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March 11, 2016

Mr. John Benavente
General Manager
Guam Power Authority
Gloria B. Nelson Public Service Building
688 Route 15, Mangilao, Guam 969135

Dear Mr. Benavente:

In planning and performing our audit of the financial statements of Guam Power Authority (GPA) as of and for the year ended September 30, 2015 (on which we have issued our report dated March 11, 2016), 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, 2015 that we wish to bring to your attention.

We have also separately reported in a letter dated March 11, 2016 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, 2016, 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, 2015 that we wish to bring to your attention at this time:

1. Accounts Payable

   Comment: Our tests of accounts payable disclosed the following:

   a. The accounts payable schedule includes an item with an amount of $122,322 described as "AP Auditor Accrual".

   b. The accounts payable module of the JE Edwards System has glitches which resulted in $2.6 million adjustment to the account.

   Recommendation:

   a. Adjustment items should be described in the records based on the nature of the transaction or item recorded or corrected.

   b. GPA should determine the root cause of the system glitch and implement necessary steps to resolve the system issue.

2. Fixed Asset Disposal

   Comment: Two of three fixed asset retirements tested were untimely removed from the books.

   Recommendation: GPA should timely recognize fixed asset retirements.

3. Deactivation of Tanguisson Plant

   Comment: GPA terminated the associated energy conversion agreement of the Tanguisson plant in 2015. As of September 30, 2015, GPA has not determined what the future plan is for the power plant. In addition, there was no supporting evidence to validate the estimate salvage value of $1.2 million assigned to the power plant and its structures.

   Recommendation: GPA should determine the expected future use of the power plant and adjust the carrying value to agree to the expected future use.

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. Smart Meters Reconciliation

   Comment: The total number of smart meters reported by the computer services department does not reconcile to the total number of smart meters capitalized in the fixed assets by twenty six smart meters.

   Recommendation: GPA should account for the difference in the smart meter reconciliation.

SECTION II – OTHER MATTERS, CONTINUED

2. Performance Management Contract (PMC)

Comment: "True-up" expenses totalling $357,289 were charged to a PMC for costs that do not appear to be PMC related. This is reiterative of a condition identified in our prior year audit of GPA.

As part of the contractor's procurement authority under the PMC, the contractor will obtain the best terms, conditions, pricing, and availability to meet the needs of the station. However, one PMC invoice (ref: Claim No. 444) has no evidence that the contractor obtained the best pricing for GPA by getting other price quotes.

Recommendation:

a. GPA should verify that PMC costs appropriately relate to designated PMC services.

b. GPA should ensure the contractor's compliance with the terms of the PMC.

SECTION III – DEFINITION

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.