

May 17, 2007

Consolidated Commission on Utilities:

In planning and performing our audit of the financial statements Guam Waterworks Authority (the Authority) for the year ended September 30, 2006, on which we have issued our report dated May 17, 2007, we developed the following recommendations concerning matters related to its internal control. Our recommendations are summarized below:

Finding Number 1 – Daily Posting of Payment Coupons Collected

Criteria:

Payment coupons collected for the day should be posted to the general ledger the following day.

Condition:

For ten of seventy two (14%) revenue items tested, the daily payment coupons collected are not posted to the general ledger on the following day.

Cause:

The delay in posting of the daily payment coupons by 4 or more days is represented to be due to a shortage of personnel.

Effect:

Payment coupons collected at the end of the fiscal year may not be recorded in the proper period, resulting in potential misstatements of certain account balances. Cash can be understated and receivables overstated as a result of the above condition.

Recommendation:

The Authority should ensure that payment coupons collected during the day are posted the following day to ensure proper recording and cutoff.

Finding Number 2 – Terminated Account

Criteria:

Pursuant to the provisions of Guam Waterworks Authority's Rules and Regulations of Water and Sewer Services, closed accounts shall be subject to discontinuation of charges.

Finding Number 2 – Terminated Account, Continued

Condition:

Of seventy-two revenue accounts reviewed, one account closed more than six months ago by the customer was still classified as “active” and was incurring additional charges. The account should have been disconnected per Guam Waterworks Authority’s disconnection policies.

Cause:

Guam Waterworks Authority represents that due to the lack of customer service personnel, the service order was not completed on time.

Effect:

The collectibility of accounts receivable could be questionable due to outstanding active accounts that should be classified as inactive.

Recommendation:

The Authority should ensure the closed accounts are disconnected in accordance with applicable policies and procedures.

Finding Number 3 – Disbursement of Checks

Criteria:

Disbursement greater than \$10,000 must have two authorized signatories.

Condition:

One of 46 items tested (ck. #35780) was signed by only one authorized signatory.

Cause:

It appears the Authority did not comply with the specific requirement for disbursements greater than \$10,000. The bank also apparently overlooked this requirement.

Effect:

While the condition may not have direct financial statement impact, the possibility of unapproved disbursements could result.

Recommendation:

The Authority should enforce its controls that ensure that transactions are approved in accordance with existing policy.

Finding Number 4 – Non-registering Meter

Criteria:

Non-registering meters should be changed out to reflect actual readings.

Condition:

In one of seventy-two instances tested, the meter did not register the consumption of water.

Cause:

The Authority's personnel are apparently overwhelmed with investigating a large number of exceptions.

Effect:

Revenue may be misstated due to the absence of changing out non-registering meters. Non-registering meters left unidentified/unresolved will result in unbilled consumption and will increase water loss.

Recommendation:

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 is in the process of addressing the concern of defective, non-registering meters, which are most likely causing a substantial percentage of abnormal readings.

Finding Number 5 – Vacation Accrual Hours

Criteria:

According to Public Law 28-68, Section 112, Subsection (a) of 4109 of Title 4 GCA, effective October 2005: Employees with five years of service but less than 15 years of service will be entitled to accrue 6 hours for each biweekly pay period, and employees with fifteen or more years of service will be entitled to accrue 8 hours for each full biweekly pay period.

Condition:

One of thirty-six employees tested did not accrue vacation hours based on the number of years in service for the following pay period:

<u>Employee #</u>	<u>DOH</u>	<u>PPE</u>	<u>No. of Years in Service</u>
674	11/27/90	03/04/06	15

Cause:

The condition above was due to a lack of personnel and internal controls to ensure the accuracy of payroll information.

Finding Number 5 – Vacation Accrual Hours, Continued

Effect:

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

Recommendation:

Vacation accruals should be subject to periodic internal checks.

Finding Number 6 – Inactive Account

Criteria:

Customer accounts that have been outstanding for more than six months are either terminated or placed in the inactive accounts and meters are disconnected.

Condition:

We noted that meter #36627217 was classified as inactive due to nonpayment. However, the meter number was activated under a new customer account.

Cause:

Customer service did not verify whether the meter number had an outstanding balance prior to activation. Thus, the application was processed and the water meter number was activated.

Effect:

There is a possibility that the outstanding balance from the inactive account will not be collected.

Recommendation:

The Authority should ensure that customers applying for water service are cross checked with the inactive account listing prior to approving and reactivating the water meter.

Finding Number 7 – Allowance for Inventory Obsolescence

Criteria:

The Authority provides a certain percentage for the allowance for inventory obsolescence.

Condition:

The Authority could not provide the basis of its estimation of the inventory allowance as of September 30, 2006.

Finding Number 7 – Allowance for Inventory Obsolescence, Continued

Cause:

There appears to be lack of internal control to ensure that the allowance for obsolete inventories is documented.

Effect:

Inventory may be inappropriately reserved for.

Recommendation:

The Authority should document the basis for its obsolescence reserve.

Finding Number 8 – Percentage Completion of Construction in Progress

Criteria:

The Authority should document the status of all projects in progress or completed during the year.

Condition:

The Authority could not provide the percentage of completion of each project carried in construction in progress (CIP).

Cause:

The Authority did not document the percentage of completion of its CIP projects.

Effect:

There is no known effect on the financial statement. However, certain CIP projects may be completed and related depreciation may not be recorded.

Recommendation:

The Authority should ensure that the responsible department maintains and updates the percentage completion schedule of each CIP project on a timely basis.

Finding Number 9 – Exception in Meter Readings

Criteria:

Abnormal readings (those appearing on exception reports) should be verified by the Authority. Adjustments should be made and reflect applicable billings before delivery to customers.

Condition:

In four of seventy-two (5%) transactions tested, the estimated readings, which are based on a 6-month average billing, if available, or previous month's billing were not adjusted to reflect actual readings.

Finding Number 9 – Exception in Meter Readings, Continued

Cause:

Due to a lack of personnel, the Authority represents that it is overwhelmed with investigating and mitigating the number of exceptions reported.

Prior Year Status:

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

Effect:

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

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 are most likely causing a substantial percentage of abnormal readings.

Auditee Response

The problem will be rectified at the completion of the AMR project, which will be in March 2008. A temporary solution was in place by hiring a private contractor to do 100% of meter reading services.

Finding Number 10 – Active Outstanding Accounts

Criteria:

Customer accounts that have been outstanding for more than six months should be terminated.

Condition:

Of seventy-two revenue accounts reviewed, four were still classified as “active” and were incurring additional monthly charges. The accounts should have been disconnected per Guam Waterworks Authority disconnection policies.

Cause:

Guam Waterworks Authority has two crews that can perform disconnections and the Authority represents it can only disconnect 10-15 accounts per day. Therefore, a possible lack of manpower to perform disconnects may exist.

Effect:

Due to lack of enforcement of collection of outstanding water charges billed to customers, the collectibility of account receivable balances may become questionable.

Finding Number 10 – Active Outstanding Accounts, Continued

Recommendation:

The Authority should ensure that customer accounts with balances outstanding for more than six months are disconnected in accordance with applicable policies and procedures.

Auditee Response

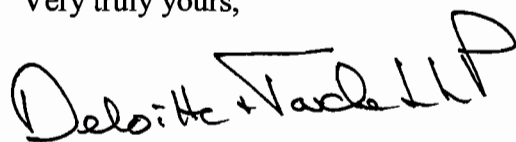
A qualified customer service supervisor was put in place to manage the entire customer service operations.

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This report is intended solely for the information and use of the Consolidated Commission on Utilities, the management of Guam Waterworks Authority and the Office of the Public Auditor of Guam.

We wish to express our appreciation for the cooperation of the staff and management of GWA during the course of our audit. We would be available to discuss any questions that you may have concerning the above comments at your convenience.

Very truly yours,

A handwritten signature in black ink, appearing to read "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.