

March 28, 2007

## Consolidated Commission on Utilities (CCU):

In planning and performing our audit of the financial statements of Guam Power Authority (GPA) for the year ended September 30, 2006, on which we have issued our report dated March 28, 2007, we developed the following recommendations concerning matters related to its internal control. Our recommendations are summarized below:

### Finding No. 1 – Procurement for Small Purchases

Condition: For one of 25 purchase orders tested, GPA did not obtain three quotations as required by the small purchase regulations.

Recommendation: The small purchase regulations should be followed when applicable. If GPA finds it practical to split awards for repetitive purchases, a blanket purchase order should be prepared and GPA should follow blanket purchase regulations.

### Finding No. 2 – Allowance for Funds Used During Construction (AFUDC)

Condition: GPA's interest capitalization policy has not been approved by the Public Utilities Commission (PUC).

Recommendation: GPA should submit its interest capitalization policy to the PUC for approval.

### Finding No. 3 - Review and Approval Documentation on Meter Reading Exception Reports

Condition: There are a significant number of exceptions noted in the meter reading exception reports. There is no formal documentation as to the level of review performed and the resolution of such exceptions.

Recommendation: We recommend that reading exceptions above an amount to be determined by management be reviewed and the resolution of such review be documented.

### Finding No. 4 – Inventory Obsolescence Policy

Condition: GPA does not produce inventory aging reports to assist in the identification of obsolete inventory and the establishment of inventory obsolescence reserves. Furthermore, there is no established policy on the yearly assessment of inventory valuation to ensure that the inventories are stated at the lower of cost or market.

Recommendation: Regular preparation and review of an inventory aging report should identify potential inventory valuation issues and serve as an independent check that all slow-moving items are evaluated for obsolescence.

Finding No. 5 – Inventory Count Preparation

Condition: Two of 30 items tested had inventory quantities recorded in the physical counts that did not agree to final inventory listings.

Recommendation: We recommend that count teams assigned to certain areas are properly oriented before the count to ensure familiarity with the inventories being counted.

Finding No. 6 - Identification of Bank Reconciling Items

Condition: Bank reconciliations at September 30, 2006 included reconciling items for returned checks that were not identified and adjusted due to difficulty in posting in Utiligy.

Recommendation: GPA should regularly research and adjust all bank reconciling items to ensure that transactions are captured accurately and in a timely manner. The items noted were adjusted during the audit through post closing entries.

Finding No. 7 - Prepayments

Condition: Prepayments at September 30, 2006 include \$260,957 that has been outstanding for several years.

Recommendation: A regular review of the prepayment account should be performed to ensure that prepaid goods and services are received and that recorded prepayments are valid.

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This report is intended solely for the information and use of the Consolidated Commission on Utilities, the management of Guam Power Authority and the Office of the Public Auditor of Guam.

We wish to express our appreciation for the cooperation of the staff and management of GPA during the course of our audit. We would be available to discuss any questions that you may have concerning the above comments at your convenience.

Very truly yours,

*Deloitte & Touche LLP*