

GUAM POWER AUTHORITY

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

YEAR ENDED SEPTEMBER 30, 2007

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Consolidated Commission on Utilities:

We have audited the financial statements of Guam Power Authority (GPA), as of and for the year ended September 30, 2007, and have issued our report thereon dated April 22, 2008. 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

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects GPA's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of GPA's financial statements that is more than inconsequential will not be prevented or detected by GPA's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2007-01 through 2007-05 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by GPA's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 2007-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Guam Power Authority'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*.

GPA's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit GPA's responses, and, accordingly, we express not opinion on them.

We noted certain matters that we reported to the management of Guam Power Authority in a separate letter dated April 22, 2008.

This report is intended solely for the information and use of the Consolidated Commission on Utilities, management of GPA, the Office of the Public Auditor of 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.


April 22, 2008

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE AND ON THE SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS**

Consolidated Commission on Utilities:

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 each of its major federal programs for the year ended September 30, 2007. GPA's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs (page 7). Compliance with the requirements of laws, regulations, contracts and grants applicable to each of 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 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 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 major federal program for the year ended September 30, 2007.

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 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.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of GPA as of and for the year ended September 30, 2007, and have issued our report thereon dated April 22, 2008. 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 is presented for additional analysis as required by OMB Circular A-133. The accompanying schedule 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 our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects when considered in relation to the basic financial statements taken as a whole.

This report is intended for the information and use of the Consolidated Commission on Utilities and management of GPA, the Office of the Public Auditor of 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.

Deloitte & Touche LLP

April 22, 2008

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Schedule of Expenditures of Federal Awards
Year Ended September 30, 2007

Grantor/CFDA Grantor's Program Title	Federal CFDA Number	Receivable balance September 30, 2006	FY 2007 Expenditures	FY 2007 Cash Receipts	Receivable balance September 30, 2007
Hazard Mitigation Project	CFDA#97.039	\$ 1,610,012	\$ 2,857,444	\$ 2,553,901	\$ 1,913,555
Public Assistance Grant - Typhoon Pongsona	CFDA#97.036	\$ 501,306	\$ -	\$ -	\$ 501,306
Public Assistance Grant - Typhoon Chata'an	CFDA#97.036	(177,540)	-	-	(177,540)
Total Public Assistance Grant		<u>323,766</u>	<u>-</u>	<u>-</u>	<u>323,766</u>
Total Federal Awards		<u>\$ 1,933,778</u>	<u>\$ 2,857,444</u>	<u>\$ 2,553,901</u>	<u>\$ 2,237,321</u>

See notes to schedule of expenditures of federal awards.

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Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2007

1. Organization

The Guam Power Authority 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 Guam Power Authority are included within the scope of the audit. The U.S. Department of the Interior has been designated as the Government of Guam's cognizant agency for the compliance audit.

2. Summary of Significant Accounting Policies

a. Basis of Accounting

The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting. For the purposes of this report, cash receipts relate to all cash derived from the federal agencies, as passed through the Government of Guam Department of Administration. Cash receipts do not include the matching funds from Guam Power Authority or receipts related to program income.

All expenses and capital outlays that represent the federal share are reported as expenditures. Expenditures are recognized on the accrual basis of accounting, consistent with the manner in which Guam Power Authority maintains its accounting records.

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2007

Part I - Summary of Auditors' Results

1. The Independent Auditors' Report on the financial statements expressed an unqualified opinion.
2. Significant deficiencies in internal control over financial reporting were identified, one of which was considered a material weakness.
3. No instances of noncompliance considered material to the financial statements were disclosed by the audit.
4. No significant deficiencies in internal control over compliance with requirements applicable to major federal awards programs were identified.
5. The Independent Auditors' Report on compliance with requirements applicable to major federal award programs expressed an unqualified opinion.
6. The audit disclosed findings required to be reported by OMB Circular A-133.
7. GPA's major program was as follows:

<u>Name of Federal Program</u>	<u>Federal/LSC CFDA Number</u>
Hazard Mitigation Projects	97.033

8. GPA did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

Part II - Financial Statement Findings Section

<u>Reference Number</u>	<u>Finding</u>
2007-01	Property, Plant and Equipment Subsidiary Ledger
2007-02	Accounts Receivable Aging
2007-03	Fuel Inventory
2007-04	Accounts Receivable and Customers' Deposit Reconciliation
2007-05	Internal Audit Report

Part III – Federal Program Findings Section

No items are reportable.

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Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2007

Finding No.: 2007-01
Area: Property, Plant and Equipment Subsidiary Ledger

Criteria:

Property, plant, and equipment (PP&E) should be supported by accurate subsidiary ledgers. Information maintained should include the original cost and related improvements or betterments. Accurate depreciation listings should also be maintained.

Condition:

GPA does not maintain detailed PP&E listings or subsidiary ledgers of the production, transmission and distribution plant, which represents \$613 million of \$815 million of GPA's plant, at cost.

Cause:

In the past, GPA has not had sufficient manpower to inventory electric plant. Moreover, GPA has not maintained a fixed asset register since its inception.

Effect:

The propriety of underlying account balances may be questioned. Furthermore, the control procedure of attempting to reconcile physical assets with accounting records is rendered ineffective.

Prior Year Status:

This condition was noted in prior years and does not appear to have been corrected in the current year.

Recommendation:

We recommend that a full inventory of plant assets be performed. Upon completion of this inventory, a complete listing should be created inclusive of asset descriptions, costs, dates of acquisition/disposition as applicable, depreciation to date, identifying numbers and location. This listing should then be compared to accounting records and should be reconciled accordingly.

Auditee Response:

GPA Accounting personnel are currently in the process of setting up the subsidiary ledgers for the fixed assets in the JDEdwards Financial Information Management System. In February 2006, GPA hired an accountant who would be dedicated to the set up and maintenance of the Fixed Asset System module. With the assistance of other Accounting and Power Plant personnel approximately 21% of the total utility plant was established in the system as of March 29, 2007 and 65% as of September 30, 2007. Completion of this project is targeted for December 2008.

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Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2007

Finding No.: 2007-02
Area: Accounts Receivable Aging

Criteria:

A reliable accounts receivable aging report should be in place to assist in analyzing outstanding accounts.

Condition:

The following conditions were noted with respect to GPA's accounts receivable aging:

- Payments are not always identified and applied to particular invoices, thus aging of accounts is incorrect.
- Certain invoices are outstanding more than 120 days are shown as current on the receivable aging report.
- Account balances outstanding 60-120 days are being aged as 30 days outstanding.

Furthermore, erroneous late charges were billed to customers.

Cause:

The cause of the condition appears to be that the crystal report programming does not capture the correct invoice age. Furthermore, the Utiligy Aging report, at times, computes late charges based on inaccurate information.

Effect:

The allowance for doubtful accounts may be miscalculated because of incorrect receivable aging.

Inaccurate billing of late charges may strain customer relations and result in additional time spent on error corrections.

Recommendation:

Receivable monitoring is an important tool for GPA to ensure that overdue accounts are addressed in accordance with Service Rules. The aging report should be regularly reviewed.

Auditee Response:

In October 2006, GPA fully implemented a new billing program in response to the discontinuance of software support for the customer information system in use at the time. As with any new process, GPA encountered some challenges with the software. Over the last two years many of the new system issues were resolved or at least addressed. However, there are some non-billing transactions that have not been resolved. These transactions (less than 5% of total trade receivables) are primarily related to inactive accounts. GPA's Computer Services and Accounting personnel continue to work closely with the software vendor to resolve these reporting issues. During 2007 these same personnel received formal training in an improved report writing package that should further facilitate GPA's ability to obtain more accurate information.

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Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2007

Finding No.: 2007-03
Area: Fuel Inventory

Criteria:

Fuel consumption should be closely monitored and differences in various fuel usage monitoring reports should be investigated.

Condition:

Fuel inventory consumption per generation department reports differs from accounting department volume. Currently, there is no formal policy that establishes the level of discrepancies that warrant an investigation.

Cause:

There is no formal policy as to the level of usage differences that warrant an investigation.

Effect:

This condition could result in unauthorized usage or loss of fuel inventory. Furthermore, monthly reports can be misstated by reporting inaccurate consumption.

Recommendation:

GPA should institute a formal written policy on the investigation of the consumption differences between the physical count and the actual plant consumption. Furthermore, to ensure that the actual plants' consumption is accurately recorded, calibration of fuel gauges should be regularly checked.

Auditee Response:

A task force has been created to address this issue. GPA is currently studying the most appropriate points in the fuel line network to install new meters. Additionally, GPA is developing a standard operating procedure for monthly reviews of fuel billing information versus fuel use information. The project and the SOP are anticipated to be completed by June 2009.

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Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2007

Finding No.: 2007-04
Area: Regular Reconciliation of Accounts Receivable - Trade and Customers' Deposit Accounts

Criteria:

Accounts receivable – trade and customers' deposit subsidiary ledgers should be regularly reconciled with the general ledger.

Condition:

The Authority performs annual reconciliations of trade receivables and customer's deposit subsidiaries versus the general ledger. Further, there is no schedule of customer's deposit –inactive accounts that the Authority can use to analyze details of the account and apply deposits against inactive accounts.

Cause:

GPA has had difficulty obtaining reports from the Utiligy application program that summarize accounts receivable and deposit subsidiary ledgers.

Effect:

Monthly reporting may be inaccurate because reconciling items between subsidiary and general ledgers are not timely researched and resolved. Furthermore, the lack of subsidiary ledger reports has delayed completion of the financial statement audit.

Recommendation:

Subsidiary ledgers and the general ledger should be reconciled at least quarterly. The Authority should continue to request assistance from the software vendor and other sources to resolve the reporting issues with the Utiligy system.

Auditee Response:

GPA is in the process of contracting to establish a stand alone server from which GPA will be able to create reports without affecting the daily operation of the customer information system. We expect this fix to be in place by July 1, 2008.

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Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2007

Finding No.: 2007-05
Area: Internal Audit Report

Criteria:

To be effective, the internal audit department should be adequately staffed to examine all areas of the organization. Internal audit findings should be promptly addressed by management and the department involved in the audits.

Condition:

The internal audit department appears to be under staffed and as a result has limited their focus to meter tampering audits. Of 18 FY 2007 internal audit findings only one partial response was received.

Cause:

Because of other pressing issues within the Authority, the internal audit department does not appear to be a high priority.

Effect:

Internal operational issues are not adequately examined by the Internal Audit Department and issues raised are not resolved in a timely manner.

Recommendation:

The Authority should consider upgrading the internal audit staff. Response to internal audit findings by the department involved should be required within a specified period of time (30-60 days).

Auditee Response:

GPA has held off on filling the Internal Auditor position due to funding constraints. GPA will fill the position by the end of Fiscal Year 2009.

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**Resolution of Prior Year Findings and Questioned Costs
Year Ended September 30, 2007**

The status of unresolved questioned costs from prior year Single Audit Reports is as follows:

Questioned Costs per the September 30, 2004 audit report	\$ 11,956
Questioned Costs per the September 30, 2005 audit report	-
Questioned Costs per the September 30, 2006 audit report	<u>-</u>
Total unresolved questioned costs as of September 30, 2007	\$ <u>11,956</u>