

Reports on Compliance and Internal Control

Guam Power Authority

(A Component Unit of the Government of Guam)

Year Ended September 30, 2023



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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 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, 2023, and the related notes to the financial statements, which collectively comprise GPA’s basic financial statements (collectively referred to as the “financial statements”), and have issued our report thereon dated May 16, 2024.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control described in the accompanying Schedule of Findings and Questioned Costs as item 2023-002 that we consider to be material weaknesses.

Report on 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 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 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 2023-002.

GPA's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on GPA's response to the findings identified in our audit and 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 the financial statements and, accordingly, we express no opinion on the response.

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

May 16, 2024

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 U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on GPA's sole major federal program for the year ended September 30, 2023. 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, 2023.

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 the 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.

Matter 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 2023-001 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 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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2023-001 to be a material weakness.

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 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, 2023, and the related notes to the financial statements, which collectively comprise GPA's basic financial statements. We have issued our report thereon dated May 16, 2024, 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 basic 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.

Ernst + Young LLP

May 16, 2024

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

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2023

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-D19AP00168 -GPA Fadian Public-access lot solar PV Canopy (DOI)	\$ 3,263	
		Identifying Number-D19AP00170 -Bringing Energy Savings to (BEST) Schools - Johnston Middle School LED Lighting Retrofits (DOI)	37,654	37,654
		Infrastructure	37,053	
		Identifying Number-D21AP10170 -OIA Brown Treesnake Program02021 funding announcement	43,879	
		Identifying Number-D21AP10226 -Best School University of Guam LED Lights	884,367	884,367
		Best Schools Tamuning Elementary LED Lights (GUAM-EIC-2021-4, D21AP10231)	23,179	23,179
		Total U.S. Department of the Interior	<u>\$ 1,029,395</u>	<u>\$ 945,200</u>
U.S. DEPARTMENT OF THE TREASURY				
21.027	5682C219967AR301	Pass-Through From Government of Guam - Department of Administration COVID-19 Coronavirus State and Local Fiscal Recovery Funds	\$ 137,025	
		Total U.S. Department of the Treasury	<u>\$ 137,025</u>	
U.S. DEPARTMENT OF HOMELAND SECURITY				
97.036	000-U54H7-00	Pass-Through From Government of Guam - Department of Administration Disaster Grants - Public Assistance (Presidentially Declared Disasters) Typhoon Mangkhut -Generation Plants, Substation Water System Diesel Generators	\$ 11,823	
		Total U.S. Department of Homeland Security	<u>\$ 11,823</u>	
		Total Expenditures of Federal Awards	<u>\$ 1,178,243</u>	<u>\$ 945,200</u>

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

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

Notes to the Schedule of Expenditures of Federal Awards

Year Ended September 30, 2023

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, 2023. 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 ALN 97.036 is not included in the accompanying Schedule of Expenditures of Federal Awards.

4. ALN 97.036

\$198,119 was incurred in FY 2021 and \$11,823 was incurred in FY 2023.

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

Schedule of Findings and Questioned Costs

Year Ended September 30, 2023

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?

 X **Yes** **No**

Significant deficiency(ies) identified?

 Yes X **None reported**

Noncompliance material to financial statements noted?

 X **Yes** **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

15.875

Name of Federal Program or Cluster

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

Section II - Financial Statement Findings

<u>Finding Number</u>	<u>Requirement</u>
2023-002	General Ledger and SEFA

Section III - Federal Award Findings and Questioned Costs

<u>ALN</u>	<u>Finding Number</u>	<u>Requirement</u>	<u>Questioned Cost</u>
15.875	2023-001	Reporting	\$ -

Guam Power Authority
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Schedule of Findings and Questioned Costs, Continued

Finding No.: 2023-001
 Federal Agency: U.S. Department of the Interior
 AL Program: 15.875 Economic, Social, and Political Development of the Territories
 Area: Reporting
 Questioned Costs: \$0

Criteria:

In accordance with applicable reporting requirements, an SF-425 Federal Financial Report must be submitted semi-annually, and reported amounts should be accurate.

Condition:

1. For two (or 40%) of five reports tested, we noted no submission of SF-425 reports for the semi-annual reporting period ended 12/31/2022 for Grant No. D19AP00168 and 06/30/2023 for Grant No. D19AP00170.
2. For three (or 60%) of five reports tested, reported amounts differ from underlying accounting records (GL) for semi-annual reporting periods, as follows:

Grant No. D19AP00226 Period Ended 12/31/2022	Per SF-425	Per GL	(Over)/Under Reported
10.e. Federal share of expenditures	\$ 1,291,938	\$ 193,791	\$ 1,098,147
10.g. Total Federal share	\$ 1,291,938	\$ 193,791	\$ 1,098,147
10.h. Unobligated balance	\$ -	\$ 1,098,147	(\$ 1,098,147)

Grant No. D19AP00226 Period Ended 06/30/2023	Per SF-425	Per GL	(Over)/Under Reported
10.e. Federal share of expenditures	\$ 1,291,938	\$ 1,291,938	\$ -
10.g. Total Federal share	\$ 1,291,938	\$ 610,504	\$ 681,434
10.h. Unobligated balance	\$ -	\$ 681,434	(\$ 681,434)

Grant No. D19AP00170 Period Ended 12/31/2022	Per SF-425	Per GL	(Over)/Under Reported
10.d. Total Federal funds authorized	\$ 595,572	\$ 586,771	\$ 8,801
10.e. Federal share of expenditures	\$ 595,572	\$ 548,510	\$ 47,602
10.g. Total Federal share	\$ 595,572	\$ 548,510	\$ 47,602
10.h. Unobligated balance	\$ -	\$ 38,261	(\$ 38,261)

Guam Power Authority
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Schedule of Findings and Questioned Costs, Continued

Finding No.: 2023-001, continued
Federal Agency: U.S. Department of the Interior
AL Program: 15.875 Economic, Social, and Political Development of the Territories
Area: Reporting
Questioned Costs: \$0

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.

Identification as a Repeat Finding: 2022-001

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.

Views of responsible officials:

GPA personnel responsible for managing federal grant programs and reporting to the grantor agencies will be trained on the preparation of standard forms required for each grant. Personnel will also be notified and encouraged to attend grants management trainings. The Finance Division has started to provide monthly expense reports to personnel on their respective grants. 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.

Guam Power Authority
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Schedule of Findings and Questioned Costs, Continued

Finding No.: 2023-002
Area: General Ledger and Schedule of Expenditures of Federal Awards (SEFA)

Criteria:

1. Accounting principles generally accepted in the United States of America (US GAAP) require that cut off procedures be accurately performed such that transactions and events are recorded in the correct accounting period.
2. In accordance with 2 CFR §200.510 Financial Statements and §200.502 Basis for Determining Federal Awards Expended, the auditee must prepare a schedule of expenditures of federal awards (SEFA) which must include the total Federal awards expended based on when the activity related to a Federal award occurs.

In accordance with the OMB Compliance Supplement, Part 4 Agency Program Requirements for ALN 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters), nonfederal entities must record expenditures on the SEFA when (1) FEMA has approved the nonfederal entity's Project, and (2) the nonfederal entity has incurred the eligible expenditures.

Condition:

1. In FY 2023, GPA received approximately \$2,196,551 in Federal reimbursements for prior year expenditures under Federal awards that were approved in fiscal year 2019. Such receipt was recorded as FY 2023 revenues because a related receivable was not recorded in the prior year.
2. In May 2023, the President of the United States declared that a major disaster exists in Guam due to Typhoon Mawar. As of September 30, 2023, GPA recorded \$16,842,501 as Federal grants revenue and receivables in the general ledger. However, no documentation was provided to substantiate FEMA's approval in FY 2023 to reimburse Typhoon Mawar expenditures.
3. On the SEFA for FY 2023, GPA recorded Typhoon Mawar expenditures for ALN 97.036 in the amount of \$19,200,746. However, no documentation was provided to substantiate FEMA's approval in FY 2023. Expenditures should be recorded in the SEFA during the fiscal year when FEMA has approved GPA's Project.

Guam Power Authority
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Schedule of Findings and Questioned Costs, Continued

Finding No.: 2023-002, continued
Area: General Ledger and Schedule of Expenditures of Federal Awards (SEFA)

Cause:

1. GPA did not effectively perform monitoring controls over reconciliations and cut-off procedures, and did not have effective communications among the finance team and other departments relative to approved Federal award documents.
2. GPA lacked sufficient understanding of Federal guidance relative to the recording of ALN 97.036 expenditures in the general ledger and on the SEFA.

Effect:

1. FY 2023 revenues are overstated, and beginning net position is understated, by \$2.2M. Such is included in the summary of uncorrected misstatements.
2. Grants revenue and receivables were materially overstated by \$16.8M, and the SEFA was materially overstated by \$19.2M. Audit adjustments were proposed to correct the misstatements.

Recommendation:

GPA should strengthen and enforce monitoring controls over Federal award activities to ensure that all transactions are recorded in the proper accounting period. Also, GPA should enhance the knowledge and skills of responsible personnel through training.

Views of responsible officials:

GPA personnel responsible for monitoring and recording the SEFA will obtain additional training.



GUAM POWER AUTHORITY

ATURIDÁT ILEKTRESEDÁT GUAHAN
P.O.BOX 2977 • AGANA, GUAM U.S.A. 96932-2977

CFO 2024 066

May 14, 2024

Ernst & Young LLP
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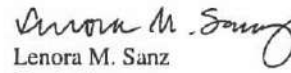
SUBJECT: Corrective Action Plans for FY 2023 Compliance Report

This memo presents our corrective action plan in response to the audit findings identified in the FY 2023 Compliance Report. The plan offers corrective actions to address the issues.

- *Audit Finding 2023-001 in the area of Reporting*
GPA personnel responsible for managing federal grant programs and reporting to the grantor agencies will be trained on the preparation of standard forms required for each grant. Personnel will also be notified and encouraged to attend grants management trainings. The Finance Division has started to provide monthly expense reports to personnel on their respective grants. 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.
- *Audit Finding 2023-002 in the area of General Ledger and Schedule of Expenditures of Federal Awards*
GPA personnel responsible for monitoring and recording the SEFA will obtain additional training.

Should you have any questions please contact Lenora Sanz at (671) 648-3122 or lsanz@gpagwa.com.

Sincerely,


Lenora M. Sanz
Controller

Concurred by:


 JOHN J.E. KIM
Chief Financial Officer

5/14/2024
DATE



GUAM POWER AUTHORITY

ATURIDÁT ILEKTRESEDÁT GUÅHAN
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GUAM POWER AUTHORITY Summary Schedule of Prior Audit Findings and Questioned Costs Year Ended September 30, 2023

Finding Number	CFDA Number	Requirement	Questioned Costs	FY 2023 Status
2022-001	15.875	Reporting	\$ -	Training of personnel responsible for preparing the federal grant programs standard forms was completed on Jan. 18, 2024. Will monitor for availability of grants management training in the coming months.