

GUAM WATERWORKS AUTHORITY

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

SEPTEMBER 30, 2002



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED UPON THE AUDIT PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Guam Waterworks Authority:

We have audited the financial statements of the Guam Waterworks Authority (the Authority) as of and for the year ended September 30, 2002, and have issued our report thereon dated September 17, 2003. 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.

Compliance

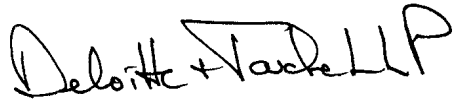
As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on 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*.

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 assurance 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 operations 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. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as item numbers 2002-03 through 2002-24.

A material weakness is a 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 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 none of the reportable conditions described above is a material weakness.

This report is intended for the information of the management and the Board of Directors of the Guam Waterworks Authority, 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.

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September 17, 2003



**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**

Board of Directors
Guam Waterworks Authority:

Compliance

We have audited the compliance of the Guam Waterworks Authority (the GWA) 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, 2002. The GWA'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 GWA'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 GWA'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 GWA's compliance with those requirements.

As described in items 2002-01 and 2002-02 in the accompanying Schedule of Findings and Questioned Costs, the GWA did not comply with requirements regarding procurement and equipment management that are applicable to its Environmental Protection Agency (66.418) and Department of the Interior (15.875) programs. Compliance with such requirements is necessary, in our opinion, for the GWA to comply with requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the GWA 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, 2002.

Internal Control Over Compliance

The management of GWA 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 GWA'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.

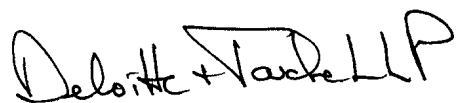
We noted matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the GWA's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. The reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2002-01 and 2002-02.

A material weakness is a 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 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, 2002, and have issued our report thereon dated September 17, 2003. Our audit was performed for the purpose of forming an opinion on the 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 financial statements. This schedule is the responsibility of the management of the GWA. 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 financial statements taken as a whole.

This report is intended for the information of the Board of Directors and management of GWA, 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.

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September 17, 2003

GUAM WATERWORKS AUTHORITY

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2002

CFDA #	Federal Grantor/Program Title	Accrued (Deferred)		Cash Receipts	Accrued (Deferred)
		Balance at September 30, 2001	Expenditures		Balance at September 30, 2002
15.875	U.S. Department of the Interior:				
	Vehicle & Equipment	\$ -	\$ 140,156	\$ 140,156	\$ -
	Waterline Yigo Tract 10432 & 10433	-	91,852	91,852	-
	Waterline Extension Misc Mat	-	10,800	10,800	-
	Waterline Extension FY2000	-	78,000	78,000	-
	Waterline Yigo Tract 10432 & 10433	-	30,500	30,500	-
	Waterline Yigo Tract 10432 & 10433	-	149,600	149,600	-
	Waterline Ext \$750k	-	149,848	-	(149,848)
	Trencher and Trailer	-	129,776	-	(129,776)
	Total U.S. Department of the Interior	-	780,532	500,908	(279,624)
66.418	U.S. Environmental Protection Agency:				
	USEPA No 35 - Chaot PS	-	40,908	40,908	-
	USEPA No 36 - Chaot PS	-	17,761	17,761	-
	USEPA No 40 - Chaot PS	-	8,384	8,384	-
	USEPA No 39 - Chaot PS	-	27,608	27,608	-
	USEPA No 38 - Chaot PS	-	3,894	3,894	-
	USEPA No 37 - Chaot PS	-	17,761	17,761	-
	USEPA No 27 - Commercial Port	-	214,667	214,667	-
	USEPA No 28 - Commercial Port	-	7,000	7,000	-
	USEPA No 29 - Commercial Port	-	18,136	18,136	-
	USEPA No 30 - Commercial Port	-	23,056	23,056	-
	Total U.S. Environmental Protection Agency	-	379,175	379,175	-
83.544	Federal Emergency Management Agency				
	Typhoon Chataan - Payroll Accrued Receivable	-	55,940	-	(55,940)
	Typhoon Chataan - Payroll Reimbursement	-	13,633	-	(13,633)
	Typhoon Chataan - Payroll Reimbursement	-	4,402	-	(4,402)
	Typhoon Chataan - Payroll Reimbursement	-	7,553	-	(7,553)
	Typhoon Chataan - Payroll Reimbursement	-	153,265	200,000	46,735
	Typhoon Chataan - Payroll Reimbursement	-	280,733	300,000	19,267
	Typhoon Omar	(60,000)	-	60,000	-
	Typhoon Omar	(502,985)	-	502,985	-
	Typhoon Omar	(425,772)	-	425,772	-
	Earthquake	(18,794)	-	18,794	-
	Total Federal Emergency Management Agency	(1,007,551)	515,526	1,507,551	(15,526)
	Total Federal Assistance	\$ (1,007,551)	\$ 1,675,233	\$ 2,387,634	\$ (295,150)

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, 2002

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 are 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, none of which are 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>
Environmental Protection Agency	66.418
Department of the Interior	15.875

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>	<u>Questioned Costs</u>
2002-03	Supporting Documents	\$ -
2002-04	Processing Account Closures	\$ -
2002-05	Disconnection Policies	\$ -
2002-06	Policies and Procedures, Systems Control Over New Accounts	\$ -
2002-07	Inventory	\$ -
2002-08	Property, Plant and Equipment: Subsidiary Ledger	\$ -
2002-09	Petty Cash	\$ -
2002-10	Guarantee Deposit Cash	\$ -
2002-11	Exceptions in Meter Readings	\$ -
2002-12	Water Revenue	\$ -
2002-13	Revenues – Water Production vs. Consumption	\$ -
2002-14	Project Costs - Equipment Rental	\$ -
2002-15	Internal Audit Department	\$ -

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2002

Part II - Financial Statement Findings Section, Continued

<u>Reference Number</u>	<u>Finding</u>	<u>Questioned Costs</u>
2002-16	Overtime	\$ -
2002-17	Construction Contract Management and Accounting	\$ -
2002-18	Fixed Assets Existence	\$ -
2002-19	Lost Cash Deposits	\$ -
2002-20	Promissory Notes	\$ -
2002-21	Accounts Payable Reconciliations	\$ -
2002-22	Fixed Assets: Capitalization Policy	\$ -
2002-23	Recovered Revenue	\$ -
2002-24	Fixed Assets Maintenance	\$ -

Part III - Federal Award Findings and Questioned Cost Section

<u>Reference Number</u>	<u>CFDA Number</u>	<u>Finding</u>	<u>Questioned Costs</u>
2002-01	66.418	Procurement	\$ -
2002-02	15.875	Equipment Management	\$ -

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

U.S. Environmental Protection Agency – CFDA #66.418

Finding Number 2002-1 - Procurement

Criteria:

Management should ensure that procurement files related to Federal monies are safeguarded throughout the duration of the project and for a specified period thereafter in accordance with federal requirements.

Condition:

GWA is unable to provide procurement documentation substantiating two ongoing projects funded by EPA.

Cause:

The underlying cause appears to be that these projects began between five and ten years ago and no formal retention policy was in place to keep the procurement files on hand.

Effect:

No known material effect on the financial statements results from this finding.

Recommendation:

Management should maintain procurement files for the duration of the particular project in accordance with federal requirements.

Auditee Response and Corrective Action Plan:

See auditee response and corrective action plan under Finding Number 2002-07.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

U.S. Department of the Interior– CFDA #15.875

Finding Number 2002-02 – Equipment Management

Criteria:

Management should assign responsibilities to an individual with the requisite knowledge of property maintenance to ensure physical inventories are performed in accordance with federal requirements.

Condition:

Management has not complied with requirements to perform biennial physical inventories of equipment purchased with Federal monies and does not maintain separate listings of these items.

Cause:

The underlying cause appears to be due to lack of knowledgeable individuals to perform these tasks.

Effect:

No known material effect on the financial statements results from this finding.

Recommendation:

Management should assign a knowledgeable individual to the task of maintaining equipment listings and require periodic inventory counts of equipment.

Auditee Response and Corrective Action Plan:

See auditee response and corrective action plan under Finding Number 2002-18.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding Number 2002-3 - Supporting Documents

Criteria:

Effort should be made to ensure the proper safekeeping of supporting documents for transactions.

Condition:

Complete documentation, i.e., invoices, purchase orders, certificate of payment, and/or statements of work, in support of the following expenditures could not be provided for examination.

A: Expenditures (Invoice, Check Copy, etc.)

	<u>Batch/Doc. Number</u>	<u>Description</u>	<u>Amount</u>
1	Giant	Contractors Payable	\$17,496
2	Giant	Contractors Payable	\$10,150
3	Maeda	Contractors Payable	\$28,800

B: Payroll (Timesheets, Trouble Reports to support OT):

	<u>Employee No.</u>	<u>Description</u>	<u>Department</u>
1	63	OT support for PPE 05/18/02	Transmission & Distribution

Cause:

There appears to be lack of internal control over safekeeping of accounting documents.

Effect:

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

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 ensure proper safekeeping of supporting documents.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding Number 2002-3 - Supporting Documents, Continued

Auditee Response and Corrective Action Plan:

- A. The filing system in the Accounts Payable Section has been changed to account for invoice payments by vendor. Additionally, the responsibility of record keeping is now distributed to each Accounts Payable staff by alphabetized filing to ensure better accountability. Old files that have been subjected to audit have been segregated and are filed away in a 40 foot container within the Authority's office grounds.

- B. This particular timesheet is from a pay period during Typhoon Chata'an. Due to the chaotic environment during this period, the business unit manager's effort was shifted to operations with less care attributed to administrative activities. By directive of the General Manager, all timesheets will be filed by the respective business unit time keeper and subject to review by management. A warning of reprimand will be issued if such procedure is not followed.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding Number 2002-4 - Processing Account Closures

Criteria:

The Guam Waterworks Authority should process the termination of customer water/sewer service in a timely manner.

Condition:

During subsequent receipts testing, we noted that the following account was closed as of October 2001. However, the closure was not processed until August 2003. The account continued to accumulate charges during that period.

<u>Account #</u>	<u>Amount Outstanding (\$)</u>
W9523968	\$23,702

Cause:

There appears to be a lack of manpower to process customer transactions. Further, there appears to be lack of supervisory review to ensure all transactions are properly processed.

Effect:

The continual charges on a closed account will inflate revenues. Moreover, the propriety of underlying accounting balances, and cut-off may be questioned.

Recommendation:

GWA should ensure that all customer transactions are processed in a timely manner.

Auditee Response and Corrective Action Plan:

Effective the start of FY2004, GWA took over the meter reading management from the power utility. New procedures have since been in place to include maintaining a log book to monitor Service Orders received, to ensure that better follow up procedures occur.

Additionally, the Customer Service Section has been restructured to include supervision of both Meter Reading management and RPU Section to ensure that the activities under these sections are synchronized for better customer base management.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding No. 2002-5 - Disconnection Policies

Criteria:

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

Condition:

Among four promissory accounts tested for adherence to terms of agreement, all four had become delinquent and as of September 30, 2002 had not been disconnected.

Among fifty-nine accounts reviewed for revenue testing, DTT noted that two accounts had been incurring additional charges on delinquent accounts. Both accounts should have been disconnected per GWA's disconnection policies, but had not as of year-end.

Out of 11 non-paying customers tested, DTT noted none of the non-paying customers were disconnected. The following details non-paying customers who have not been disconnected:

<u>Account #</u>	<u>Outstanding Balance</u>
W9900935	\$21,278
W9528437	\$38,002
W0100741	\$14,012
W0001699	\$10,216
W9518072	\$ 3,362
W9901808	\$ 8,097
W9515320	\$12,396
W9905786	\$ 5,078
W9516623	\$ 9,918
W0002704	\$10,107
W9523855	\$ 6,287

Cause:

Guam Waterworks Authority represents that it does not have the manpower or know the exact location of the meter to disconnect non-paying customers.

Effect:

Due to not enforcing collection of outstanding water charges, the collectibility of accounts receivable balances is questionable.

Prior Year Status:

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

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding Number 2002-5 - Disconnection Policies, Continued

Recommendation:

GWA should implement their policies and procedures regarding disconnection of non-paying customers.

Auditee Response and Corrective Action Plan:

- 1) The elected Consolidated Commission on Utilities board members has directed the Agency's collection section to strictly implement the collection and disconnection policies and procedures. Board meetings held every other Tuesday have monitored collection and disconnection activities by making these activities a part of the board agenda. In addition, the EPA Stipulated Order has required the GWA to consider implementing measures such as discontinuing service for any customer that is more than 60 days behind in payments. In October 2003, GWA launched its island wide disconnection efforts strictly adhering to its current collection and disconnection policies as submitted to the EPA.
- 2) Revenue Protection Unit (RPU), the section that has responsibility over collection, has since been reorganized and has added 3 staffs to assist in the collection endeavor.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2002

Finding Number 2002-6 - Policies and Procedures, Systems Control Over New Accounts

Criteria:

The Guam Waterworks Authority should ensure that policies and procedures and systems control exists that prevent customers from opening another account (in the same physical location) whenever the original account outstanding balance is significant and remains outstanding.

Condition:

It appears the IBM/JD Edwards System does not prevent customers from applying for a new account even though the application for a new account is for an exact location where an outstanding balance exists. We further noted that disconnected customers with outstanding balances do request family members to open a new account in the same physical location.

Cause:

Due to a lack of manpower, there appears to be a deficiency in creating and implementing policies and procedures with regard to opening new accounts in the same physical location where a prior account with an existing outstanding balance remains unpaid.

Effect:

Due to lack of internal controls, policies and procedures, accounts receivable balances may not be collectible.

Prior Year Status:

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

Recommendation:

GWA should implement policies and procedures and computer system controls with regard to customers applying for a new account in the same physical location where a prior account with an outstanding balance already exists. Further, documents such as new renter's agreement, deed of sale, or other items should be reviewed to prevent family members from opening new accounts with the same location.

Auditee Response and Corrective Action Plan:

Effective the start of FY2004, GWA took over the meter reading management from the power utility. New procedures have since been in place to include control in the opening of new accounts with the same physical location. For instance, map of property location is now required to be documented on each new account application, obtaining Social Security numbers of applicants is now strictly enforced for matching purposes against any outstanding customer balances, closer scrutiny is now implemented in reviewing applicant's deed of sale or renter's agreement.

Additionally, the Customer Service Section has been restructured to include supervision of both Meter Reading management and RPU Section to ensure that the activities under these sections are synchronized for better customer base management.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding Number 2002-7 - Inventory

Criteria:

Receiving and issuance reports should be properly filed and safeguarded.

Condition:

Subsequent to inventory counts, we requested items to support inventory movement. However, receiving and issuance reports could not be located.

Cause:

There appears to be lack of internal control over the safeguarding of documentation related to the recording of inventory received or issued.

Effect:

No known material effect on the financial statements results from this condition. However the underlying accounting balances may be questioned.

Recommendation:

GWA should ensure all documentation related to goods received or issued should be properly filed and safeguarded.

Auditee Response and Corrective Action Plan:

In an effort to centralize GWA staff, starting the FY 2004, the GWA's Procurement Section office has since been refurbished, with better record keeping space. In addition, a senior Administrative Assistant has been transferred into this Section who has responsibility over record keeping. Filing of Bid documents and Purchase Orders are now more structured, with separate filing cabinets for each fiscal year filed numerically. Old documents that have been subjected to audit are pulled out and filed away in a container within the GWA premises.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding Number 2002-8 - Property, Plant and Equipment: Subsidiary Ledger

Criteria:

Property, plant and equipment (PP&E) should be properly supported by an accurate subsidiary ledger. Information maintained should include the original cost and subsequent related improvements or betterments. Accurate related depreciation listings should also be maintained.

Condition:

During 2002, the Authority did not maintain accurate PP&E listings. We were provided a listing of fixed assets. However, items listed did not necessarily reflect fixed assets on hand. Moreover, the listing indicated an assignment of duplicate numbers to various assets.

Cause:

The cause of this condition is the shortage of knowledgeable personnel to whom the duties of recording capital purchases and maintaining PP&E listings could be assigned.

Effect:

The propriety of underlying accounting balances may be questioned. Furthermore, the control procedure of attempting to reconcile physical assets with accounting records 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:

Once accurate PP&E listings are established, the Authority should assign a qualified accountant to the duty of maintaining the listings, properly recording all capital purchases and calculating and recording depreciation expense.

Auditee Response and Corrective Action Plan:

The Fixed Assets Section has undergone a staff turnover more than what has been anticipated. GWA management has opened and advertised for an Accountant position specifically to direct the activities under this section. Selection process is anticipated to occur by the start of January 2004.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding Number 2002-9 – Petty Cash

Criteria:

Efforts to ensure the proper safekeeping of petty cash should exist. Petty cash should be available at all times for review.

Condition:

During our inventory of petty cash accounts, petty cash held by one custodian was not readily available for our review. We had to continually reschedule our inspection of funds.

Cause:

There appears to be lack of internal control over the safekeeping of petty cash funds.

Effect:

There is no known material effect on the financial statements. However, the propriety of underlying account balances may be questioned.

Recommendation:

While we were ultimately able to satisfy ourselves as to the existence of the balance of one cash custodian, in the amount of \$500, GWA should ensure proper safekeeping of petty cash and the related supporting documents. Periodic surprise counts should be performed in order to circumvent possible loss of uncontrolled funds.

Auditee Response and Corrective Action Plan:

Petty cash fund has since been replaced by the petty cash custodian. Surprise cash counts have been directed to occur to ensure proper cash accountability at all times.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding Number 2002-10 - Guarantee Deposit Cash

Criteria:

The cash account corresponding with the guarantee deposit liability should maintain an account balance that is reflective of the true liability of the Authority with respect to cash collected from customers as deposits.

Condition:

There appears to be a shortage of cash to fund normal operations of the Guam Waterworks Authority. In order to compensate for that, funds from the guaranteed deposits cash account has been transferred to fund operations.

Cause:

The cause of the cash shortage for operations is due to numerous receivable accounts that have become delinquent. This is further aggravated by the Authority's delinquency with vendors.

Effect:

The cash account was insufficient to cover the deposit liability at September 30, 2002 by \$533,662.

Recommendation:

GWA should ensure that the guarantee deposit cash account not be used to fund general operations.

Auditee Response and Corrective Action Plan:

The Guaranty Deposit amount has since been returned into the restricted fund. Reconciliation between the guaranty deposit account and the liability account is now required to occur on a regular basis.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2002

Finding Number 2002-11 - Exceptions in Meter Readings

Criteria:

Abnormal readings (those appearing on exception reports) should be verified by the Authority's Task Force. Adjustments made should be reflected on all applicable billings before delivery to customers.

Condition:

The Authority currently verifies only a small percentage of all exceptions.

Cause:

Meter readings are performed by a separate utility agency on behalf of the Authority. Therefore, the Authority has no control over ensuring that every effort is made to keep exceptions proportionally low in comparison to total meters read. As a result, the Authority's Task Force may be overwhelmed when faced with investigating the number of exceptions currently experienced.

Effect:

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

Prior Year Status:

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

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 most likely is responsible for a substantial percentage of abnormal readings.

Auditee Response and Corrective Action Plan:

- 1) Effective the start of FY2004, GWA took over the meter reading management from the power utility. In support of this change, the Authority's Customer Service Section has been restructured to include supervision of both Meter Reading management and RPU Section to ensure that the activities under these sections are synchronized for better customer base management.
- 2) In compliance with the EPA Stipulated Order to develop a Water Meter Improvement Program, a request for proposal for water meter management is in process to address, among other things, the concerns under this audit finding.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding Number 2002-12 – Water Revenue

Criteria:

Billing routes should be regularly rotated among the Authority’s Task Force to prevent the possibility of illegal acts by employees and customers (which could occur in the form of meter readers entering a lower reading into the computer in exchange for receiving money from the customer).

Condition:

Per our discussions with billing personnel, the Authority does not rotate billing routes among the four members of the Task Force. If one member is sick, on leave, absent from work or otherwise cannot take the readings, a different member will take readings for that route. However, this appears to be the only time that route rotation occurs.

Cause:

There is no explanation for the lack of rotation of billing routes.

Effect:

Revenue may be understated due to false readings being reported.

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 develop and implement a plan to rotate billing routes among Task Force members on a regular basis.

Auditee Response and Corrective Action Plan:

See auditee response and correction action plan under Finding Nos. 2002-06 and 11.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding Number 2002-13 - Revenues – Water Production vs. Consumption

Criteria:

Water losses should be properly monitored to identify weaknesses in the distribution system such as leaks, non-registering meters, theft and other unbilled consumption. A basic monitoring procedure is the comparison of water production vs. consumption, which should be performed on a regular basis using reliable data.

Condition:

No reliable data exists supporting production figures for FY00 or FY01; therefore, no meaningful comparisons between production and consumption can be made in the current year.

Cause:

The cause of this condition is unknown.

Effect:

Because no meaningful information can be produced, the Authority is not precisely aware of the extent of existing leaks, non-registering meters, theft and other unbilled consumption. Efforts to improve water distribution are hampered, and the amount of lost revenues cannot be quantified.

Prior Year Status:

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

Recommendation:

Accurate monthly water production records should be maintained. Comparisons of production vs. consumption using reliable information should be performed monthly.

Auditee Response and Corrective Action Plan:

See auditee response and correction action plan under Finding No. 2002-11 Item 2).

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding Number 2002-14 - Project Costs - Equipment Rental

Criteria:

The Authority undertakes numerous projects. Consequently, tracking project costs should be an essential function within the Authority. Accumulated costs should be maintained in a systematic way to allow for efficient analysis and reporting. Comparing expected costs against historical costs is intrinsic to the planning process and should occur for every project. Furthermore, purchase orders, and respective contracts with vendors should be limited to expected amounts.

Condition:

Equipment rental invoices usually report the project worked on, the type of equipment rented and a certain number of hours charged, usually per day. Management could not provide us with representation as to what was a reasonable amount of charges to expect for such billings, considering the type of project involved and the type of equipment rented. Also, per our review of the purchase order log, we noted several instances when consecutive PO's were issued to the same vendor, on the same date, for the same service and the same amount. Apparently, the procurement process is not being utilized in these instances to limit costs as much as possible.

Cause:

The cause of this condition is due to the lack of historical information providing expected costs, considering type of project and type of equipment. This is primarily due to the lack of use of the Project Cost Tracking module within the new IBM JDE system, which has the capability to provide such historical information. Project managers and those preparing requisitions cannot utilize any such information.

Effect:

Operating expenses, particularly equipment rental, may be uncontrolled. As such, the Authority may be paying for excessive charges and may be experiencing cost overruns. Future projects cannot be properly planned in terms of predicting and controlling costs.

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 immediately implement and fully utilize the Project Cost Tracking module for all projects. Members of accounting and engineering should do a field audit to ensure costs are reasonable. For instance, the actual number of hours per day a particular piece of equipment is utilized can be observed. That information can be conveyed to corroborate the reasonableness of amounts being paid.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding Number 2002-14 - Project Costs - Equipment Rental, Continued

Auditee Response and Corrective Action Plan:

These transactions are normally accounted for under a Work Order system. While the JDEdwards Financial Information System is equipped with the module to implement a work order system, there are no qualified and trained staff than can be assigned to implement this module.

The financial reporting compliance as called for under the EPA stipulated order will necessitate the immediate implementation of a Work Order System. As such, Management is currently making plans to activate the JDEdwards Work Order Module that simultaneously interfaces with the Fixed Assets Module and the Contract Management Module.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding Number 2002-15 - Internal Audit Department

Criteria:

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

Condition:

There is no existing Internal Audit Department. Hence, none of the above procedures are performed.

Cause:

The cause of this condition is unknown.

Effect:

With the lack of an Internal Audit Department, the Authority faces a greater risk of loss, potential misuse of assets and a potential misstatement of account balances. As a result, a weaker foundation underlies management's assertions about the amounts presented in the financial statements.

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 creation of an Internal Audit Department staffed by qualified professional accountants to perform the necessary duties mentioned above.

Auditee Response and Corrective Action Plan:

In compliance with the EPA Stipulated Order, a Chief Financial Officer (CFO) has been recently hired to oversee the both the GPA and GWA. As part of the CFO's endeavor to streamline staffing patterns under both utilities, certain duties and responsibilities are planned to be consolidated, to include the Internal Audit Section. GWA is currently identifying a qualified GWA staff to establish and perform check and review procedures to safeguard the Utility's assets and implement a system of internal control structure.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2002

Finding Number 2002-16 - Overtime

Criteria:

Overtime is a tool necessary for the Authority to adequately address emergencies, reporting deadlines, shortages in staff and similar problems. All overtime should be pre-approved by department heads, and overtime claimed by employees should be reviewed by the employees' supervisor for reasonableness and correctness. It should be management's policy to minimize overtime.

Condition:

- 1) We noted 9 instances when an error was made by paying employee overtime in excess of 16 hours on a weekday, as 8 regular hours plus 16 overtime hours equals 24 total hours in the day.
- 2) We noted 224 instances when overtime of between 10 to 16 hours was paid to employees on weekdays. It would appear unreasonable when considering the employee worked an additional 8 regular hours (totaling 18 or more hours) and would need time to drive to and from work and time to sleep. Several times, employees claimed apparently excessive overtime hours two days in a row, which forces the question of sleep and travel time.
- 3) We noted 183 instances when overtime of 24 hours or more was paid to employees on a single day. While all of these relate to manual time entry and a default date corresponding to pay period end date, management should minimize use of manual overrides of system controls.
- 4) An arbitrary amount of 30% was chosen as the threshold when considering excessiveness of total overtime paid and hours worked during the year compared to annual salary and hours. We noted 29 and 3 employees, respectively, who earned overtime in excess of this threshold.

Cause:

The cause of this condition is unknown.

Effect:

Without proper management control, excessive overtime results, some of which may not be legitimate, and some of which is legitimate but could be reduced or eliminated. Salaries and wages could be overstated by an undetermined amount.

Prior Year Status:

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

Recommendation:

Management should pre-approve all overtime. Overtime claimed by employees should be reviewed by the supervisor for reasonableness and correctness. Options to overtime should be explored, such as outsourcing the necessary manpower in times of emergency, report deadlines or staff shortages.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding Number 2002-16 – Overtime, Continued

Auditee Response and Corrective Action Plan:

The newly elected GWA Board of Commissioners approved a set of officers as certifying officers that have the prime responsibility of ensuring that funds are certified based on an approved budget. Consequently, all disbursements, including employee overtime, currently go through this process of certification before any fund disbursements are made. Total regular overtime (net of typhoon overtime) in FY2002 was approximately \$750,587 while FY2003 showed \$488,792 or a decrease of approximately 35%.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding Number 2002-17 - Construction Contract Management and Accounting

Criteria:

An accurate construction work in progress (CWIP) subsidiary ledger should be maintained through constant coordination between the engineering and accounting departments. The contract management system should be designed to provide for an accurate flow of significant information. At any point in time, the CWIP sub ledger total should agree with the amount in the general ledger.

Condition:

During 2002, the Authority did not maintain an accurate CWIP sub ledger. This condition was not resolved in a timely manner, thereby prolonging the audit. Moreover, CWIP projects that had been completed during the year and in fiscal years prior were still listed as CWIP, and not properly capitalized.

<u>Fiscal Year</u>	<u>Projects Total</u>
Prior to FY 02	\$ 3,662,341
FY02	<u>11,600,664</u>
Total	\$ <u>15,263,005</u>

Cause:

The cause of this condition is the lack of coordination between the engineering and accounting departments, compounded by the shortage of knowledgeable personnel to whom the duties of recording capital purchases and maintaining property, plant and equipment listings could be assigned.

Effect:

The propriety of underlying accounting balances may be questioned. Furthermore, the control procedure of attempting to reconcile ongoing and completed projects with accounting records is rendered ineffective.

Recommendation:

The Authority should define and implement a system of construction contract management involving both qualified and knowledgeable personnel from the engineering and accounting departments, with the objective being the accurate accounting for projects. In this regard, JDEdwards use should be maximized to limit human error and to optimize efficiency.

Auditee Response and Corrective Action Plan:

Effective the FY 2004, a periodic reconciliation between the CWIP ledger and Contract Management modules has been required. The General Accounting Supervisor is the designated officer to oversee such reconciliation.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding Number 2002-18 - Fixed Assets Existence

Criteria:

Fixed assets should be properly tagged and safeguarded against loss and not misused or neglected. The duty to ensure that this occurs should be assigned to a Fixed Asset Accountant, a person in charge solely of additions, issuances, receipts, and disposals of fixed assets. The impairment, loss or damage of fixed assets should be reflected on the books via write down entries.

Condition:

During physical existence tests, we reviewed nineteen (19) assets, with a total cost of \$1,625,171 and a net book value at September 30, 2002 of \$345,317. The following assets could not be traced from the subsidiary listing to the physical asset:

<u>Asset #</u>	<u>Description</u>	<u>Year</u>	<u>Bus Unit</u>	<u>Cost</u>	<u>NBV at 9/30/02</u>
32416	Meter Reading Device Telexon	1995	520	\$2,516	\$953
29882	Cradle Master Telexon	1995	520	\$1,421	\$538
98870	Pickup truck 2001	2000	520	\$14,623	\$9,505

Cause:

The Authority has no formal policy creating accountability for fixed assets.

Effect:

As a result of this condition, assets are susceptible to loss and or misuse. Because the lost, damaged or stolen assets must be replaced years before the end of their useful lives, cash outflow increases unnecessarily. The failure to write-down impaired assets to their fair market value or to increase depreciation when required will leave fixed assets overstated. The expense for non-capitalized tools & equipment increases, lowering net income.

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 establish, implement and monitor a firm policy over accountability for fixed assets and equipment purchases. A qualified, trained person should be appointed as fixed asset (plant) accountant, and should perform duties stated in the policy to ensure assets are safeguarded from loss and/or misuse.

Auditee Response and Corrective Action Plan:

While there exists policies over accountability that are currently in place, the lack of qualified, trained fixed assets accountant has prevented the Agency over ensuring adherence to such policies. The Fixed Assets Section has undergone a staff turnover more than what has been anticipated. GWA management has opened and advertised for an Accountant position specifically to direct the activities under this section. Selection process is anticipated to occur by the start of January 2004.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding Number 2002-19 – Lost Cash Deposits

Criteria:

Proper safeguarding of assets is necessary to circumvent possibility of theft.

Condition:

In March 2003, GWA suffered a loss of approximately \$107,000 due to burglary. Individual(s) broke into the GWA main office and stole cash collected from the day before. As many payments consisted of checks written specifically to the Authority, GWA was able to recover approximately \$71,000. The net loss due to this occurrence is approximately \$36,000.

Cause:

There appears to be lack of security system within the cashiers' area of the GWA main office.

Effect:

Lack of safeguarding of cash may lead to unnecessary loss to the Authority.

Recommendation:

GWA should ensure all payments received are deposited in a timely manner to avoid possible losses due to theft.

Auditee Response and Corrective Action Plan:

The Agency has since stepped up its control procedures in safeguarding its cash collections. A 5' x 4' safe is now being utilized with restricted access. A double custody is now strictly enforced. In addition, a security system camera to be installed within the Cashier Section is being considered for procurement as additional safeguard.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding Number 2002-20 – Promissory Notes

Criteria:

Promissory note account balances should accurately reflect customer activity.

Condition:

The promissory note account balance has increased by approximately \$628,000. In reviewing activity subsequent to September 30, 2002, we noted that the account balance indicates little to no payments on outstanding promissory notes. Upon further inquiry, we noted an inclusion of accounts other than promissory notes, which skews the total outstanding balance.

Cause:

There appears to be a lack of internal control over recording payments received for promissory notes as well as inputting non-promissory note balances within this account.

Effect:

Errors in posting payments will lead to an overstatement of receivables. Inclusion of non-promissory note balances will also overstate this receivable balance. Moreover, as payments may be received and not posted, there is the possibility of misallocation of monies received.

Recommendation:

GWA should ensure all payments received are accurately reflected within the respective customer activity detail.

Auditee Response and Corrective Action Plan:

The Promissory note account balances have since been reconciled. The collection and disconnection program as required under the EPA Stipulated Order is strictly enforced in so far as issuing deferred payment plan to qualified customers. For instance, a customer's failure to meet the agreed upon deferred plan shall not prevent GWA from the termination of water and sewer service.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding Number 2002-21 – Accounts Payable Reconciliations

Criteria:

Accounts payable balances should be regularly reconciled.

Condition:

In confirmation of payable balances, we received seven replies with variances. Management was not able to reconcile the variances. Moreover, the JDE Integrity report indicates numerous variances between the subsidiary ledgers and the general ledgers, with a net variance of approximately \$318,196, indicating the inability to regularly reconcile accounts payable balances.

Cause:

There appears to be a shortage of accounting manpower.

Effect:

No known material effect results from this condition. However, the underlying account balances may be questioned. Furthermore, the control procedure of reconciling individual accounts to the general ledger is rendered ineffective.

Recommendation:

The Authority should train and assign staff to properly reconcile accounts on a regular basis.

Auditee Response and Corrective Action Plan:

The Accounts Payable Section is not currently properly staffed. Management is looking into hiring an accountant to oversee this section.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding Number 2002-22 – Fixed Assets: Capitalization Policy

Criteria:

Additions to fixed assets must represent actual utility plant in service or general plant additions, and not parts and materials. The duty to ensure that this occurs should be assigned to a Fixed Asset Accountant, a person in charge solely of additions, issuances, receipts, and disposals of fixed assets. The impairment, loss or damage of fixed assets should be reflected on the books via write down entries.

Condition:

The following assets came to our attention as being more appropriately categorized as materials inventory, rather than fixed assets:

Account Name	Item Description	No. of Items	\$ Amount
Wells & Springs SSPP	4 x 21 galvanized pipe	400	62,000.00
Wells & Springs SSPP	5 x 21 galvanized pipe	590	66,080.00
Services TD	PVC pipe 2"	5,000	78,000.00
Services TD	Gate valve, 2"	4	154.00
Services TD	2" gate valve nibco bronze	135	7,290.00
Services TD	¾" gate valve nibco bronze	157	2,590.00
Services TD	Oatey PVC cement glue	200	2,200.00
Services TD	Oatey PVC primer	200	1,750.00
Services TD	2" PVC coupling	1,000	3,500.00
Meters & Installation TD	5/8" x ¾" sensus water meter	2,000	113,500.00
Meters & Installation TD	1" sensus water meter	100	13,150.00
Meters & Installation TD	Sensus measuring chamber 3"	10	147.50
Meters & Installation TD	Sensus measuring chamber 4"	10	7,950.00
Meters & Installation TD	Sensus measuring chamber 6"	10	11,100.00

Moreover, we noted during inventory count and observation that many of these items were included on the inventory listing and may have been counted twice. These matters were brought to the attention of management during the audit process and corrections occurred at that time.

Cause:

The Authority has no formal policy creating accountability for fixed assets.

Effect:

As a result of this condition, assets may be overstated. Moreover, with the double counting of items as both inventory and fixed assets, there is the likelihood that other account balances will be questionable.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding Number 2002-22 – Fixed Assets: Capitalization Policy, Continued

Recommendation:

The Authority should establish, implement and monitor a firm policy over accountability for fixed assets and equipment purchases. A qualified, trained person should be appointed as fixed asset (plant) accountant, and should perform duties stated in the policy to ensure assets are safeguarded from loss and/or misuse.

Auditee Response and Corrective Action Plan:

While there exists policies over accountability that are currently in place, the lack of qualified, trained fixed assets accountant has prevented the Agency over ensuring adherence to such policies. The Fixed Assets Section has undergone a staff turnover more than what has been anticipated. GWA management has opened and advertised for an Accountant position specifically to direct the activities under this section. Selection process is anticipated to occur by the start of January 2004.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding Number 2002-23 – Recovered Revenue

Criteria:

Accounts receivable balances assigned to collection agencies should be properly tracked and reconciled.

Condition:

Cash remitted from collection agencies was not appropriately classified as recovered revenue. Moreover, as some of the balances were previously provided for in the provision for doubtful accounts, those corresponding amounts should be removed.

Cause:

There has been no clear assignment of duties and procedures with respect to the accounting treatment of recovered revenue.

Effect:

As a result of this condition, recovered revenue may be understated. Moreover, with an allowance provision previously recognized, the receivable balance may not reasonably reflect amounts due the Authority.

Recommendation:

The Authority should establish and implement procedures with respect to the recording and reconciliation of recovered revenue.

Auditee Response and Corrective Action Plan:

We do not concur. The original book entry during FY2001 was recognizing such transactions as recovered revenue as a result of a bad debt write-off. However, in the subsequent fiscal year, because GWA utilized the services of 2 collection agencies to recover the accounts previously written-off, it was determined that such accounts need to be returned to the regular trade accounts. As such, collection from these accounts no longer qualifies as a recovery but a reduction of the regular trade accounts. This has been the manner of accounting for such collections since then.

Auditor Response:

While we understand the Authority's method as explained above, we believe that the method set forth in the condition is preferred.

GUAM WATERWORKS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding Number 2002-24 – Fixed Assets Maintenance

Criteria:

The acquisition of fixed assets should be such that items purchased will perform the necessary functions for a reasonable time period after acquired.

Condition:

The following asset, which based on its exterior, appeared to be in good condition, was noted as not having been fully utilized.

Asset #	Description	Year	Bus Unit	Cost	NBV at 9/30/02
109031	Truck Mounted Mobile Indust	2001	530	\$ 179,779.00	\$ 147,943.00

The item is just over two years old and has had repairs for each of its major areas. As a result, its normal functions have been outsourced to third parties. The top three vendors of these types of services resulted in the following amounts of rental expense:

Vendor Number	Amount
15085	\$ 3,900.00
20268	48,520.00
17953	357,124.00

Cause:

The cause of this condition is unknown.

Effect:

As a result of this condition, assets may not be fully utilized. Because the damaged assets may be replaced years before the end of the useful life or because their related job-functions must be outsourced, cash outflow increases unnecessarily.

Recommendation:

The Authority should establish, implement and monitor a firm policy over accountability for fixed assets and equipment purchases. A qualified, trained person should be appointed as fixed asset (plant) accountant, and should perform monitoring duties hand in hand with Facility Maintenance Section to ensure assets are safeguarded from loss and/or misuse.

Auditee Response and Corrective Action Plan:

While there exists policies over accountability that are currently in place, the lack of qualified, trained fixed assets accountant has prevented the Agency over ensuring adherence to such policies. The Fixed Assets Section has undergone a staff turnover more than what has been anticipated. GWA management has opened and advertised for an Accountant position specifically to direct the activities under this section. Selection process is anticipated to occur by the start of January 2004.