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Consolidated Commission on Utilities:

In planning and performing our audit of the financial statements Guam Waterworks Authority (GWA) for the year ended September 30, 2005, on which we have issued our report dated April 13, 2006, we developed the following recommendations concerning matters related to its internal control. Our recommendations are summarized below:

Finding Number 1 – Inventory Physical Count

Criteria:

Inventory quantities actually counted during the physical count should reflect the same quantities in the final inventory listing.

Condition:

Certain inventory quantities recorded at the time of the physical inventory did not agree to quantities on the final inventory listing as follow:

<u>Product Description</u>	<u>Book</u>	<u>Deloitte</u>	<u>Variance</u>		<u>Unit Cost</u>		<u>Total Variance</u>
Galvanized Nipple 3/4" x 6"	825	827	(2)	\$	0.55	\$	(1)
Gate Valve MJ 6"	41	46	(5)		450.00		(2,250)
D.B Full Circle Clamp	288	410	(122)		495.00		(60,390)
Expansion Connection	1761	1289	472		7.63		3,601
Water Meter 8"	22	11	11		6,747.00		74,217
Water Meter 2"	167	135	32		393.51		12,592
Manhole Cover & Frame	11	8	3		1,200.00		3,600
Fire Hydrant	107	112	(5)		1,000.00		(5,000)
Galvanized Pipe 5" x 21"	245	252	(7)		171.60		(1,201)
						\$	<u>25,168</u>

Cause:

During the input phase, inventory in the physical count sheets may not have been reviewed and verified against the final inventory listing.

Effect:

Inventory was immaterially misstated. However, management adjusted the above when such was brought to their attention.

Finding Number 1 – Inventory Physical Count, Continued

Recommendation:

We recommend that more thorough review procedures be implemented to ensure all count sheets are reviewed in accordance with management's instructions. Such procedures would include reviewers initialing count sheets to indicate they are checked and another supervisor randomly inspecting count sheets to ascertain that the review process has been completed.

Finding Number 2 – Monthly Bank Reconciliation

Criteria:

Monthly bank reconciliations should be performed in a timely manner.

Condition:

Bank account #060101414 is not reconciled on a monthly basis which resulted in unlocated difference of \$3,059.

Cause:

There appears to be lack of monitoring to ensure bank accounts are reconciled monthly.

Effect:

No known material effect results from this condition. However, cash shortages and overages may not be identified in a timely manner. Furthermore, the control procedure of reconciling bank statements regularly is rendered ineffective.

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 delegate a responsible staff to ensure bank accounts are reconciled timely.

Finding Number 3 – Deposits In Transit

Criteria:

Deposits in transit should clear the bank the day following the deposit.

Condition:

Certain deposits in transit amounting to \$210 have not cleared the bank account #7008003313 in more than six months.

Finding Number 3 – Deposits In Transits, Continued

Cause:

There appears to be lack of monitoring to ensure daily deposits have cleared the bank the following day.

Effect:

The cash account is understated.

Recommendation:

The Authority should follow up on reconciling items with the bank statement to ensure clearance from the bank reconciliation.

Finding Number 4 – Terminated Account

Criteria:

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

Condition:

Of seventy-six revenue accounts reviewed, one was still classified as "active" while terminated and was incurring additional monthly charges. The account should have been disconnected per GWA's disconnection policies.

Cause:

Guam Waterworks Authority represents that it does not have the manpower on both the customer service side to track the account and on the operations side to remove or have the knowledge of the exact location of the meter to disconnect the terminated account.

Effect:

Service continues to be provided to non-paying customers.

Recommendation:

The Authority should ensure that terminated accounts are disconnected in accordance with applicable policies and procedures.

Finding Number 5 – 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 seven of seventy six (9%) revenue items tested, the daily payment coupons collected were not posted to the general ledger the following day.

Cause:

The delay in posting of the daily payment coupons is due to shortage in personnel.

Effect:

No known material effect on the financial statements results from this condition. However, payment coupons collected at the end of the month may not be recorded in the proper period.

Recommendation:

The Authority should ensure that payment coupons are recorded the day after collection.

Finding Number 6 – Discrepancy between the Subledger and General Ledger Account

Criteria:

The total amount of the subledger account should reconcile with the general ledger.

Condition:

The general ledger balance of accounts payable exceeds the subledger by \$174,668. The difference has yet to be fully reconciled.

Cause:

There appears to be lack of recordkeeping to reconcile the difference.

Effect:

Accounts payable may be immaterially misstated.

Recommendation:

The Authority should strengthen its recordkeeping to ensure that general ledger accounts are reconciled monthly with subsidiary ledgers.

Finding Number 7 – Minutes of the Consolidated Commission on Utilities (CCU) Meetings

Criteria:

Minutes of the CCU meetings should be promptly transcribed and readily available for review.

Condition:

Minutes of the following CCU meetings were not transcribed and available for our review:

- December 23, 2004
- January 18, 2005
- February 21, 2005
- March 8, 2005
- July 6, 2005
- August 2, 2005
- December 21, 2005

Cause:

The minutes were not transcribed on a timely manner.

Effect:

No known material effect on the financial statements results from this condition. However, matters discussed during the meetings could not easily be referred to.

Recommendation:

The Authority should assign responsible personnel to ensure that minutes are properly transcribed and readily available.

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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,

