

**GUAM POWER AUTHORITY
(A COMPONENT UNIT OF THE
GOVERNMENT OF GUAM)**

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

YEAR ENDED SEPTEMBER 30, 2011

INDEPENDENT AUDITORS' REPORT 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

Commissioners
Consolidated Commission on Utilities:

We have audited the financial statements of Guam Power Authority (GPA) as of and for the year ended September 30, 2011, and have issued our report thereon dated March 15, 2012. 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.

Internal Control Over Financial Reporting

Management of GPA is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered GPA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, 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.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as item 2011-1 that we consider to be a significant deficiency in internal control over financial reporting. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether GPA'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 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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of GPA in a separate letter dated March 15, 2012.

GPA's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit GPA's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Consolidated Commission on Utilities, management of GPA, the Office of Public Accountability - Guam, federal awarding agencies, pass-through entities and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.

The image shows a handwritten signature in cursive script that reads "Deloitte + Touche LLP".

March 15, 2012

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133 AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Commissioners
Consolidated Commission on Utilities:

Compliance

We have audited the Guam Power Authority's (GPA) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on GPA's major federal program for the year ended September 30, 2011. GPA's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (page 8). Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of GPA's management. Our responsibility is to express an opinion on GPA'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 GPA'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 of GPA's compliance with those requirements.

In our opinion, GPA 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, 2011.

Internal Control Over Compliance

Management of GPA is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered GPA's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the 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 but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of GPA's internal control over compliance.

Internal Control Over Compliance, Continued

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 combination of deficiencies in internal control over compliance, such that there is 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in GPA's internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weakness, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Guam Power Authority as of and for the year ended September 30, 2011, and have issued our report thereon dated March 15, 2012. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (page 6) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of GPA. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Consolidated Commission on Utilities, management of GPA, the Office of Public Accountability - Guam, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies, and others within GPA and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.

Deloitte + Touche LLP

March 15, 2012

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Program Selected for Audit in Accordance with
OMB Circular A-133
Year Ended September 30, 2011

The following list specifies the program selected for detailed compliance testing in accordance with applicable OMB Circular A-133 requirements.

<u>Grantor</u>	<u>CFDA #</u>	<u>Description</u>	<u>Amount of Expenditures</u>
U.S. Department of Energy	81.122	Guam Power Authority Connected Grid Project – An Integrated and Cross Cutting System - ARRA	\$ <u>2,006,818</u>
		Total program expenditures tested	\$ <u>2,006,818</u>
		Total federal program expenditures	\$ <u>2,322,473</u>
		% of total federal program expenditures tested	<u>86%</u>

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Schedule of Expenditures of Federal Awards
Year Ended September 30, 2011

<u>CFDA#</u>	<u>Agency/Program</u>	<u>Federal Expenditures</u>
	<u>U.S. Department of Energy</u>	
81.122	ARRA - Guam Power Authority Connected Grid Project - An Integrated and Crosscutting System	\$ <u>2,006,818</u> *
	Total U.S. Department of Energy	<u>2,006,818</u>
	<u>U.S. Department of Homeland Security</u>	
	Pass through the Government of Guam:	
97.039	Hazard Mitigation Grant	<u>291,824</u>
	Total U.S. Department of Homeland Security	<u>291,824</u>
	<u>U.S. Department of the Interior</u>	
	Pass through the Government of Guam:	
15.875	Financial and Accountability Training Program	<u>23,831</u>
	Total U.S. Department of the Interior	<u>23,831</u>
	Total Federal Program Expenditures	2,322,473
	Less local match	<u>1,003,409</u>
		<u>\$ 1,319,064</u>

* Denotes a major program.

See accompanying notes to schedule of expenditures of federal awards.

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Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2011

(1) Scope of Audit

The Guam Power Authority (GPA) is a component unit of the Government of Guam, a governmental entity established by the 1950 Organic Act of Guam, as amended, and has the powers of a body corporate, as defined in the act and local statutes. Only the federal expenditures of GPA are included within the scope of the OMB Circular A-133 audit (the "Single Audit"). The U.S. Department of the Interior has been designated as GPA's cognizant agency for the Single Audit.

a. Programs Subject to Single Audit

A Schedule of Expenditures of Federal Awards is presented for each Federal program related to the following agencies:

- U.S. Department of Energy
- U.S. Department of the Interior
- U.S. Department of Homeland Security

(2) Summary of Significant Accounting Policies

a. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of GPA and is presented on the accrual basis of accounting, consistent with the manner in which GPA maintains its accounting records. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. All expenses and capital outlays are reported as expenditures.

b. Matching Costs

Matching costs, i.e., the nonfederal share of certain program costs, are presented in the accompanying Schedule of Expenditures of Federal Awards.

(3) American Recovery and Reinvestment Act of 2009 (ARRA)

In February 2009, the Federal Government enacted the American Recovery and Reinvestment Act of 2009 (ARRA). As of September 30, 2011, GPA's grant award notification and expenditures are as follows:

<u>CFDA Program</u>	<u>Grant Amount</u>	<u>FY 2011 Expenditures</u>
81.122 ARRA-Guam Power Authority Connected Grid Project – An Integrated and Crosscutting System	\$ <u>16,603,507</u>	\$ <u>2,006,818</u>

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2011

Part I - Summary of Auditors' Results Section

Financial Statements

- | | |
|---|-------------|
| 1. Type of auditors' report issued: | Unqualified |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | No |
| 3. Significant deficiency(ies) identified that is not considered to be a material weakness? | Yes |
| 4. Noncompliance material to the financial statements noted? | No |

Federal Awards

- | | |
|---|---------------|
| Internal control over major programs: | |
| 5. Material weakness(es) identified? | No |
| 6. Significant deficiency(ies) identified that is not considered to be a material weakness? | None reported |
| 7. Type of auditors' report issued on compliance for major programs: | Unqualified |
| 8. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | No |
| 9. GPA's major program is as follows: | |

<u>Name of Federal Program</u>	<u>CFDA Number</u>
GPA Connected Grid Project – An Integrated and Crosscutting System - ARRA	81.122
10. Dollar threshold used to distinguish between Type A and Type B Programs, as those terms are defined in OMB Circular A-133:	\$300,000
11. GPA qualified as a low-risk auditee, as that term is defined in OMB Circular A-133?	No

Part II – Financial Statement Findings Section

<u>Finding Number</u>	<u>Finding</u>
2011-1	General Computer Controls

Part III – Federal Award Findings and Questioned Costs Section

No items are reportable.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-1
Area: General Computer Controls

Criteria: An effective computer control environment includes adequate preventative and detective controls. Preventative controls include the configuration of system access rights on a need-to-know and need-to-do basis and a periodic review of these access rights to determine continuing pertinence. Detective controls include adequate audit trails of modification through the use of system reports with sufficient detail to identify the users who make the changes.

Condition: Users in the Utiligy systems who are assigned in the groups of accounting staff, accounting supervisor, customer service supervisors and customer service representatives (CSR) have the access rights of “Delete” and/or “Update1.” Users with these rights can delete and/or modify the meter reading and billing information. Although certain access rights within these groups are necessary in the normal course of business, others are not. For example, CSRs should not have the right to delete billing information. Additionally, the Utiligy system has not been configured to produce a system report that captures all the changes and modifications that are made by these users.

Cause: The condition was caused by a lack of a comprehensive system architectural design during Utiligy’s implementation phase.

Effect: Excessive access rights to users without compensating controls may result in unauthorized changes to meter readings. The lack of a direct system audit trail results in deficient detective controls to discover unauthorized activities.

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

Recommendation: GPA should consider implementing compensating controls to remedy the lack of system audit trails.

Auditee Response and Corrective Action Plan:

Name and job title of responsible personnel: Randall V. Wiegand, Chief Financial Officer

Specific corrective procedures to be performed and date of performance: GPA will review the persons with access rights for the “delete” and “Update1” function and ensure that all persons with rights have a business reason for having those rights. GPA is using a customer information system that is no longer supported by the vendor. They have moved on to a higher version of the software which will require a significant investment on the part of GPA to implement. Thus, there is no reasonable potential for adding a sufficient audit trail function in the meter data fields of the software. GPA is not satisfied with its current customer information system software for a variety of reasons and is initiating a project to replace the system. GPA has retained a software consultant to conduct of study of GPA’s software needs and provide guidance for the direction of a new Enterprise Resource Planning software package which would include the customer information system. GPA is targeting FY13 as the period for the implementation of the new software. In any event, the software will be implemented no later than September 30, 2014. GPA is also exploring other opportunities to mitigate the control risk posed by this software deficiency.

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Schedule of Prior Year Findings and Questioned Costs
Year Ended September 30, 2011

Unresolved Prior Year Findings and Responses

The status of unresolved prior year findings is stated on page 9.

There are no unresolved prior year questioned costs.