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February 25, 2011

Mr. Joaquin C. Flores
General Manager
Guam Power Authority
1911 Route 16
Harmon, Guam 96913

Dear Mr. Flores:

In planning and performing our audit of the financial statements of Guam Power Authority (GPA) as of and for the year ended September 30, 2010 (on which we have issued our report dated February 25, 2011), 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, 2010 that we wish to bring to your attention. We have also separately reported in a letter dated February 25, 2011 addressed to GPA's management certain deficiencies involving GPA's computer processing environment.

We have also issued a separate report to the Consolidated Commission on Utilities, also dated February 25, 2011, 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

APPENDIX I

SECTION I – CONTROL DEFICIENCIES

We identified the following control deficiencies involving GPA's internal control over financial reporting as of September 30, 2010:

1. Reconciliation of Customer Deposits and Review of Related Accrued Interest

   Condition: At September 30, 2010, customer deposit subsidiary details contained negative balances. Furthermore, no regular review of related accrued interest occurs.

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

   Recommendation: We recommend that customer deposit accounts are regularly reviewed.

2. Materials and Supplies Inventory

   Condition: Our observation of GPA's physical inventory count covering materials and supplies of the Transmission and Distribution unit indicated the following:

   a. For one item (Item no. SSOI0783), the initial and second counts performed by GPA personnel were understated by 252 units. The first two groups who did the count failed to include a bulk package with 252 units. Recounts were performed by the two groups who agreed on a finalized number.

   b. For one item (Item no. SSOS1212), test counts of one sealed box disclosed that the box contained 24 items instead of 25 items as indicated on the box. GPA believes that this is an isolated instance; however, such will be checked with the supplier as to the accuracy of the contents of the box. The count record was corrected based on the revised count.

   Recommendation: We recommend that GPA strengthen controls over inventory counts.

3. Sick Leave Accrual

   Condition: Our examination of two employee sick leave accruals (Employee nos. 247214 and 279751) noted differences in accrued sick leave hours of 24 and 14 hours, respectively, as of September 30, 2010. Further, we noted that beginning accrued sick leave used to calculate the rollforward balance at September 30, 2010 had a difference of $57,934 compared to the audited balance at September 30, 2009. This condition was not discovered during the year as reconciliations of sick leave accrual are only performed at year-end. Further, no explanations were provided as to the nature of the differences. An adjustment was not proposed as management did not consider the error material to the financial statements.

   Recommendation: We recommend that reconciliations of sick leave accruals be performed at least quarterly. Further, we recommend that reconciliations be performed accurately and include evidence of review.

SECTION I – CONTROL DEFICIENCIES, CONTINUED

4. Annual Leave Accrual

   Condition: Reconciliations between the annual leave subsidiary and general ledgers were only performed at year-end resulting in a post-closing adjustment of $714,000 to the annual leave accrual account at September 30, 2010.

   Recommendation: We recommend that reconciliations of annual leave accruals be performed at least quarterly.

5. Reconciliation of Utility Plant

   Condition: Our tests of the utility plant subsidiary ledger and general ledger reconciliation indicated that utility plant cost per the general ledger is understated by $37,996 and accumulated depreciation is understated by $422,447. An adjustment was not proposed as management did not consider the error material to the financial statements.

   Recommendation: We recommend that the utility plant subsidiary ledger and general ledger be reconciled and adjustments arising from the reconciliation, if any, be recorded on a timely basis.

SECTION II – OTHER MATTERS

We also identified, and have included below, other matters involving GPA's internal control over financial reporting as of September 30, 2010, that we wish to bring to your attention:

1. Incorrect Late Charges

   Condition: The miscellaneous income account includes billing errors in Utiligy that are discovered through manual verification of unusual amounts prior to the mailing of customer billings. These errors occur in the Utiligy system and appear to affect some new accounts in the initial months billing; however, such errors are corrected in the succeeding month. As a result, receivables and late charge revenues were overstated at September 30, 2010. An adjustment was not proposed as management did not consider the error material to the financial statements.

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

   Recommendation: We recommend that GPA address this issue.

2. Allowance for Inventory Obsolescence

   Condition: In October 2009, GPA adopted a policy of providing an allowance for slow moving inventory at the rate of 2% of inventory items aged five years or over in addition to the regular inventory survey performed bi-annually. We noted that the draft policy is pending approval by management. Further, the use of a 2% provision rate does not appear to be supported.

   Recommendation: We recommend that the policy be approved by management and the 2% provision rate be justified. Further, we recommend that the policy include requirements for periodic physical verification (at least on an annual basis) to identify obsolete inventory and to adjust the reserve balance accordingly.

SECTION III – DEFINITIONS

The definition of a deficiency that is established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, is as follows:

A *deficiency* 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.

APPENDIX II

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.