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March 24, 2021

Mr. John Benavente
General Manager
Guam Power Authority
Gloria B. Nelson Public Service Building
688 Route 15, Mangilao, Guam 96913

Dear Mr. Benavente:

In connection with our audit of the financial statements of Guam Power Authority (GPA) as of and for the year ended September 30, 2020 (on which we have issued our report dated March 24, 2021), performed 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. 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 and other matters as of September 30, 2020 that we wish to bring to your attention.

We have also issued a separate report to GPA's management, also dated March 24, 2021, which includes certain deficiencies and other matters involving GPA's information technology environment.

We have also issued a separate report to the Consolidated Commission on Utilities, also dated March 24, 2021, 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 designing, implementing, and maintaining internal control over financial reporting and of the objectives of 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

APPENDIX I

SECTION I – DEFICIENCIES

We identified the following deficiencies involving GPA's internal control over financial reporting for the year ended September 30, 2020 that we wish to bring to your attention:

1. Estimated Billings

   Comment: GPA's 1979 Service Rules and Regulations state that GPA may bill the customer for estimated electricity consumed but not registered for a period of three months. As of September 30, 2020, there were 23 accounts billed based on estimated consumption for more than three months.

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

   Recommendation: We recommend GPA work to resolve accounts that are being billed based on estimated consumption within the three-month policy.

2. Revenue Rate Classification

   Comment: GPA was unable to provide an analysis to determine whether customers flagged for rate reclassification by the Customer Care & Billing System (CC&B) should be reclassified. Our independent test showed projected impact of potential revenue billing overstatement during 2020 by approximately $342,000.

   Recommendation: We recommend GPA establish a time frame policy for reclassifying accounts that are eligible for rate reclassification and monitor compliance with the policy. GPA should also follow the rate classification specified in the Tariff Schedule.

3. Allowance for Doubtful Accounts

   Comment: For the year ended September 30, 2020, GPA recognized $1,091,004 bad debt expense. However, a potential $641,837 understatement of the allowance is included in the summary of uncorrected misstatements.

   Recommendation: We recommend GPA consider reassessment of long outstanding receivables, particularly in light of the payment allowances offered as a result of the COVID-19 pandemic.

SECTION II – OTHER MATTERS

Other matters related to our observations concerning operations and best practices involving GPA's internal control over financial reporting as of September 30, 2020 that we wish to bring to your attention are as follows:

1. Performance Management Contractors (PMC)

   Comment: As part of the PMC's procurement authority under the PMC Agreements, the PMC will obtain the best terms, conditions, pricing, and availability to meet the needs of the station. Two PMC invoices (Claim No. 544 and Claim No. 01) lack evidence on file to support that the PMC obtained the best pricing for GPA.

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

   Recommendation: GPA should discuss documentation requirements to support procurement decisions with the PMC's.

SECTION II – OTHER MATTERS, CONTINUED

2. Inactive Accounts

   Comment: Approximately $507,000 of inactive accounts receivable may have corresponding active accounts in the CC&B. GPA provides an allowance for all inactive accounts. Additionally, because of the COVID-19 situation, inactive accounts of approximately $465,000 outstanding for over three years have not been written off as per GPA's policy.

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

   Recommendation: GPA should continuously clear inactive accounts that have corresponding active accounts in the CC&B. GPA should also revisit long outstanding receivables and determine the appropriate course of action based on its existing policy.

3. Construction Work In Progress (CWIP) Closing

   Comment: CWIP of approximately $375,000 as of September 30, 2020 was not timely closed to fixed assets.

   Recommendation: CWIP should be timely capitalized so depreciation can be recorded accurately and timely.

SECTION III – 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 properly designed control does not operate as designed or when 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 included in generally accepted auditing standards.

Management's Responsibility

GPA's management is responsible for the overall accuracy of the financial statements and their conformity with accounting principles generally accepted in the United States of America. In this regard, GPA's management is also responsible for designing, implementing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction, of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Inherent Limitations of Internal Control over Financial Reporting

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.