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March 11, 2014

Mr. Joaquin C. Flores
General Manager
Guam Power Authority
1911 Route 16
Harmon, Guam 96913

Dear Mr. Flores:

In planning and performing our audit of the financial statements of Guam Power Authority (GPA) as of and for the year ended September 30, 2013 (on which we have issued our report dated March 11, 2014), 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 that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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, 2013 that we wish to bring to your attention. We have also separately reported in a letter dated March 11, 2014 addressed to GPA's management, certain deficiencies involving GPA's information technology environment.

We have also issued a separate report to the Consolidated Commission on Utilities, also dated March 11, 2014, 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 establishing 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, 2013 that we wish to bring to your attention at this time:

1. Electricity Sales

Comment: Of seventy-five electricity sales tested, we noted the following:

a. Four accounts (account nos. D100288391, D100285930, D100289525, and D100241761) were not properly assessed with late fees. We were informed that the Utiligy billing software excludes balances transferred from other accounts from the late fee calculation, resulting in under charges in late fees for accounts with unpaid transferred balances.

b. One account (account no. D100285724) was overcharged because the estimate usage generated in Utiligy is not based on the previous 3-month consumption. We were informed that Utiligy is experiencing issues with the base load calculation which affects the estimates generated.

c. Two accounts (account nos. D100285097 and D100285724) were subjected to estimated readings for more than three months. Excessive estimated readings can lead to loss in revenue as the actual consumption by the customer cannot be determined.

Our tests of electricity sales also noted the following matters:

a. Two demand accounts (account nos. 224807 and 124278) were discovered to have meter issues that resulted in significant back billings in FY2013. This was due to improper calibration of the demand meter during installation or a faulty fuse. As GPA is only able to back bill four months of charges, the revenue loss as a result of these matters could not be determined.

b. Smart meter readings captured by the command center application are manually transferred into Utiligy for billing calculation and processing. The process involved tedious procedures of check and balance using various applications such as Excel and host.txt file. While tests of completeness of meter read upload in Utiligy is performed, the accuracy of the information uploaded is not checked. In particular, meter reads for two accounts (meter nos. 2338885 and 2331020) were missing. Reads for the missing accounts were uploaded in the previous month, the accounts were not disconnected or inactivated and they were properly working in the command center application. The reason for the missing read information is not known.

Recommendation: GPA should:

a. Devise a method to allow for accurate calculation of late fees considering Utiligy's limitations.

b. Monitor accounts that are subject to excessive estimated billing and place greater efforts in obtaining the actual consumption read for meters with skip codes.

SECTION I –DEFICIENCIES, CONTINUED

1. Electricity Sales, Continued

   c. Perform verification procedures for demand meters to capture accounts with consumptions significantly different from the expected consumption at initial installation and/or compare consumptions of new installations to other customers with the same size and/or business. The installation and calibration process of new demand meters should be reviewed and verified.

   d. Incorporate tests of meter read uploads in Utiligy before the new billing system is implemented to detect missing data.

2. Cancellations and Rebills

   Comment: Of four accounts tested, four accounts had more than five cancellations and rebills during FY2013 (service agreement nos. 109001, 124381, 202333, and 287274). The following were noted as causes for the cancellations and rebills:

   a. An inactive account was charged based on estimates due to delay in work order clearance that has been outstanding for more than six months. Termination or hold on the account to stop estimated billings was not possible due to the open work clearance.

   b. An active account was billed based on estimates for several months due to a Change-Out work order that was not completed on time. The legacy meter was changed out with a smart meter; however, the meter was not activated in Utiligy. The reads accumulated in the command center.

   c. An active account was subject to multiple cancellations and rebills due to a meter mix-up. Meters were improperly installed for neighboring customers.

   Prior Year Status: Excessive cancellations and rebills is reiterative of conditions identified in our prior year audit of GPA.

   Recommendation: GPA should perform timely termination of meters and cross review of termination requests. Further, review and monitoring of outstanding change-out work orders should occur.

3. Payroll

   Comment: One of fifteen employees tested (employee no. 4998656) was not paid for night differential for hours worked between 6:00 p.m. and 6:00 a.m. in accordance with Guam Public Law 30-105. Further, another employee tested (employee no. 23051) was paid $5,062 in June 2013 for compensatory time payout for April and May 2012. Per GPA policy, compensatory time-off shall be granted within 30 days following the date the overtime is earned and any compensatory time not used within the 30-day interval shall be converted to overtime pay the following payperiod. Had compensatory time been paid within a month of its incurrence, the payable to the employee would have only been $4,865.

   Recommendation: GPA should review of all time charges to prevent under and over payment for hours worked. Further, GPA should comply with its compensation time policy.

SECTION I –DEFICIENCIES, CONTINUED

4. Expenses

Comment: Our examination of expenses noted the following:

a. GPA Resolution No. 2012-54 (the Resolution) authorized the General Manager to approve change orders which shall not exceed the lesser of 20% of the originally approved amount or $250,000, without further CCU approval. For three operating expenses tested, change orders appear to have been entered into that appear to exceed limitations imposed by the Resolution as follows:

GL Date	PO No.	PO Date	Original PO Amount	PO Amount after Change Orders	Increase in Amount	Percentage Increase
7/31/2013	19257	04/03/2013	$ 105,363	$ 431,185	$ 325,822	309%
7/31/2013	19042	01/30/2013	471,409	996,992	525,583	111%

b. PMC contract costs of $188,740 (Invoice no. 035), representing "true-up" expenses, were charged to a performance management contract (PMC) for costs that do not appear to be PMC related.

c. A vendor's certificate of completion dated October 8, 2012 for services rendered on October 1 to 5, 2012 for a $16,800 item under PO no. 18695 noted that a GPA representative certified the services performed on October 10, 2012. However, we noted no evidence of GPA inspection or vendor acknowledgement on the "Work Approval Form" that an inspection of the work performed was done.

Recommendation: GPA should comply with Resolution No. 2012-54 and should verify that PMC costs appropriately relate to designated PMC services. Further, physical inspection of work completed as required by contract terms with vendors should be performed and documented.

5. Allowance for Doubtful Accounts

Comment: Our analysis of the allowance for doubtful accounts for other receivables indicated that the provision may be understated by $315,000 representing accounts that are dated 2011 and prior.

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

Recommendation: We recommend that all long outstanding receivables be considered in the analysis of the provision for doubtful accounts or be reviewed for write off.

SECTION I –DEFICIENCIES, CONTINUED

6. Utility Plant

Comment: The following items were noted during our testing of utility plant:

a. One item under the general plant account (Code # 2722584, Diesel generator) could not be located.

b. The following items have either been replaced or salvaged but have not been adjusted in the general plant assets ledger:

Item Code	Description	Cost
2693429	Communication Equipment (PSCC)	$ 732,377
131262	1470 20 TON LINK BELT CRANE (Transportation)	232,764
2858529	Supply Master Station System (Main Office)	305,495

All items were fully depreciated.

c. General Plant asset items totaling $805,371 were not timely recorded in the subsidiary ledger.

Prior Year Status: Physical asset items that could not be verified through physical existence are reiterative of conditions identified in our prior year audit of GPA.

Recommendation: Obsolete or retired assets should be adjusted from the utility plant register. Further, subsidiary ledgers should be timely updated.

7. Accounts with Guam Waterworks Authority (GWA)

Comment: Beginning January 2012, GWA billed GPA for water and sewer charges previously billed by the Navy. In the absence of an agreement or a contract, GPA remitted payments to GWA based on the Navy rates which were lower than those billed by GWA and recorded a payable to GWA for the difference. At September 30, 2013, the payable to GWA was $960,195. GWA offset the $960,195 against its electric bills. Due to the difference in the manner of billing and payment application and also due to lack of reconciliation, an unreconciled difference of $298,064 between GPA and GWA records remained at September 30, 2013.

Prior Year Status: The lack of a contract or agreement with GWA is reiterative of conditions identified in our prior year audit of GPA.

Recommendation: We recommended that GPA clarify billing rates with GWA and enter into a service agreement to minimize the potential for disputes. Further, we recommend that a monthly reconciliation be performed.

SECTION I –DEFICIENCIES, CONTINUED

8. Accounts Payable

Comment: Our tests of accounts payable disclosed the following:

a. The unvouchered payable account includes $45,373 due to the Department of Administration (DOA) for various items incurred in FY2001 and prior.

b. A debit balance of $83,880 described as “payroll overpayment” pertains to the government and employee share of retirement and medical, dental, and life insurance premiums of employees who are on Military Leave Without Pay. We were informed that due to the system setup, charges to benefits expenses are not being recorded, but rather a debit to the payables account, resulting in what appears to be an overpayment.

Recommendation: We recommend that GPA investigate the aforementioned items and make adjustments, where necessary.

9. Bid Deposits

Comment: Bid deposits totaling $212,787 remain outstanding from periods prior to FY2012. We were informed that outstanding bid deposits from prior years may be due to unclaimed bid deposits or improper posting of salvage bids. Currently, GPA does not have a policy for recognizing unclaimed bid deposits as revenue; therefore the deposits remain as a liability.

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

Recommendation: A policy for recognizing unclaimed bid deposits should be established. Salvage bids should be recognized as revenue immediately upon collection.

10. Customer Deposits

Comment: Our tests of customer deposits disclosed the following:

a. Deposit applications or refunds were improperly applied by Utiligy in the guarantee deposit schedule resulting in an overpayment of refunds claimed. For one account (account#166890), the customer made a guarantee deposit of $300; however, a $335.75 refund was applied to the customer's last bill.

b. Erroneous entries were posted for customer deposits due to system problems. Account number 117038 was overstated at year-end by $25,000 due to an automatic entry made by Utiligy that was not discovered and reversed until after year-end.

c. At September 30, 2013, customer deposit subsidiary details contained negative balances totaling $125,360. No regular review of related accrued interest occurs.

d. An outstanding guarantee deposit balance of $293,370 pertains to inactive accounts from FY2012 and prior years. GPA currently does not have a policy for recognizing long outstanding guarantee deposits from inactive accounts.

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

SECTION I –DEFICIENCIES, CONTINUED

10. Customer Deposits, Continued

Recommendation: Utiligy calculations should be checked and negative balances in customer deposits should be investigated. Further, GPA should consider setting up a policy for accounting for inactive outstanding guarantee deposits.

11. Annual Leave

Comment: The JD Edwards system includes a module for monitoring annual leave. However, monitoring is still being performed through the use of manual records and excel spreadsheets. Further, reconciliation of annual leave schedules to the general ledger is only performed at year-end. As of September 30, 2013, annual leave accrual has the following balances:

General ledger balance	$3,056,790
Subsidiary ledger – JD Edwards module	$3,056,790
Subsidiary ledger – Manual monitoring	$3,190,970

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

Recommendation: We recommend that the leave monitoring module in the JD Edwards system be utilized in order to minimize the time spent by the Payroll Department in manually tracking leave credits. Further, we recommend that reconciliations of annual leave accruals be performed at least quarterly.

SECTION II – OTHER MATTERS

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

1. Integrated Resource Plan

Comment: In 2012, GPA developed its Integrated Resource Plan (IRP) which was approved by the CCU and the PUC on December 12, 2012 and July 30, 2013, respectively. The objectives of the IRP are primarily to identify the timing, size, technology of future power generating units, and to address issues such as fuel diversification and the renewable portfolio standards. The IRP recommendations include the replacement of older generation equipment with combined cycle combustion turbine generators adding 40-45 MWh of renewable energy sources; and diversification of its fuel source to Liquefied Natural Gas (LNG) and Ultra-low sulfur diesel fuel oil. The replacement of older generation equipment and the addition of renewable energy sources are planned to take place as soon as feasible while the plan to develop LNG facilities is expected to take place in 2020 or 2021 with full LNG implementation expected by 2022.

As of September 30, 2013, GPA has not performed an analysis of the effect implementation of the IRP may have on its utility plant operating units and related inventory.

Recommendation: GPA should analyze the financial impact the IRP may have on its existing utility plant and inventory.

SECTION II – OTHER MATTERS, CONTINUED

2. Budget

   Comment: "True-up" costs are often funded through transfers from unexpended budget funds of other projects. As there appears to be a lack of established caps on budgetary transfers to and from budget categories, the entire budget is skewed for these unforeseen expenditures.

   Recommendation: GPA should consider adopting a stricter budgetary process where transfers between budget categories are subject to certain caps over which prior approval by the General Manager or the CCU is required.

3. Minutes of CCU Meetings

   Comment: The minutes of CCU meetings in February 2013 and November 2013 have not been transcribed as of our report date.

   Recommendation: We recommend that minutes of CCU meetings be transcribed timely.

SECTION III – DEFINITIONS

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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) a properly designed control does not operate as designed, or (b) 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 adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

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

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.