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March 30, 2015

Mr. John Benavente
Interim 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, 2014 (on which we have issued our report dated March 30, 2015), 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 and other matters as of September 30, 2014 that we wish to bring to your attention.

We have also separately reported in a letter dated March 30, 2015 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 March 30, 2015, 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 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.

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, 2014 that we wish to bring to your attention at this time:

1. Electricity Sales

   Comment: For one of seventy-five electricity sales tested, the account was not classified in the appropriate rate class in accordance with the criteria specified in the rate schedule approved by the PUC. The customer should have been charged using the rates specified under the Schedule G rate schedule. Currently, the customer is being charged based on the Schedule J rate schedule.

   Recommendation: Customers should be billed in accordance with the correct rate based on their power consumption.

2. Accounts Payable

   Comment: Our tests of accounts payable disclosed the following:

   a. At September 30, 2014, accounts payable subsidiary details contained negative balances of $31.2 million which is due to payments to vendors being recorded in different accounts than the invoices they were paying. Although the actual payable balance per vendor can still be tracked in the JD Edwards system, the accounts payable schedule does not reflect the actual outstanding payable balances to individual vendors.

   b. The unvouchered payable account includes $45,373 due to the Department of Administration for various items incurred in FY2001 and prior. This is a reiteration of a prior year comment.

   c. For vendor #5037751, there were three invoices recorded by GPA that differ from those recorded by the vendor based on confirmation reply received. There were also invoices and credit memos recorded by GPA that were not confirmed by the vendor. For vendor #334035, an invoice was erroneously credited to the vendor account. For vendors 5071991 and 320303, certain invoices were not timely recorded by GPA.

   Recommendation:

   a. Vendor payments should be applied against the invoices they are paying in the accounts payable subsidiary ledger.

   b. Long-outstanding payables should be investigated and adjusted, where necessary.

   c. Accounts payable should be reconciled with major vendors.

3. Performance Management Contract (PMC)

   Comment: PMC contract costs of $150,000 (Claim No. 052) representing "true-up" expenses were charged to a PMC for costs that do not appear to be PMC related.

   Prior Year Status: "True-up" expenses charged to a PMC for costs that do not appear to be PMC related is reiterative of a condition identified in our prior year audit of GPA.

   Recommendation: GPA should verify that PMC costs appropriately relate to designated PMC services.

SECTION I – DEFICIENCIES, CONTINUED

4. Customer Deposits

Comment: Our tests of customer deposits disclosed the following:

a. At September 30, 2014, customer deposit subsidiary details contained negative balances totaling $144,353.

b. An outstanding guarantee deposit balance of $363,335 pertains to inactive accounts from FY2013 and prior years. GPA currently does not have a policy for recognizing long outstanding guarantee deposits from inactive accounts.

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

Recommendation: Negative balances in customer deposits should be investigated. In addition, GPA should consider setting up a policy to account for inactive outstanding guarantee deposits.

5. Customer Master Files

Comment: Changes to customer master files are processed through the Customer Service Department. However, no report of changes to customer's files is generated and changes are not reviewed or approved.

Recommendation: Changes to customer master files should be reviewed and approved.

6. Journal Entries

Comment: GPA has journal entries back dated from three to eleven months and journal entries wherein the debit or credit side of the entry have different posting date. We were informed that this occurred due to JD Edwards's system glitch. Due to the glitch, there were entries already posted in prior months that became unposted in the general ledger. GPA resolves these unposted entries every month-end closing which resulted in back dated entries and changed posting date. However, even the posting date changed, the effectivity date of the entries did not change from the original effectivity date after being resolved.

Recommendation: GPA should determine the root cause of the system glitch and implement necessary steps to resolve the system issue.

SECTION II – OTHER MATTERS

Other matters related to our observations concerning operations, compliance with laws and regulations, and best practices involving internal control over financial reporting that we wish to bring to your attention are as follows:

1. Check Numbers

   Comment: A previous check number in the JD Edwards system was reused as reference for a wire transfer payment.

   Recommendation: Payment references should not be reused.

2. Voided Checks

   Comment: A voided check copy (check #66536) was not made available to verify if it was properly voided.

   Recommendation: Voided checks should be tracked and filed. In addition, GPA should consider establishing a policy to account for voided checks.

3. Bill Cancellations

   Comment: If an error is discovered as a result of investigation of a customer billing complaint, the bill will be cancelled. However, there is no formal documentation of bill cancellations.

   Recommendation: GPA should consider establishing a policy of formal documentation of bill cancellations.

4. Procurement

   Comment: The bid for the purchase of power poles indicated that GPA Engineering shall conduct pole testing prior to acceptance and delivery and the vendor shall be responsible for the airfare expenses and ground transportation of two GPA representatives. For four purchase orders (ref. PO#s 20170, 20171, 20480 and 20601) related to this bid, the personnel traveling included one individual from the procurement department and one from the engineering department.

   Recommendation: Inspections of supplies and services to be procured should be conducted by qualified personnel.

5. Annual Leave

   Comment: The JD Edwards system includes a module for monitoring annual leave. However, monitoring is still being performed through the use of manual records and excel spreadsheets.

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

   Recommendation: We recommend that the leave monitoring module in the JD Edwards system be utilized in order to minimize the time spent by the Payroll Department in manually tracking leave credits.

SECTION II – OTHER MATTERS, CONTINUED

6. Deactivation of Dededo CT 1&2

   Comment: The Dededo CT 1&2 have been out of service since 2010 and 2004, respectively, due to damages in both units. GPA would require significant amount of capital investment to return both units to service. These units are currently not required to meet the reliability needs of GPA customers and in November 2014, CCU approve the deactivation of Dededo CT 1&2.

   As of September 30, 2014, GPA has not performed an analysis of the effect of deactivation on the power plants.

   Recommendation: GPA should analyze the financial impact of the planned deactivation of the power plants.

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) 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.