

**Guam Waterworks Authority
FY 2004 Financial Highlights**

July 1, 2005

Guam Waterworks Authority (GWA) ended fiscal year 2004 with a \$1.8 million loss, the lowest loss in three years compared to a \$7.4 million loss in FY 2003 and a \$14.7 million loss in FY 2002.

The lower loss was due to a variety of factors, including an increase in rates, the recovery of bad debts, and lower operating expenses. On April 1, 2004, the Public Utilities Commission approved a 7.5% rate increase for GWA. According to GWA, this resulted in an additional \$241,000 for water and wastewater revenues for the remainder of fiscal year 2004. Another rate increase took effect on October 14, 2004 of 6.5%, which will be reflected in fiscal year 2005. The decreases in recovery of bad debts of \$1.7 million and lower operating expenses of \$5.1 million also reduced GWA's loss.

GWA reduced its staff by 21 from 263 employees to 242 and this translated into a \$2.3 million reduction in salaries and wages. Other decreases in operating expenses stemmed from a \$2.7 million reduction in administrative and general, going from \$6.3 million in 2003 to \$3.6 million in 2004, and a \$618,000 decrease in contractual expenses, going from \$3.2 million in 2003 to \$2.5 million in 2004.

The allowance for uncollectible accounts represents management's estimate of probable bad debts. As a result of aggressive collections of accounts, GWA adjusted its allowance for uncollectible accounts by \$1.3 million. The allowance went from 75 cents on the dollar to 68 cents on the dollar.

In the report on compliance and internal controls, there were 19 findings, compared to 20 in FY 2003, ten of which were repeat findings. Among the findings, GWA had questioned costs of \$115,000 because they were unable to provide evaluation reports supporting the selection of a vendor, fixed assets of \$201,541 could not be located, and certain bank accounts were not reconciled on a monthly basis.

Some of the repeat findings recommended GWA (1) ensure proper safekeeping of documents because auditors were not provided vendor invoices, procurement documents, receipts, approved timecards, and approved annual leave forms, (2) did not disconnect nine accounts that were delinquent and were still incurring additional monthly charges, (3) establish an Internal Audit function to perform check and review procedures on transactions processing, revenue projection, and ensure departmental adherence to Standard Operating Procedures, and (4) establish a Federal Compliance Administrator function to ensure adherence with federal guidelines.

In a separate management letter, there were three findings relating to the timely submission of documents, time charges were not properly accounted for, and the testing of Disaster Recover Plan/Business Continuity Plan. In the FY 2003 management letter

an employee was overpaid \$18,000 in accrued annual leave and the repayment term was based on a \$72 per pay period deduction (\$1,872 per year) with the amount to be fully paid by June 2013. GWA subsequently wrote off the receivable and the employee resigned in March 2004. Despite the write-off, GWA should seek collection from this former employee.

For a more detailed commentary of GWA's operations, refer to the Management Discussion and Analysis in the audit report.