

Compliance and Internal Control

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Year ended September 30, 2024



Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Compliance and Internal Control

Year ended September 30, 2024

Contents

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
Report of Independent Auditors on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	3
Schedule of Expenditures of Federal Awards.....	7
Notes to the Schedule of Expenditures of Federal Awards	8
Schedule of Findings and Questioned Costs.....	9

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Management of Guam Waterworks Authority and
The Commissioners of the Consolidated Commission on Utilities

We have audited, in accordance with the 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 (*Government Auditing Standards*), the financial statements of the Guam Waterworks Authority (GWA), as of and for the year ended September 30, 2024, and the related notes to the financial statements, which collectively comprise GWA's basic financial statements (collectively referred to as the "financial statements"), and have issued our report thereon dated May 26, 2025.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered GWA's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of GWA's internal control. Accordingly, we do not express an opinion on the effectiveness of GWA's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether GWA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst & Young LLP

May 26, 2025

Report of Independent Auditors on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Management of Guam Waterworks Authority and
The Commissioners of the Consolidated Commission on Utilities

Report of Independent Auditors on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited Guam Waterworks Authority's (GWA's) compliance with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of GWA's major federal program for the year ended September 30, 2024. GWA's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, GWA complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2024.

Basis for Opinion the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of GWA and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on compliance for the major federal program. Our audit does not provide a legal determination of GWA's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to GWA's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on GWA's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about GWA's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding GWA's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of GWA's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of GWA's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify a deficiency in internal control over compliance that we consider to be a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2024-001 to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on GWA's response to the internal control over compliance finding identified in our audit described in the accompanying schedule of findings and questioned costs. GWA's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of GWA as of and for the year ended September 30, 2024, and the related notes to the financial statements, which collectively comprise GWA's basic financial statements. We issued our report thereon dated May 26, 2025, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements, or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Ernst + Young LLP

May 26, 2025

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Schedule of Expenditures of Federal Awards

Year ended September 30, 2024

AL #	Pass-Through Entity Identifying Number	Program Title	Federal Expenditures
U.S. Department of Interior			
Direct Program:			
15.875		Economic, Social, and Political Development of the Territories	\$ <u>198,427</u>
		Total U.S. Department of Interior	\$ <u>198,427</u>
U.S. Department of Treasury			
Pass-Through Government of Guam - Department of Administration:			
21.027	5682C219978AR302	COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	\$ <u>672,340</u>
21.027		Total U.S. Department of Treasury	\$ <u>672,340</u>
U.S. Environmental Protection Agency			
Direct Program:			
66.600		Environmental Protection Consolidated Grants for the Insular Areas - Program Support	\$ <u>2,128,418</u>
		Total U.S. Environmental Protection Agency	\$ <u>2,128,418</u>
		Total Expenditures of Federal Awards	\$ <u><u>2,999,185</u></u>

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Notes to the Schedule of Expenditures of Federal Awards

Year ended September 30, 2024

1. Scope of Audit

Guam Waterworks Authority (GWA) is a component unit of the Government of Guam (GovGuam). GWA is subject to the regulations of the Guam Public Utilities Commission (PUC). GWA became an autonomous agency in 1996 under Public Law 23-119. Only the transactions of GWA are included within the scope of the Single Audit.

Programs Subject to Single Audit

The Schedule of Expenditures of Federal Awards (the Schedule) presents each Federal program related to the U.S. Department of Defense, the U.S. Department of the Treasury, and the U.S. Environmental Protection Agency.

2. Basis of Presentation

The accompanying Schedule includes the federal award activity of GWA for the year ended September 30, 2024. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). As the Schedule presents only a selected portion of the operations of GWA, it is not intended to and does not present the financial position, changes in net position, or cash flows of GWA.

3. Summary of Significant Accounting Policies

Basis of Accounting

Expenditures reported on the Schedule are presented on the accrual basis of accounting, consistent with the manner in which GWA maintains its accounting records. Such expenditures are recognized following the cost principles contained in the Uniform Guidance. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. All expenses and capital outlays are reported as expenditures. GWA has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Schedule of Findings and Questioned Costs

Year ended September 30, 2024

Section I—Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

 Yes X **No**

Significant deficiency(ies) identified?

 Yes X **None reported**

Noncompliance material to financial statements noted?

 Yes X **No**

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?

 Yes X **No**

Significant deficiency(ies) identified?

 X **Yes** **None reported**

Type of auditor's report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

 Yes X **No**

Identification of major federal programs:

Assistance Listing number

66.600

Name of federal program or cluster

Environmental Protection Consolidated Grants
for the Insular Areas - Program Support

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

 Yes X **No**

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Schedule of Findings and Questioned Costs, continued

Section II—Financial Statement Findings

No matters were reported.

Section III—Federal Award Findings and Questioned Costs

Finding No.	ALN	Requirement	Questioned Costs
2024-001	66.600	Procurement, Suspension and Debarment	\$ ---

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-001
Federal Agency: U.S. Environmental Protection Agency
AL No. and Title: 66.600 – Environmental Protection Consolidated Grants for the Insular Areas – Program Support
Federal Award No.: Various
Area: Procurement, Suspension and Debarment
Questioned Costs: \$0

Criteria:

2 CFR section 180.300 requires entities that enter into a covered transaction must verify that the person with whom you intend to do business is not excluded or disqualified by:

- (a) Checking SAM.gov Exclusions; or
- (b) Collecting a certification from that person; or
- (c) Adding a clause or condition to the covered transaction with that person.

Condition:

Of 5 out of 5 samples tested (100%), GWA did not perform the required verification of persons required by 2 CFR section 180.300. No questioned cost was identified as subsequent checking of the samples in SAM.gov did not result in identification of suspended or debarred individuals.

Cause:

There is no formalized procedure in place for verifying the debarment, suspension, or exclusion status of entities prior to entering into covered transactions.

Effect or potential effect:

GWA is in noncompliance with the applicable requirements.

Recommendation:

GWA should develop and implement a formal procedure for verifying the debarment, suspension, or exclusion status of entities prior to entering into covered transactions, which includes regular checks against the System for Award Management (SAM) database and other relevant resources.

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Schedule of Findings and Questioned Costs, continued

Views of Responsible Officials:

GWA acknowledges the audit finding and concurs that a verification through the System for Award Management (SAM.gov) was not completed and documented prior to executing a contract with the identified vendors. GWA recognizes the importance of complying with federal requirements and preventing ineligible parties from participating in federally funded projects.



GUAM WATERWORKS AUTHORITY

Gloria B. Nelson Public Service Building | 688 Route 15, Mangilao, Guam 96913

P.O. Box 3010, Hagåtña, Guam 96932

Tel. No. (671) 300-6860 Fax No. (671) 646-3294

Corrective Action Plan:

1. Policy and Procedure Update:

GWA's procurement procedures have been revised to include a mandatory SAM.gov exclusion check prior to awarding any contract or subcontract funded by federal assistance. This requirement has been incorporated into the standard procurement checklist and contract file documentation process. Additionally, all related Standard Operating Procedures (SOPs) will be updated by December 2025.

2. Training:

GWA will conduct training for procurement, project management, and finance personnel on federal compliance requirements, including procedures for verifying suspension and debarment status. Training will be completed by December 31, 2025, and as needed as staff turnover or new regulations are issued.

3. Documentation Requirement:

Staff are now required to print and retain a copy of the SAM.gov search results in the procurement file as documentation that the contractor is not debarred or suspended at the time of award.

4. Ongoing Compliance Monitoring:

The Internal Audit team will conduct periodic reviews of federally funded procurement files to ensure compliance with this requirement and to verify that proper documentation is maintained.

Expected Completion Date: Procedures were put in place on April 4, 2025. Updates to all relevant SOPs as well as training will be completed by December 2025.

Point of Contact for Follow-Up:

Prudencio F. Aguon, Grants Administrator

Janet L. Taitano-Arroyo, Internal Auditor