finding No.: 2006-01, Continued
 CFDA No.: 66.418, 97.036
 Grantor: U.S. Environmental Protection Agency, Department of Homeland Security/FEMA
 Program Name: Construction Grants for Wastewater Treatment Works, Public Assistance Grants
 Grant Award No.: C660001030
 Area: Cash Management
 Questioned Costs: \$0

Condition, Continued:

FEMA – Public Assistance Grants		
<u>CFDA No.</u>	<u>Project Worksheet No.</u>	<u>Grant Award</u>
97.036	355	2,012
97.036	367	625
97.036	410	15,511
97.036	412	4,949
97.036	498	7,017
97.036	503	5,817
97.036	504	8,484
97.036	520	11,743
97.036	543	15,319
97.036	545	10,900
97.036	590	15,679
97.036	639	7,923
97.036	665	2,057
97.036	683	2,339
97.036	715	2,433
97.036	717	2,200
97.036	722	18,451
97.036	747	2,048
97.036	753	960
97.036	863	1,643
97.036	866	3,285
97.036	867	1,643
97.036	347	580
97.036	705	<u>12,378</u>
		\$ <u>192,656</u>

Cause:

The underlying cause appears to be a combination of a lack of internal controls to ensure that grant awards are disbursed within three days of receipt. There also appear to be lack of proper safekeeping of supporting documents.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2006

Finding No.: 2006-01, Continued
CFDA No.: 66.418, 97.036
Grantor: U.S. Environmental Protection Agency, Department of Homeland Security/FEMA
Program Name: Construction Grants for Wastewater Treatment Works, Public Assistance Grants
Grant Award No.: C660001030
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 this matter as the projected interest expense is less than 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. Management should retain records in file in accordance with the Common rule.

Auditee Response:

GWA concurs with this finding.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2006

Finding No: 2006-02
CFDA No.: 97.036
Grantor: Department of Homeland Security/FEMA
Program Name: Public Assistance Grants
Area: Procurement
Questioned Costs: \$330,931

Criteria:

In accordance with applicable procurement requirements, the grantee will maintain records sufficient to detail the significant history of a procurement. These records will include a rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

Condition:

No procurement documents were provided for the following transactions:

<u>PW No.</u>	<u>P.O #</u>	<u>Invoice #</u>	<u>Expenditures Amount</u>
45	261405	100305	\$ 7,589
54	270717	32706-3	16,000
55	261418	092806	16,999
56	261694	11106-5	4,263
114	270628	51006-2	5,000
119	261446	93005-11	7,458
141	261411	112905	6,550
170	270851	1	4,485
201	270188	112905	4,719
219	261412	112905	10,616
292	261448	93005-7	3,338
294	261414	100305	9,032
352	261696	11106-6	5,263
355	261697	11106-1	11,250
362	270768	1093	9,630
410	271636	609	7,839
412	261422	112905	9,829
464	270759	1089	990
498	270602	52206-1	9,000
501	270915	1	8,950
503	270913	1	14,125
517	270914	1	10,350
520	271044	61606-3	9,500
543	270754	1096	8,190
545	270753	1095	3,946
580	270826	51006-4	6,000
590	271494	91206-4	13,480
598	270896	51706-5	11,000
599	271479	072406	11,300

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2006

Finding No: 2006-02, Continued
CFDA No.: 97.036
Grantor: Department of Homeland Security/FEMA
Program Name: Public Assistance Grants
Area: Procurement
Questioned Costs: \$330,931

Condition, Continued:

<u>PW No.</u>	<u>P.O #</u>	<u>Invoice #</u>	<u>Expenditures Amount</u>
639	271045	61606-2	7,000
665	271408	61606-6	8,375
683	270605	51706-1	5,000
722	270716	020706	6,150
747	271682	92106-4	8,300
863	261578	011006-1	14,999
866	261426	020206	3,678
867	261567	011006-2	14,999
347	261695	11106-3	6,325
705	270434	5085	<u>9,414</u>
		Total	\$ <u>330,931</u>

Cause:

The Authority did not appear to follow established procurement regulations.

Effect:

The Authority is in noncompliance with applicable procurement requirements. A questioned cost of \$330,931 exists.

Recommendation:

The Authority's management should follow established procurement regulations. Prior to preparing a purchase order or contract, the responsible personnel should ensure the rationale for selecting each vendor is documented in accordance with applicable procurement regulations.

Auditee Response:

GWA concurs with this finding. The Authority's Chief Financial Officer is pursuing with management the need to consolidate the procurement function into a single division and to hire a qualified procurement manager to be the head of the division.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2006

Finding No: 2006-03
CFDA No.: 66.418
Grantor: U.S. Environmental Protection Agency
Program Name: Construction Grants for Wastewater Treatment Works
Grant Award No.: C660001030
Area: Reporting
Questioned Costs: \$0

Criteria:

In accordance with applicable federal financial reporting requirements, financial data should be accurately reported on federal financial reports.

Condition:

The accumulated total federal share of outlays reported in the SF-269 does not reconcile with cash receipts recorded by the Authority.

Total Federal Share per SF 269	\$ 2,590,793
Total Entity recorded receipts	<u>2,369,254</u>
Variance	\$ <u>221,539</u>

Cause:

There appears to be weak internal record keeping controls and weak internal controls over ensuring that required federal financial reports are submitted and reconciled with underlying accounting records.

Effect:

The Authority may be in noncompliance with applicable federal financial reporting requirements.

Recommendation:

The Authority should strengthen internal record keeping controls and should submit all required federal financial reports. Prior to submission, the responsible personnel should reconcile reported amounts with balances recorded by the Authority. Any discrepancies should be immediately investigated and resolved. The Authority should determine whether the above report should be amended.

Auditee Response:

GWA's finance department is taking over the reporting function of completing the 269 reports in order to ensure that the data provided in the reports ties to the financial system.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Finding Number 2006-04 - Procurement Documentation

Criteria:

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

Condition:

- 1) Three (3) of thirty-three (33) purchase orders tested were awarded on the basis of a blanket purchase agreement. Based on blanket purchase procurement regulations, the entity shall solicit an adequate number of vendors. However, based on the procurement package, the Authority solicited and awarded to just one vendor.

<u>P.O. Number</u>	<u>Amount</u>
270413	\$ 14,900
270529	\$ 14,900
271520	\$ 14,900

- 2) The following small purchase orders did not have supporting documents, such as price quotations, to indicate that requests for quotations were provided from other vendors.

<u>P.O. Number</u>	<u>Amount</u>
270006	\$ 5,400
270701	\$ 14,985
271114	\$ 14,956
271410	\$ 14,980
271614	\$ 14,980
270030	\$ 14,999

- 3) The following purchase orders did not indicate if sole source approval by the General Manager occurred.

<u>P.O. Number</u>	<u>Amount</u>
270088	\$ 12,100
270086	\$ 144,725
270196	\$ 17,816

- 4) The latest price quotations from different vendors were not obtained.

<u>P.O. Number</u>	<u>Amount</u>
270271	\$ 14,999

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Finding Number 2006-04 - Procurement Documentation, Continued

Condition, Continued

5) Procurement documents could not be located in the file.

<u>P.O. Number</u>	<u>Amount</u>
270111	\$ 14,995
271864	\$ 14,999

6) There is no newspaper publication for RFP 2006-01 in file.

Cause:

It appears the Authority's documentation did not meet the procurement regulation requirements.

Effect:

The effect of this condition is possible noncompliance with the criteria.

Recommendation:

The Authority should ensure that procurement is executed in accordance with applicable laws and regulations.

Auditee Response:

GWA concurs with these findings.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Finding Number 2006-05 - Safekeeping of Documents

Criteria:

Approved timesheets should be kept on file to document hours paid.

Condition:

Two (2) of thirty-six (36) employees tested did not have timesheets on file to support hours paid and supervisory approval. Subsequently, after our request, the entity provided timesheets to department heads to obtain the necessary approvals.

<u>Employee #</u>	<u>PPE</u>
166	09/02/06
634	09/16/06

Cause:

There appears to be lack of internal control over safekeeping of timesheets, with approval by department head, to document hours worked by employees.

Effect:

The propriety of the number of hours worked and the underlying account balances may be questioned.

Recommendation:

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

Auditee Response:

GWA concurs with this finding.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Finding Number 2006-06 - 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 or 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:

GWA concurs with this finding. GWA will issue a Request For Proposals within the next six months for a Federal Grants Administrator. GWA will utilize this contract to build federal grants management capability within the Authority. A position to perform the Federal Grants Administration function will be included in the Fiscal Year 2008 budget.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Finding Number 2006-07 - 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 check 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 or 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 and should continue its efforts to avail itself of services of the Guam Power Authority internal audit department.

Auditee Response:

GWA concurs with the finding. GWA will either hire an internal auditor or a consolidated internal auditor will be hired. This matter will be included in GWA's Fiscal Year 2008 budget.

GUAM WATERWORKS AUTHORITY

**Resolution of Prior Year Findings and Questioned Costs
Year Ended September 30, 2006**

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

Questioned Costs per the September 30, 2005 audit report	\$ 115,000
Questioned Costs per the September 30, 2006 audit report	<u>330,931</u>
Total unresolved questioned costs as of September 30, 2006	\$ <u>445,931</u>