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April 6, 2017

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, 2016 (on which we have issued our report dated April 6, 2017), 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 as of September 30, 2016 that we wish to bring to your attention.

We have also separately reported in a letter dated April 6, 2017 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 April 6, 2017, 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 the objectives 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.

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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, 2016 that we wish to bring to your attention:

1. Electricity Sales

   Comment: For two of seventy-five electricity sales tested, the accounts were not classified in the appropriate rate class in accordance with the criteria specified in the rate schedule approved by the PUC. While the CC&B has an automated capability to perform trend analysis of consumption and flag customers for possible rate re-class, no review was performed on customers detected by the system for rate re-class.

   Recommendation: Customers should be billed in accordance with the correct rate based on their power consumption. GPA should review customers detected by the CC&B for possible rate re-class.

2. Inactive Accounts

   Comment: Inactive accounts receivable totaling $240,590 have corresponding active accounts in the CC&B. GPA provided 100% allowance on these accounts even though the receivables are potentially collectible as active accounts exist in the system. We also noted zero balance inactive accounts with active accounts in the CC&B.

   Recommendation: Inactive accounts receivable should be periodically reviewed to determine if customers may have re-applied for service and have active accounts. In such cases, inactive balances should be transferred to active accounts for collection.

   Zero balance inactive accounts should be removed from the system.

   Before creating a new account, the customer service personnel should perform a thorough search in the customer database and check customer's information to verify if the customer has an existing active or inactive account with GPA.

3. Accounts Payable

   Comment: Our tests of accounts payable disclosed the following:

   a.) Accounts payable schedule includes item described as "AP Auditor Accrual".

   b.) Accounts payable schedule contains reconciling balances arising from system error or amounts that require further investigation.

   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 timely investigate and resolve accounts payable reconciling items.

SECTION I – DEFICIENCIES, CONTINUED

4. Purchase Orders to Performance Management Contractors (PMC)

   Comment: Per GPA's standard operating procedures, a Purchase Order document shall be used in the acquisition of all materials, supplies and/or services. We noted instances of delays in the approval of purchase orders to PMC. PMC expenditures have been incurred before the purchase orders are issued to the PMC. The PMC expenditures are incurred under multi-year contracts. Purchase Orders are used for budgetary purposes.

   Recommendation: GPA should determine the accounting for multi-year contracts for budgetary purposes.

5. Employee Salary Increases

   Comment: For seven of fifteen employee salaries tested, the salary increases were recorded several months after the effectivity date of the rate increases due to untimely approval and processing of the personnel action forms.

   Recommendation: A reasonable deadline should be established to review and approve salary increases. The HR department should timely process approved salary increases in the personnel database.

6. Customer Deposits

   Comment: Customer deposits totaling $126,115 have no corresponding active customer accounts.

   Recommendation: GPA should review customer deposits to determine if those with no corresponding active customer accounts should be refunded to customers or possibly applied against inactive account balances.

SECTION II – 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.