

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

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

YEAR ENDED SEPTEMBER 30, 2016

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, 2016, 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 April 6, 2017.

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 2016-001 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

GPA's Response to Findings

GPA's response to the findings 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 the financial statements and, accordingly, we express no opinion on it.

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.

The signature is written in a cursive, handwritten style in black ink, reading "Deloitte & Touche LLP".

April 6, 2017

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 THE UNIFORM GUIDANCE

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 GPA's major federal program for the year ended September 30, 2016. GPA's major federal program is 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 federal statutes, regulations, and terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for GPA's major federal program 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 the 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 its major federal program for the year ended September 30, 2016.

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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of Guam Power Authority as of and for the year ended September 30, 2016, and have issued our report thereon dated April 6, 2017, 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 the Uniform Guidance 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.



April 6, 2017

GUAM POWER AUTHORITY
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Schedule of Expenditures of Federal Awards
Year Ended September 30, 2016

Federal CFDA Number	Pass-through Entity Identifying Number	Federal Grantor/Pass-Through Grantor/Program Title	Federal Expenditures
U.S. DEPARTMENT OF THE INTERIOR			
		Pass-Through From Government of Guam - Department of Administration: Economic, Social, and Political Development of the Territories	
15.875	5101J1299671B101-290/ D15AP00028		\$ <u>731,943</u>
		Total U.S. Department of the Interior	<u>731,943</u>
U.S. DEPARTMENT OF HOMELAND SECURITY			
		Pass-Through From Government of Guam - Guam Homeland Security: Disaster Grants - Public Assistance (Presidentially Declared Disasters)	
97.036	PA ID -000-U54H7-00/ DR GU Transformer1		<u>635,641</u>
		Total U.S. Department of Homeland Security	<u>635,641</u>
		Total Expenditures of Federal Awards	\$ <u><u>1,367,584</u></u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

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Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2016

(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 Single Audit.

(2) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of GPA under programs of the federal government for the year ended September 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of GPA, it is not intended to and does not present the net position, changes in net position or cash flows of GPA.

(3) Summary of Significant Accounting Policies

a. Basis of Accounting

Expenditure reported on the Schedule are reported on the accrual basis of accounting, consistent with the manner in which GPA maintains its accounting records. All expenses and capital outlays are reported as expenditures. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available. GPA does not elect to use the de minimis indirect cost rate allowed under the Uniform Guidance.

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

b. Matching Costs

The 25 percent non-federal share of CFDA 97.036 is not included in the accompanying Schedule of Expenditures of Federal Awards.

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2016

Section I - Summary of Auditors' Results

Financial Statements

- | | |
|--|------------|
| 1. Type of report the auditors issued on whether the financial statements audited were prepared in accordance with GAAP: | Unmodified |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | No |
| 3. Significant deficiency(ies) identified? | Yes |
| 4. Noncompliance material to financial statements noted? | No |

Federal Awards

Internal control over major federal programs:

- | | |
|---|------------|
| 5. Material weakness(es) identified? | No |
| 6. Significant deficiency(ies) identified? | No |
| 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 2 CFR 200.516(a)? | No |
| 9. Identification of major federal programs: | |

<u>CFDA Number</u>	<u>Name of Federal Program</u>
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)

- | | |
|--|-----------|
| 10. Dollar threshold used to distinguish between Type A and Type B programs: | \$750,000 |
| 11. Auditee qualified as low-risk auditee? | Yes |

Section II – Financial Statement Findings

<u>Reference Number</u>	<u>Finding</u>
2016-001	Local Procurement

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-001
Area: Local Procurement

Criteria:

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

For sole source procurements, a contract may be awarded for a supply, service, or construction item without competition when the provisions of the Sole Source Procurement requirement are met, provided that the Chief Procurement Officer, the Director of Public Works, the head of a Purchasing Agency, or their designee above the level of Procurement Officer determines in writing that there is only one source for the required supply, service, or construction item.

The General Manager is authorized to approve change orders which shall not exceed the lesser amount of either 20% of the originally approved amount or \$250,000, and the change order shall not exceed \$250,000 without further Consolidated Commission on Utilities (CCU) approval.

Condition:

For three of twenty-two purchase orders tested, the following deficiencies were noted:

- a.) One purchase order (ref. PO#23189) of \$308,660 has no evidence in the procurement files that showed how the vendor was selected.
- b.) One purchase order (ref. PO#23064) of \$16,435 was procured using sole source procurement although the required service is available from other vendors.
- c.) Amendments to PO#22193 totaling \$535,982 were approved by the General Manager. However, as the amendments exceed the General Manager's approval threshold, CCU approval should have been obtained.

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 and CCU rules and procedures.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-001, Continued
Area: Local Procurement

Recommendation:

- a.) Relevant considerations/rationale supporting vendor selections should be documented in the procurement files.
- b.) GPA should ensure proper procurement guidelines are applied to the procurement of goods or services.
- c.) GPA should implement monitoring controls to track change orders so that necessary approvals are obtained for change orders exceeding approval thresholds.

Auditee Response and Corrective Action Plan:

Procurement personnel will be formally advised by the Finance/Accounting Division on the proper documentation of vendor selections in line with procurement rules and regulations.

In addition, the Procurement division will provide guidance to all end-users on the following deficiencies to prevent future findings:

1. Provide all divisions with a copy of the PUC Contract Review Protocol and the CCU Resolution defining the General Manager's (GM) approval authority for purchases.
2. Ensure that all purchase orders that are presented to the GM for approval have met all the requirements imposed by the PUC Contract Review Protocol, are within the CCU mandated GM's authority for approval and have adhered to local procurement laws, rules and regulations.
3. Provide a notification to all divisions about their responsibility to monitor the expiration dates of the contracts under their purview in order to prevent the use of sole source procurement.

In response to item c above, a CCU resolution is scheduled to be reviewed and voted on during the next meeting scheduled for April 18, 2017.

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

Anticipated Completion Date: May 31, 2017

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Summary Schedule of Prior Audit Findings
Year Ended September 30, 2016

Findings and questioned costs – Major Federal Award Programs Audit:

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

Status of finding: Procurement personnel were advised of this finding and recommended resolution after the FY 2015 audit. However, in light of the continued finding in the audit of Local Procurement during the FY 2016 audit, the issues persist. Consequently, on March 27, 2017, a newly recruited Assistant General Manager of Administration, whose oversight includes the Procurement division, began employment with GPA. It is the hope that, under this new level of management, the Procurement division will receive the needed guidance in adhering to local procurement laws, rules and regulations, GPA procedures and PUC rules and procedures. Corrective action is on-going.

Findings related to the financial statements which are required to be reported in accordance with GAGAS:

Finding No: 2015-002
Area: Local Procurement

Status of finding:

Regarding items a) and c): Procurement personnel were advised of this finding and recommended resolution after the FY 2015 audit. However, in light of the continued finding in the audit of Local Procurement during the FY 2016 audit, the issues persist. Consequently, on March 27, 2017, a newly recruited Assistant General Manager of Administration, whose oversight includes the Procurement division, began employment with GPA. It is the hope that, under this new level of management, the Procurement division will receive the needed guidance in adhering to local procurement laws, rules and regulations, GPA procedures and PUC rules and procedures. Corrective action is on-going.

Regarding item b): On March 31, 2016, the Guam Public Utilities Commission (PUC) ratified, in GPA Docket 16-02, GPA's Design/Construction Contract with DCK Pacific Guam for the GPA Wind Turbine Pilot Project". In addition, GPA was authorized to expend the total amount of \$2,160,777.91, \$148,523 of which was internally funded through revenues. Item b finding is resolved.