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

INDEPENDENT AUDITORS' REPORTS ON COMPLIANCE AND ON INTERNAL CONTROL

YEAR ENDED SEPTEMBER 30, 2009

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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*

The Board of 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, 2009, and have issued our report thereon dated February 27, 2010. 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 the entity'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 the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs (pages 7 through 11) as items 2009-01 through 2009-04 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 the entity'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 items 2009-01 and 2009-04 to be material weaknesses.

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*.

GPA's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit GPA's responses, and, accordingly, we express no opinion on them.

We noted certain matters that we reported to the management of GPA in a separate letter dated February 27, 2010.

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.

Deloitte + Touche LLP

February 27, 2010

Deloitte.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO 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

The Board of Commissioners
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, 2009. GPA's major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs (pages 7 through 11). 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 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, 2009.

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 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, 2009, and have issued our report thereon dated February 27, 2010. 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 5) 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 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.

Deloitte & Touche LLP

February 27, 2010

GUAM POWER AUTHORITY

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2009

Grantor/CFDA Grantor's Program Title	Federal CFDA Number	Receivable balance October 1, 2008	FY 2009 Expenditures	FY 2009 Cash Receipts (Payment)	Receivable (Payable) balance September 30, 2009
U.S. Department of Homeland Security:					
Hazard Mitigation Projects	97.039	$ 2,430,539	$ 3,444,782	$ 5,875,321	$ -
Hazard Mitigation Projects	97.039	(177,024)	-	(177,024)	-
Total Department of Homeland Security		2,253,515	3,444,782	5,698,297	-
Public Assistance Grant - Typhoon Pongsona	97.036	501,306	-	501,306	-
Public Assistance Grant - Typhoon Pongsona	97.036		106,366	978,387	(872,021)
Total Public Assistance Grant		501,306	106,366	1,302,669	(872,021)
Security Gates	97.039	-	69,506	69,506	-
Total Pass through-Grant from U.S. Department of Homeland Security		$ 2,754,821	$ 3,620,654	$ 7,070,472	$ (872,021)
U.S. Department of the Interior:					
Accountability Training Program	15.875	$ -	$ 12,171	$ 8,312	$ 3,859
Total Accountability Training Program Grant		$ -	$ 12,171	$ 8,312	$ 3,859
Total Federal Awards		$ 2,754,821	$ 3,632,825	$ 7,078,784	$ (868,162)

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, 2009

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, 2009

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?	Yes
3. Significant deficiency(ies) identified that are not considered to be material weaknesses?	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 are not considered to be material weaknesses?	None reported
7. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	None reported
8. Type of auditors' report issued on compliance for major programs:	
CFDA Program 97.039	Unqualified
9. GPA's major program was as follows:	

CFDA Number	Name of Federal Program or Cluster
97.039	Hazard Mitigation Projects

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

Reference Number	Finding
2009-01	Property, Plant and Equipment Subsidiary Ledger
2009-02	Useful Lives of Plant and Equipment
2009-03	Fuel Inventory
2009-04	Materials Inventory Management

Part III – Federal Award Findings and Questioned Cost Section

No items are reportable.

Finding No.: 2009-01
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 for distribution plant, which represents $166 million of $857 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 is reiterative of conditions identified in our prior year audit of GPA.

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 and Corrective Action Plan:

- Name and job title of responsible personnel: Randall V. Wiegand, Chief Financial Officer
- Specific corrective procedures to be performed:
    - Compile historical data to establish a listing of Distribution Plant assets
    - Create subsidiary records in JD Edwards Fixed Asset System
    - Reconcile subsidiary ledger to the general ledger

- Date for performance of corrective action: September 30, 2010

Finding No.: 2009-02
Area: Useful Lives of Plant and Equipment

Criteria:

The cost of plant and equipment should be depreciated over the assets' useful lives. Regular assessment of the major assets that are prone to technological obsolescence should be made.

Condition:

We noted certain computer equipment, communication systems (PBX phone system and EMSYS system) and software are assigned a 20-year life which appears to be unreasonable based on the economic life of the assets.

Cause:

In the past, GPA had no detailed subsidiary ledger for general plant assets and asset groups were depreciated over useful lives based on broad Federal Energy Regulatory Commission guide-lines rather that actual useful lives.

Effect:

The fixed asset account may be overstated and depreciation costs may not be systematically recognized over the assets' useful lives.

Recommendation:

GPA should reevaluate the estimated useful lives of significant plant and equipment.

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:
  - Correct useful lives, accumulated depreciation and current year depreciation expense for all significant assets with unreasonable useful lives
  - Create an Authority policy and obtain approval to adopt a more reasonable schedule of useful lives for Authority assets

- Date for performance of corrective action: September 30, 2010

Finding No.: 2009-03
Area: Fuel Inventory

Criteria:

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

Condition:

The generation department reports on fuel inventory consumption differ from accounting department volume. During the year ended September 30, 2009, GPA's accounting department scrutinized the difference between the accounting records and the Plant's reported consumption. However, differences could not be accurately or timely disposed, due to lack of an accurate reporting gauge for a number of locations. 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. Plant's reported consumption are assumed to be inaccurate due to faulty gauging equipment.

Effect:

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

Prior Year Status:

This condition is reiterative of conditions identified in our prior year audit of GPA.

Recommendation:

GPA should institute a formal written policy on the investigation of consumption differences between physical counts and actual plant consumption. Furthermore, calibration of fuel gauges should be regularly checked.

Auditee Response and Corrective Action Plan:

- Name and job title of responsible personnel: Andriano Balajadia, Assistant General Manager of Operations
- Specific corrective procedures to be performed:
  - A bid was issued this year with one bidder responding with a cost far in excess of our estimate. We plan to re-bid this work this year. We expect all meters to be repaired/replaced/recalibrated by the contractor.

- Date for performance of corrective action: September 30, 2011

Finding No.: 2009-04
Area: Materials Inventory Management

Criteria:

GPA's materials inventory is not regularly assessed for obsolescence and usability.

Condition:

Approximately 40% of GPA's materials inventory have had no movement (purchases or consumptions) in the past 5 years. Furthermore, no regular analysis of the status of inventory on hand is being made to ensure continued pertinence. Of five randomly selected items, end-users have represented that two items are obsolete. This resulted in an extrapolated inventory overstatement of $2.2 million. Subsequent detailed analysis performed by GPA in February 2010 indicated total obsolete materials of $1.1 million. As this amount was not considered material to the financial statements, no audit adjustment was proposed to record an allowance for inventory obsolescence.

Cause:

There is no standard policy as to the level of inventory to maintain as well as the amount of allowance to provide for certain inventory age. Additionally, there is no policy that requires divisions to perform periodic analyses.

Effect:

The condition could result in the accumulation of obsolete inventories and the failure to monitor the status of inventories on hand.

Recommendation:

GPA should scrutinize non-moving inventories and identify items that need to be disposed. Further, a detailed analysis aging schedule would assist GPA to assess the status of inventory and the amount of allowance to provide therein.

Auditee Response and Corrective Action Plan:

- Name and job title of responsible personnel: Jamie Pangelinan, Supply Management Administrator
- Specific corrective procedures to be performed:
    - At the auditor's behest, the Inventory Management Officer did a very good job with thoroughly reviewing all parts and materials. Correcting this finding is a matter of writing an SOP to make sure we do the same thing at the time of the inventory valuations each year.
- Date for performance of corrective action: September 30, 2010

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Resolution of Prior Year Findings and Questioned Costs
Year Ended September 30, 2009

Questioned Costs

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	-
Questioned Costs per the September 30, 2007 audit report	-
Questioned Costs per the September 30, 2008 audit report	-
Total unresolved questioned costs as of September 30, 2009	$ 11,956

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 7 through 11).