

Reports on Compliance and Internal Control

Guam Power Authority

Year ended September 30, 2001

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

The Board of Directors
Guam Power Authority

We have audited the financial statements of the Guam Power Authority (GPA) as of September 30, 2001, and for the year then ended, and have issued our report thereon dated March 22, 2002. We conducted our audit in accordance with generally accepted auditing standards 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 GPA'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 GPA'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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of GPA in a separate letter dated March 22, 2002.

This report is intended solely for the information and use of the Board of Directors and management of GPA, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

March 22, 2002

Report of Independent Auditors on Compliance and Internal Control Over
Compliance Applicable to Each Major Federal Award Program In Accordance
with OMB Circular A-133

The Board of Directors
Guam Power Authority

Compliance

We have audited the compliance of Guam Power Authority (GPA) 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 its major federal programs for the year ended September 30, 2001. GPA'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 its major federal programs 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 generally accepted auditing standards; 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 on GPA's compliance with those requirements.

In our opinion, GPA complied, in all material respects, with the requirements referred to above that are applicable to its federal programs for the year ended September 30, 2001.

Internal Control Over Compliance

The management of GPA 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 GPA'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.

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.

This report is intended solely for the information and use of the Board of Directors and management of GPA, and the federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. 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.

Ernst + Young LLP

March 22, 2002

Guam Power Authority
 Schedule of Expenditures of Federal Awards
 Year ended September 30, 2001

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-Through Number</u>	<u>2001 Expenditures</u>
Santa Rita Electrical Upgrade	Not available	HMGP 1193-0103-016	<u>\$345,768</u>

See accompanying note to schedule of expenditures of federal awards

Guam Power Authority

Note to Schedule of Expenditures of Federal Awards

Year ended September 30, 2001

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Guam Power Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2001

Part I - Summary of Auditors' Results, continued

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Project No.</u>	<u>Name of Federal Program or Cluster</u>
Not available	HMGP 1193-0103-016	Santa Rita Electrical Upgrade

Dollars threshold used to determine:

Type A programs: \$300,000

	<u>Yes</u>	<u>No</u>
Auditee qualified as low-risk auditee?	X	

Guam Power Authority

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2001

Part II - Financial Statement Findings Section

This section identifies the reportable conditions, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with chapter 5.18 of *Government Auditing Standards*.

No reportable conditions, material weakness or instances of noncompliance related to the financial statements were noted.

Part III - Federal Awards Findings and Questioned Costs Section

This section identifies the reportable conditions, material weaknesses, and instances of noncompliance, including questioned costs, related to the audit of major federal programs, as required to be reported by Circular A-133 section - .510.

There were no reportable conditions, material weaknesses, and instances of non-compliance, including questioned costs, related to the audit of the major federal program for the fiscal year ended September 30, 2001. Additionally, as noted in the prior year report the two findings and questioned costs (findings 00-1 and 00-2) identified in the audit report for the fiscal year ended September 30, 2000 were remedied subsequent to the audit report date.