

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

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

YEAR ENDED SEPTEMBER 30, 2014

**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, 2014, 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 March 30, 2015.

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. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2014-002 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether GPA's financial statements are free of 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* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2014-001.

GPA's Response to Findings

GPA's response to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. GPA's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

A handwritten signature in cursive script that reads "Deloitte + Touche LLP".

March 30, 2015

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

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 Circular A-133 Compliance Supplement* that could have a direct and material effect on each of GPA's major federal programs for the year ended September 30, 2014. GPA's major federal programs are 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of GPA's major federal programs 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 each 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 each of its major federal programs for the year ended September 30, 2014.

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 each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of Guam Power Authority as of and for the year ended September 30, 2014, and have issued our report thereon dated March 30, 2015, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 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.



March 30, 2015

GUAM POWER AUTHORITY
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Schedule of Expenditures of Federal Awards
Year Ended September 30, 2014

CFDA #	Agency/Program	Federal Expenditures
	<u>U.S. DEPARTMENT OF ENERGY</u>	
	Direct Program:	
81.122	ARRA - Electricity Delivery and Energy Reliability, Research, Development and Analysis - Guam Power Authority Connected Grid Project - An Integrated and Crosscutting System	\$ <u>1,812,857</u> *
	Pass through Government of Guam - Guam Energy Office:	
81.041	ARRA - State Energy Program - Government of Guam Buildings Retrofit Project	71,107
81.128	ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG) - Government of Guam Buildings Retrofit Project and Solar Water Heating Rebate Program	6,000
81.128	ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG) - Retrofit of Government - Owned Street Lights	<u>61,183</u>
	Subtotal pass through Government of Guam - Guam Energy Office	<u>138,290</u>
	Total U.S. Department of Energy	<u>1,951,147</u>
	Total Federal Awards Expended	<u>\$ 1,951,147</u>
Reconciliation to the financial statements:		
	Capital contributions	1,812,857
	Grants from the U.S. Government for Government of Guam related projects	<u>138,290</u>
		<u>\$ 1,951,147</u>

* Denotes a major program.

The schedule of expenditures of federal awards was prepared using the accrual basis of accounting.

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, 2014

(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 OMB Circular A-133 audit (the "Single Audit"). The U.S. Department of the Interior has been designated as GPA's cognizant agency for the Single Audit.

Programs Subject to Single Audit

The Schedule of Expenditures of Federal Awards presents each Federal program related to the U.S. Department of Energy.

(2) Summary of Significant Accounting Policies

a. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of GPA and is presented on the accrual basis of accounting, consistent with the manner in which GPA maintains its accounting records. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. All expenses and capital outlays are reported as expenditures.

GPA recognizes contributions from the federal government when qualifying expenditures are incurred, and expenditures are recognized on the accrual basis of accounting.

b. Matching Costs

The nonfederal share of certain programs is not included in the accompanying Schedule of Expenditures of Federal Awards.

(3) American Recovery and Reinvestment Act of 2009 (ARRA)

In February 2009, the Federal Government enacted the American Recovery and Reinvestment Act of 2009 (ARRA). GPA's grant award notification and expenditures for the year ended September 30, 2014, are as follows:

<u>CFDA Program</u>	<u>Grant Amount</u>	<u>FY2014 Expenditures</u>
81.041 ARRA-State Energy Program-Government of Guam Buildings Retrofit Project	\$ 8,100,00	\$ 71,107
81.122 ARRA- Electricity Delivery and Energy Reliability, Research, Development and Analysis - Guam Power Authority Connected Grid Project-An Integrated and Crosscutting System	16,603,507	1,812,857
81.128 ARRA- Energy Efficiency and Conservation Block Grant-Government of Guam Buildings Retrofit Project and Solar Water Heating Rebate Program	3,406,399	6,000
81.128 ARRA-Energy Efficiency and Conservation Block Grant-Retrofit of Government-Owned Street Lights	2,500,000	61,183

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Notes to Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2014

(4) High-Risk Grantee Status

On October 25, 2012, the U.S. Department of Energy (DOE) designated GPA as a high-risk recipient in relation to CFDA 81.122 Electricity Delivery and Energy Reliability, Research, Development and Analysis - Guam Power Authority Connected Grid Project – An Integrated and Crosscutting System.

On October 29, 2013, U.S. DOE removed GPA's high-risk status.

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2014

Section I - Summary of Auditors' Results

Financial Statements

- | | |
|--|------------|
| 1. Type of auditors' report issued: | Unmodified |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | No |
| 3. Significant deficiency(ies) identified? | Yes |
| 4. Noncompliance material to the financial statements noted? | Yes |

Federal Awards

- | | |
|---|--|
| Internal control over major programs: | |
| 5. Material weakness(es) identified? | No |
| 6. Significant deficiency(ies) identified? | None reported |
| 7. Type of auditors' report issued on compliance for major programs: | Unmodified |
| 8. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | No |
| 9. Identification of major programs: | |
| <u>CFDA Number</u> | <u>Name of Federal Program</u> |
| 81.122 | ARRA-Electricity Delivery and Energy Reliability, Research, Development and Analysis-Guam Power Authority Connected Grid Project-An Integrated and Crosscutting System |
| 10. Dollar threshold used to distinguish between Type A and Type B programs: | \$300,000 |
| 11. Auditee qualified as low-risk auditee? | No |

Section II – Financial Statement Findings

<u>Reference Number</u>	<u>Finding</u>
2014-001	Local Procurement
2014-002	General Computer Controls

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, 2014

Finding No.: 2014-001
Area: Local Procurement

Criteria:

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

The Government of Guam Procurement Regulations specifically provide for the following:

- Chapter 3 Section 3114 (m) provides that at the conclusion of negotiations resulting in the award of the contract, head of the agency conducting the procurement or a designee of such officer shall prepare a memorandum setting forth the basis of the award including the determination of the best qualified offers and significant considerations relating to price and other terms of the contract.
- Chapter 3 Section 3111 (b) (5) provides that procurement requirements shall not be artificially divided to avoid using other source selection methods.

Also, the contract review protocol for GPA by the Guam Public Utilities Commission (PUC) specifically provides that GPA contracts and obligations in excess of \$1.5 million require PUC approval before commencing the procurement process.

Condition:

During tests of compliance with procurement rules and regulations, the following were noted:

- a.) One purchase order (ref. PO# 20255) has a vendor's original proposal price of \$335,000 which was manually changed to \$245,000. The reason for the change in proposal price was not included in the procurement file.
- b.) Repair parts and maintenance service requisitions were procured through blanket purchase orders. Each purchase order was for \$14,900 which qualify as small purchase procurements. Total purchase orders issued to three vendors under this blanket purchase exceeded the small purchase threshold. Details are as follows:

	PO#	PO Date	PO Amount	Vendor
#1 Set of Blanket Purchase Orders	19654	10/23/2013	\$ 14,900	Vendor 1
	19655	10/23/2013	\$ 14,900	Vendor 2
	19656	10/23/2013	\$ 14,900	Vendor 3
#2 Set of Blanket Purchase Orders	20079	01/02/2014	\$ 14,900	Vendor 1
	20080	01/02/2014	\$ 14,900	Vendor 2
	20081	01/02/2014	\$ 14,900	Vendor 3
#3 Set of Blanket Purchase Orders	20334	04/02/2014	\$ 14,900	Vendor 1
	20335	04/02/2014	\$ 14,900	Vendor 2
	20336	04/02/2014	\$ 14,900	Vendor 3

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-001, Continued
Area: Local Procurement

Condition, Continued:

	PO#	PO Date	PO Amount	Vendor
#1 Set of Blanket Purchase Orders	19707	10/24/2013	\$ 14,900	Vendor 4
	19708	10/23/2013	\$ 14,900	Vendor 5
	19709	10/23/2013	\$ 14,900	Vendor 6
	19710	10/23/2013	\$ 14,900	Vendor 7
#2 Set of Blanket Purchase Orders	20259	03/19/2014	\$ 14,900	Vendor 4
	20260	03/19/2014	\$ 14,900	Vendor 5
	20261	03/19/2014	\$ 14,900	Vendor 6
	20262	03/19/2014	\$ 14,900	Vendor 7

	PO#	PO Date	PO Amount	Vendor
#1 Set of Blanket Purchase Orders	19693	11/13/2013	\$ 14,900	Vendor 8
	19694	11/13/2013	\$ 14,900	Vendor 9
	19695	11/13/2013	\$ 14,900	Vendor 10
#2 Set of Blanket Purchase Orders	20432	04/01/2014	\$ 4,000	Vendor 8
	20433	04/01/2014	\$ 4,000	Vendor 9
	20434	04/01/2014	\$ 4,000	Vendor 10

- c.) Seven purchase orders were issued under an indefinite quantity contract for power poles. The number of power poles being ordered per purchase order depends on the stock level assessed by inventory management. The total estimated power pole purchase under the contract was not evaluated to determine if preapproval was required. Purchases exceeded the PUC approval threshold as follows:

PO#	PO Date	PO Amount
19872	10/17/2013	\$ 244,400
20171	12/10/2013	244,400
20480	05/06/2014	244,400
19853	10/16/2013	239,250
20170	12/04/2013	239,250
20601	06/24/2014	234,150
20330	3/5/14 - 1st PO 8/8/14 - Amendment	244,400
		\$ 1,690,250

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-001, Continued
Area: Local Procurement

Cause:

The cause of the above condition is incomplete documentation to demonstrate full compliance with applicable procurement requirements. Also, compliance with applicable procurement rules and regulations appear to have not been strictly enforced.

Effect:

The effect of the above condition is noncompliance with applicable Guam procurement rules and regulations and Guam PUC rules and procedures.

Recommendation:

- a.) Relevant considerations/rationale supporting procurement decisions should be documented and maintained in procurement files.
- b.) Open competition for vendor selection should be utilized if total anticipated expenditures exceed the threshold for small purchase procurements.
- c.) PUC approval should be obtained if the total anticipated expenditures under a contract exceed the PUC approval threshold.

Auditee Response and Corrective Action Plan:

- a.) GPA Procurement will have each Evaluation Committee member, "Sign and Date", the respective Bid/RFP submittal copy (Technical or Price) that they are given (to be used as their working sheet/document) and shall be provided in PO file.
- b.) With the Interim General Manager/Supply Management Administrator's directive, best business practices shall be adhered to - to acknowledge the totality of "each" requisition to be below the \$15,000.00 blanket purchase order threshold on all future purchases (this is currently being practiced with the Authority's FY15, blanket purchase orders.)
- c.) Annual "Projected Planning" shall be solicited by all parties involved, namely the Engineering and Transmission & Distribution Divisions, allowing the Authority, to determine if the respective procurements will exceed the CCU and/or PUC approval thresholds, in which, the respective approvals shall be obtained.

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

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-002
Area: General Computer Controls

Criteria: An effective computer control environment includes adequate preventative and detective controls. Preventative controls include the configuration of system access rights on a need-to-know and need-to-do basis and a periodic review of these access rights to determine continuing pertinence. Detective controls include adequate audit trails of modification through the use of system reports with sufficient detail to identify the users who make the changes.

Condition: Users in the Utiligy systems who are assigned in the groups of accounting staff, accounting supervisor, customer service supervisors and customer service representatives (CSR) have access rights of "Delete" and/or "Update1." Users with these rights can delete and/or modify meter readings and billing information. Although certain access rights within these groups are necessary in the normal course of business, others are not. For example, CSRs should not have the right to delete billing information. Additionally, the Utiligy system has not been configured to produce a system report that captures all the changes and modifications that are made by these users nor does it have system-enforced authentication parameters.

Cause: The condition was caused by a lack of a comprehensive system architectural design during Utiligy's implementation phase.

Effect: Excessive access rights to users without compensating controls may result in unauthorized changes to meter readings. The lack of a direct system audit trail results in deficient detective controls to discover unauthorized activities.

Prior Year Status: This condition is reiterative of conditions identified in our prior year audit of GPA.

Recommendation: GPA should consider implementing compensating controls to remedy the lack of system audit trails, the provision of access to CSRs, and the lack of a system-enforced authentication parameters.

Auditee Response and Corrective Action Plan: GPA purchased a new Customer Information System to address this concern and successfully went live in March 2015.

Name and job title of personnel responsible: Cora Montellano, Assistant Chief Financial Officer

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Summary Schedule of Prior Audit Findings
Year Ended September 30, 2014

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

Finding Nos. 2012-1 and 2013-001, General Computer Controls
- Not resolved. Refer to Finding 2014-002

Findings and questioned costs – Major Federal Award Programs Audit:

No findings and questioned costs were reported in 2013.

Finding No. 2012-2, ARRA-State Energy Program - Government of Guam Buildings Retrofit and ARRA-Guam Power Authority Connected Grid Project - An Integrated and Crosscutting System
- Resolved.

Finding No. 2012-3, ARRA-State Energy Program - Government of Guam Buildings Retrofit
- Resolved.