

Report on Compliance

Guam Power Authority
(A Component Unit of the Government of Guam)

Year ended September 30, 2022



Guam Power Authority
(A Component Unit of the Government of Guam)

Report on Compliance and Internal Control

Year ended September 30, 2022

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Report of Independent Auditors 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 (*Government Auditing Standards*), the financial statements of the business-type activities and fiduciary activities of Guam Power Authority (GPA), a component unit of the Government of Guam, as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise GPA's basic financial statements, and have issued our report thereon dated August 16, 2023.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on 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 financial statements. 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*.

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 results 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.

Ernst + Young LLP

August 16, 2023



Report of Independent Auditors on Compliance for the Sole 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 the Sole Major Federal Program

Qualified Opinion

We have audited Guam Power Authority's (GPA's) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on GPA's sole major federal program for the year ended September 30, 2022. GPA's sole major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Qualified Opinion on ALN 15.875 Economic, Social, and Political Development of the Territories

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion section of our report, GPA complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on ALN 15.875 Economic, Social, and Political Development of the Territories for the year ended September 30, 2022.

Basis for Qualified Opinion

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of GPA and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion on compliance for the sole major federal program. Our audit does not provide a legal determination of GPA's compliance with the compliance requirements referred to above.

Matters Giving Rise to Qualified Opinion on ALN 15.875 Economic, Social, and Political Development of the Territories

As described in the accompanying Schedule of Findings and Questioned Costs, GPA did not comply with requirements regarding ALN 15.875 Economic, Social, and Political Development of the Territories as described in finding number 2022-001 for Reporting.

Compliance with such requirements is necessary, in our opinion, for GPA to comply with the requirements applicable to that program.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to GPA's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on GPA's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about GPA's compliance with the requirements of the sole major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding GPA's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of GPA's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 GPA's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

Government Auditing Standards requires the auditor to perform limited procedures on GPA's response to the noncompliance findings identified in our compliance audit described in the accompanying Schedule of Findings and Questioned Costs. GPA's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

GPA is responsible for preparing a corrective action plan to address each audit finding included in our auditor's report. GPA's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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 a 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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2022-001 to be a material weakness.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on GPA's response to the internal control over compliance findings identified in our compliance audit described in the accompanying Schedule of Findings and Questioned Costs. GPA's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

GPA is responsible for preparing a corrective action plan to address each audit finding included in our auditor's report. GPA's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

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 the business-type activities and fiduciary activities of Guam Power Authority (GPA) as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise GPA's basic financial statements. We issued our report thereon dated August 16, 2023, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. 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 basic 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 basic 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 basic financial statements or to the basic 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 basic financial statements as a whole.

The signature of Ernst + Young LLP is written in a cursive, handwritten style in black ink.

August 16, 2023

Guam Power Authority
(A Component Unit of the Government of Guam)

Schedule of Expenditures of Federal Awards

Year ended September 30, 2022

Federal AL Number	Pass-Through Entity Identifying Number	Federal Grantor/Pass-Through Grantor/Program Title	Federal Expenditures	Provided to Subrecipients
U.S. DEPARTMENT OF THE INTERIOR				
Direct Program				
15.875		Economic, Social, and Political Development of the Territories: Identifying Number-D19AP00169 -Bringing Energy Savings to (BEST) Schools - Ulloa Elementary School LED Lighting Retrofits (DOI)	\$ 442,713	\$ 442,713
		Identifying Number-D19AP00170 -Bringing Energy Savings to (BEST) Schools - Johnston Middle School LED Lighting Retrofits (DOI)	548,510	548,510
		Identifying Number-D21AP10129 -Comprehensive Security Plan for Guam's Critical Energy Infrastructure	110,316	
		Identifying Number-D21AP10170 -OIA Brown Treesnake Program02021 funding announcement	38,704	
		Identifying Number-D21AP10226 -Best School University of Guam LED Lights	<u>193,791</u>	<u>193,791</u>
		Total U.S. Department of the Interior	<u>\$ 1,334,034</u>	<u>\$ 1,185,014</u>
U.S. DEPARTMENT OF HOMELAND SECURITY				
Pass-Through From Government of Guam - Department of Administration				
97.036	000-U54H7-00	Disaster Grants - Public Assistance (Presidentially Declared Disasters) Typhoon Mangkhut -Generation Plants, Substation Water System Diesel Generators	<u>\$ 621,336</u>	
		Total U.S. Department of Homeland Security	<u>\$ 621,336</u>	
		Total Expenditures of Federal Awards	<u>\$ 1,955,370</u>	<u>\$ 1,185,014</u>
Reconciliation to the basic financial statements:				
		Total Expenditures of Federal Awards	\$ 1,955,370	
		Expenditures incurred in the prior year for ALN 97.036	(423,217)	
		Program expenditures expected to be recognized as Federal grant revenues	(365,796)	
		Variance	<u>(172,446)</u>	
		Non-operating revenues: Operating grants from the U.S. Government	<u>\$ 993,911</u>	

See accompanying notes to the Schedule of Expenditures of Federal Awards.

Guam Power Authority
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Notes to the Schedule of Expenditures of Federal Awards

Year ended September 30, 2022

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, 2022. 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

Expenditures 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.

4. ALN 97.036

\$423,217 was incurred in FY 2021 and \$198,119 was incurred in FY 2022.

Guam Power Authority
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Schedule of Findings and Questioned Costs

Year ended September 30, 2022

Section I - Summary of Auditors' Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

 Yes X **No**

Significant deficiency(ies) identified?

 Yes X **None reported**

Noncompliance material to financial statements noted?

 Yes X **No**

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?

 X **Yes** **No**

Significant deficiency(ies) identified?

 Yes X **None reported**

Type of auditor's report issued on compliance for major federal programs:

Qualified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

 X **Yes** **No**

Identification of major federal programs:

Assistance Listing Number

Name of Federal Program or Cluster

15.875

Economic, Social, and Political Development of the Territories

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low risk auditee?

 Yes X **No**

Guam Power Authority
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Schedule of Findings and Questioned Costs, Continued

Year ended September 30, 2022

Section II - Financial Statement Findings

No matters were reported.

Section III - Federal Award Findings and Questioned Costs

<u>ALN</u>	<u>Finding Number</u>	<u>Requirement</u>	<u>Questioned Cost</u>
15.875	2022-001	Reporting	\$ -

Guam Power Authority
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Schedule of Findings and Questioned Costs, Continued

Year ended September 30, 2022

Finding No.: 2022-001
 Federal Agency: U.S. Department of the Interior
 AL Program: 15.875 Economic, Social, and Political Development of the Territories
 Federal Award No.: D21AP10226
 Area: Reporting
 Questioned Costs: \$0

Criteria:

In accordance with applicable reporting requirements, amounts reported in SF-425 Federal Financial Report should be accurate.

Condition:

For one (or 50%) of two reports tested, we noted inaccurate amounts reported in the SF-425 report for the semi-annual reporting period ended 12/31/2021, as follows:

Line Item	Per SF-425	Per Accounting Records	(Over)/Under Reported
10.e. Federal share of expenditures	\$ 1,291,938	\$ -	\$ 1,291,938
10.g. Total Federal share	\$ 1,291,938	\$ -	\$ 1,291,938
10h. Unobligated balance	\$ -	\$ 1,291,938	(\$ 1,291,938)

Cause:

GPA did not enforce monitoring controls over compliance with applicable reporting requirements.

Effect:

GPA is in noncompliance with applicable reporting requirements. No questioned costs are reported because the inaccuracies did not impact Federal draws.

Recommendation:

GPA should enforce monitoring controls over compliance with applicable reporting requirements. Responsible program personnel and finance personnel should review reported amounts for accuracy prior to submission.

Guam Power Authority
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Schedule of Findings and Questioned Costs, Continued

Year ended September 30, 2022

Finding No.:	2022-001, Continued
Federal Agency:	U.S. Department of the Interior
AL Program:	15.875 Economic, Social, and Political Development of the Territories
Federal Award No.:	D21AP10226
Area:	Reporting
Questioned Costs:	\$0

Views of responsible officials:

GPA offers the following corrective action plan to address the issue:

GPA personnel responsible for managing federal grant programs and reporting to the grantor agencies will be trained on how to prepare the standard forms required for each grant. Personnel will also be notified and encouraged to attend grants management trainings. An additional layer of review by the Controller, Assistant Chief Financial Officer or the Chief Financial Officer will be added to ensure that the financial data being reported is accurate before these documents can be filed.

The Controller, Lenora M. Sanz, will be responsible for providing this training by December 31, 2023.



GUAM POWER AUTHORITY

ATURIDÁT ILEKTRESEDÁT GUÁHAN
P.O.BOX 2977 • HAGÁTÑA, GUAM U.S.A. 96932-2977

CFO 2023 135

August 15, 2023

Ernst & Young LLP
231 Ypao Road, Suite 201
Tamuning, Guam 96913

SUBJECT: Corrective Action Plan for Finding No. 2022-001

In response to Audit Finding 2022-001 in the area of Reporting, GPA offers the following corrective action plan to address the issue.

GPA personnel responsible for managing federal grant programs and reporting to the grantor agencies will be trained on how to prepare the standard forms required for each grant. Personnel will also be notified and encouraged to attend grants management trainings. An additional layer of review by the Controller, Assistant Chief Financial Officer or the Chief Financial Officer will be added to ensure that financial data being reported is accurate before these documents can be filed.

The Controller, Lenora M Sanz, will be responsible for providing this training by December 31, 2023.

Should you have any questions please contact Lenora Sanz at (671) 648-3122 or me at (671) 648-3119.

Sincerely,

MARIPAZ N. PEREZ
Assistant Chief Financial Officer

Concurred by:

JOHN J.E. KIM
Chief Financial Officer

8-15-23

DATE