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March 30, 2022

Mr. John Benavente
General Manager
Guam Power Authority
Gloria B. Nelson Public Service Building
688 Route 15, Mangilao, Guam 96913

Dear Mr. Benavente:

In connection with our audit of the financial statements of Guam Power Authority (GPA) as of and for the year ended September 30, 2021 (on which we have issued our report dated March 30, 2022), performed 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, we considered GPA's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of GPA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of GPA's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to GPA's internal control over financial reporting and other matters as of September 30, 2021 that we wish to bring to your attention.

We have also issued a separate report to GPA's management, also dated March 30, 2022, which includes certain deficiencies and other matters involving GPA's information technology environment.

We have also issued a separate report to the Consolidated Commission on Utilities, also dated March 30, 2022, on our consideration of GPA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The definition of a deficiency is also set forth in the attached Appendix I.

A description of the responsibility of management for designing, implementing, and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of the Consolidated Commission on Utilities, management, others within the organization, the Office of Public Accountability - Guam and the Federal cognizant agency and is not intended to be and should not be used by anyone other than these specified parties.



We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of GPA for their cooperation and assistance during the course of this engagement.

Very truly yours,

Deloitte + Touche LLP

SECTION I – DEFICIENCIES

We identified the following deficiencies involving GPA's internal control over financial reporting for the year ended September 30, 2021 that we wish to bring to your attention:

1. Estimated Billings

Comment: GPA's 1979 Service Rules and Regulations state that GPA may bill the customer for estimated electricity consumed but not registered up to a period of three months. As of September 30, 2021, there were 17 accounts billed based on estimated consumption for more than three months.

Prior Year Status: This comment is reiterative of conditions identified in our prior year audits of GPA.

Recommendation: We recommend GPA work to resolve accounts that are being billed based on estimated consumption within the three-month policy.

2. Allowance for Doubtful Accounts

Comment: For the year ended September 30, 2021, GPA recognized \$1,044,996 bad debt expense. However, another potential \$933,562 understatement of the allowance for doubtful accounts is included in the summary of uncorrected misstatements. See also comment 5 below.

Recommendation: GPA management should consider revisiting the existing allowance for doubtful account policy in evaluating the adequacy of reserve due to the temporary cessation of power disconnections for non-payment due to COVID during fiscal year 2021.

3. Operating Grant

Comment: A \$15 million grant was received from US federal government and applied against the deferred fuel recovery cost. However, GPA did not timely present the corresponding operating grant income in the financial statements for the period ended September 30, 2021.

Recommendation: We recommend that grant transactions be timely and completely recorded.

4. Loss on Capital Asset Disposal

Comment: GPA retired capital asset of \$2,282,475 with outstanding net book value (NBV) of \$1,020,327. The NBV was improperly recorded as depreciation expense instead of as a loss on capital asset disposal within the nonoperating expense category.

Recommendation: We recommend that capital asset retirement transactions be properly presented in the financial statements.

5. Utility Tampering Charges

Comment: During the year ended September 30, 2021, GPA recognized \$932,482 of revenues arising from customer tampering charges. However, collection of these charges may only occur should customers return for reconnection of services. Should customers be unwilling or unable to request for reconnection, likelihood of collection of these charges is remote.

Recommendation: We recommend that GPA adopt policies and procedures in the pursuit of tampering charges collections.

SECTION I – DEFICIENCIES, CONTINUED6. Meter Reconciliation

Comment: The following were noted in relation to meter reconciliation:

- a. Our audit noted existence of meters in the Command Center that are not in CC&B.
- b. Replacement of defective meter schedule showed that meter #02337186 was replaced by meter #02818403. However, neither meters registered consumption during the fiscal year and appeared to be inactive.
- c. Replacement of defective meter schedule showed that meter #02337142 was replaced by meter #02818402. However, both meters registered consumption during the fiscal year and may be provided to active customers.

Recommendation: We recommend that replacement of defective meter schedule should be timely updated to reflect proper meter reconciliations.

7. Billing Process

Comment: GPA ceased sending billing statements to customers with outstanding balances but without current period charges.

Recommendation: We recommend that GPA continue sending customer monthly billing statements with outstanding balances regardless of the current period charges to facilitate consistent communication of unpaid balances.

8. Depreciation

Comment: Our examination of the fixed asset register noted that GPA has not been consistent in applying its depreciation policy. Certain assets commenced depreciation when placed in service while others commenced depreciation in the year subsequent to being placed in service.

Recommendation: We recommend GPA consistently apply its depreciation policy.

9. Other Expenses

Comment: During the year ended September 30, 2021, GPA recorded non-operating expense of \$903,166 related to CIP retirement, of which \$322,339 related to contract and employee-related expenses. GPA considered these expenses as extraordinary items and presented as nonoperating expenses in the financial statements.

Recommendation: We recommend GPA document the rationale in recording extraordinary items in conformity with GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, to facilitate appropriate presentation in the financial statements.

10. Inventory

Comment: GPA provides a 2% allowance for inventory obsolescence on inventories without movement for the last five years. No allowance has been established for Inventory ID # 216517 costing \$55,279 which is associated with Marbo gas turbine that has been out of operation for 10 years and may no longer be useable in any existing gas turbine in operation.

Recommendation: We recommend GPA timely review list of nonmoving inventory items to evaluate the adequacy of the obsolescence allowance or determine if certain inventory should be written off.

SECTION II – OTHER MATTERS

Other matters related to our observations concerning operations, compliance with laws and regulations and best practices involving GPA's internal control over financial reporting as of September 30, 2021 that we wish to bring to your attention are as follows:

1. Local Noncompliance

Comment: The Self Insurance Program Protocol X, Drawdown Report, states that GPA shall provide a Drawdown Report to the CCU, with a copy to the PUC, identifying the amount and purpose of the drawdown in sufficient detail to allow auditing of such transaction. No report was submitted to formally comply with the said protocol.

Recommendation: We recommend GPA management determine appropriate action to address compliance with the Guam PUC self insurance program protocols.

2. Working Capital Fund Requirement

Comment: The Authority maintains a Working Capital Fund pursuant to the Senior Bond Indenture, which is required to be funded in an amount equal to 1/12th of the aggregate amount of Maintenance and Operating Expenses, including fuel costs, budgeted to be paid from Revenues during the then-current fiscal year. At September 30, 2021, working capital fund fell short from the required minimum balance.

Recommendation: We recommend GPA management determine appropriate action to comply with working capital fund requirement.

SECTION III – DEFINITION

The definition of a deficiency is as follows:

A *deficiency* in internal control over financial reporting 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 deficiency in design exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are included in generally accepted auditing standards.

Management's Responsibility

GPA's management is responsible for the overall accuracy of the financial statements and their conformity with accounting principles generally accepted in the United States of America. In this regard, GPA's management is also responsible for designing, implementing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction, of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Inherent Limitations of Internal Control over Financial Reporting

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.