

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

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

YEAR ENDED SEPTEMBER 30, 2015



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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**

Commissioners
Consolidated Commission on Utilities:

We have audited, in accordance with the 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, the financial statements of Guam Power Authority (GPA), a component unit of the Government of Guam, which comprise the statement of net position as of September 30, 2015, and the related statements of revenues, expenses and changes in net position, and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 11, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered GPA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of GPA's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2015-002 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether GPA's financial statements are free from 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 Response to Findings

GPA's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. GPA's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deloitte & Touche LLP

March 11, 2016



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

Commissioners
Consolidated Commission on Utilities:

Report on Compliance for Each Major Federal Program

We have audited Guam Power Authority's (GPA's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of GPA's major federal programs for the year ended September 30, 2015. GPA's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of GPA's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of GPA's compliance.

Opinion on Each Major Federal Program

In our opinion, GPA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2015.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2015-001. Our opinion on each major federal program is not modified with respect to this matter.

GPA's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. GPA's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of GPA is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered GPA's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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.

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 a 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2015-001 that we consider to be a significant deficiency.

GPA's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. GPA's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of Guam Power Authority as of and for the year ended September 30, 2015, and have issued our report thereon dated March 11, 2016, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

Deloitte + Touche LLP

March 11, 2016

GUAM POWER AUTHORITY
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2015

Grantor/CFDA Grantor's Program Title	Federal CFDA Number	Expenditures
<u>U.S. DEPARTMENT OF THE INTERIOR</u>		
Pass-Through Government of Guam - Department of Administration: Economic, Social, and Political Development of the Territories	15.875	\$ <u>1,176,863</u>
Total U.S. Department of the Interior		<u>1,176,863</u>
<u>U.S. DEPARTMENT OF ENERGY</u>		
Direct:		
Electricity Delivery and Energy Reliability, Research, Development and Analysis	81.122	<u>414,074</u>
Total U.S. Department of Energy		<u>414,074</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>		
Pass-Through Government of Guam - Guam Homeland Security Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	<u>1,500,362</u>
Total U.S. Department of Homeland Security		<u>1,500,362</u>
Total Federal Awards Expended		<u>\$ 3,091,299</u>
Reconciliation to the financial statements:		
Included in non-depreciable utility plant		\$ 1,176,863
Included in depreciable utility plant		414,074
Included in other expense		<u>1,500,362</u>
		<u>\$ 3,091,299</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**GUAM POWER AUTHORITY
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Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2015

(1) Scope of Audit

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 transactions of GPA are included within the scope of the OMB Circular A-133 audit (the "Single Audit").

(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.

GPA recognizes contributions from the federal government when qualifying expenditures are incurred.

b. Matching Costs

The non-federal share of certain programs is not included in the accompanying Schedule of Expenditures of Federal Awards.

**GUAM POWER AUTHORITY
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Schedule of Findings and Questioned Costs
Year Ended September 30, 2015

Section I - Summary of Auditors' Results

Financial Statements

- | | |
|--|------------|
| 1. Type of auditors' report issued: | Unmodified |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | No |
| 3. Significant deficiency(ies) identified? | Yes |
| 4. Noncompliance material to the financial statements noted? | No |

Federal Awards

Internal control over major federal programs:

- | | |
|---|------------|
| 5. Material weakness(es) identified? | No |
| 6. Significant deficiency(ies) identified? | Yes |
| 7. Type of auditors' report issued on compliance for major federal programs: | Unmodified |
| 8. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | Yes |
| 9. Identification of major federal programs: | |

<u>CFDA Numbers</u>	<u>Name of Federal Program</u>
15.875	Economic, Social, and Political Development of the Territories
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)

- | | |
|--|-----------|
| 10. Dollar threshold used to distinguish between Type A and Type B programs: | \$300,000 |
| 11. Auditee qualified as low-risk auditee? | No |

Section II – Financial Statement Findings

<u>Reference Number</u>	<u>Finding</u>
2015-002	Local Procurement

Section III – Federal Award Findings and Questioned Costs

<u>Reference Number</u>	<u>CFDA No.</u>	<u>Finding</u>
2015-001	97.036	Procurement and Suspension and Debarment

**GUAM POWER AUTHORITY
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-001
Federal Agency: U.S. Department of Homeland Security
CFDA Program: 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)
Award Number: DR-4224
Area: Procurement and Suspension and Debarment
Questioned Cost: \$0

Criteria:

In accordance with applicable procurement requirements, the grantee will conduct procurement transactions in a manner providing full and open competition, and will maintain records sufficient to detail the significant history of a procurement. These records will include a rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

Condition:

For one (or 16%) of 39 transactions tested, although the procurement file contained three solicitations, fewer than three positive written quotations from businesses were actually obtained for an auger truck rental (purchase order #21635) in the amount of \$14,000.

Cause:

Internal control over compliance with procurement requirements applicable to federal funds was not enforced.

Effect:

GPA may be in noncompliance with applicable procurement regulations. However, no questioned cost is presented as the auditee demonstrated an attempt at open competition through a Request for Information to all interested vendors for numerous services including equipment rental.

Recommendation:

GPA should consider solicitation of more than three positive written quotations from businesses to promote competition to the maximum extent possible.

Auditee Response and Corrective Action Plan:

Procurement personnel will be advised to exercise due diligence and contact any non-responsive vendor to verify and document the reason for not submitting a positive written quotation in all future procurements.

Name and Job Title of Personnel Responsible: Ms. Jamie L.C. Pangelinan, Supply Management Administrator

Anticipated Completion Date: March 31, 2016

**GUAM POWER AUTHORITY
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-002
Area: Local Procurement

Criteria:

A complete record of procurement actions and decisions should be maintained, and applicable procurement rules and regulations should be adhered to.

The contract review protocol for GPA by the Guam Public Utilities Commission (PUC) provides that for contract that involves the receipt by GPA of revenues or reimbursements of costs in excess of \$1,500,000, the contract will be deemed approved by the PUC after an adequate filing has been made by GPA to the PUC.

GPA's standard operating procedures stated that Purchase Order documents shall be used in the procurement of all materials, supplies and/or services.

Condition:

The following deficiencies were noted:

- a.) Repair parts and maintenance services requisitions were procured through blanket purchase orders. To demonstrate open competition for vendor selections, GPA established a pool of vendors. However, there was no evidence in the procurement files that showed how the vendors were selected or how the pool was used.
- b.) GPA has not filed the contract supported by purchase order #20709 in the amount of \$2,012,255 with the PUC.
- c.) The following PMC expenditures have been incurred before GPA issued the purchase order to the PMC:

<u>Claim No.</u>	<u>Amount</u>
Claim No. 69	\$ 93,250
Claim No. 70	22,135
Claim No. 71	128,669
Claim No. 435	636,214
Claim No. 437	356,123
Claim No. 449	451,353
OMGS-10245	<u>1,115,458</u>
	\$ <u>2,803,202</u>

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-002, Continued
Area: Local Procurement

Cause:

The cause of the above condition is incomplete documentation to demonstrate full compliance with applicable procurement requirements. Also, compliance with applicable rules and procedures appears to have not been strictly enforced.

Effect:

The effect of the above condition is noncompliance with applicable Guam procurement rules and regulations, GPA's standard operating procedures, and Guam PUC rules and procedures.

Recommendation:

Relevant considerations/rationale supporting vendor selections should be documented in the procurement files.

GPA should ensure compliance with the contract review protocol by the PUC.

All expenditures should be supported by purchase orders. Expenditures should be incurred only after appropriate management approval through issuance of a purchase order.

Auditee Response and Corrective Action Plan:

- a) Procurement personnel will document procedures followed to procure and select vendors awarded blanket purchase order.
- b) Procurement personnel will review and adhere to the Contract Review Protocol for Guam Power Authority ordered by the PUC on February 15, 2008.
- c) Procurement personnel will notify, in writing, all end-users working directly with Performance Management Contract (PMC) vendors that all contract change orders (true-up claims) must be approved in writing by both GPA and the vendor prior to the commencement of work.

Name and Job Title of Personnel Responsible:

Ms. Jamie L.C. Pangelinan, Supply Management Administrator

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Summary Schedule of Prior Audit Findings
Year Ended September 30, 2015

Findings and questioned costs – Major Federal Award Programs Audit:

No findings and questioned costs were reported in 2014.