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April 22, 2008

Consolidated Commission on Utilities (CCU):

In planning and performing our audit of the financial statements of Guam Power Authority (GPA) for the year ended September 30, 2007, on which we have issued our report dated April 4, 2008, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purposes of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control 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 misstatements on a timely basis.

We developed the following recommendations concerning control deficiencies and other matters related to its internal control.

Control Deficiency:

Finding Number 1 – Segregation of the Production and Testing Environments

Condition: Testing and production environments should be separated. Certain employees, who are responsible for testing, are classified to the Attribute of PROD in the List of Library. Additionally, we found both the TEST and PROD Attributes in the list of Library. It appears that GPA does not maintain a clear separation between testing and production environments. Employees who are responsible for testing data could intentionally or accidentally change the data in the production environment. The data integrity of the production environment could be affected.

Recommendation: We recommend that the Authority review the incompatible settings and delete those objects from the affected library.

Finding Number 2 – Access to the Production Environment

Condition: Access and making changes to the production environment should not be granted to the same individual. The Authority's programmers are granted access to the production data. The system programmers including GWA and AMX users are also responsible for developing changes to the interface and migration of these modifications to the production environment. As such, segregation of duties may be compromised. Inappropriate segregation of duties could reduce the likelihood of detecting unauthorized transactions or errors; programmers could perform changes in production without responsibility and accountability being established and therefore data integrity could be threatened; and version control over scripts/files could be compromised. Access to the production environment should be limited to users and administrators who need it in order to perform their daily tasks.

Finding Number 2 – Access to the Production Environment, Continued

Recommendation: We recommend that formal segregation of duties be defined and applied in respect of the process of making changes and moving updated versions to production. In addition, activity logs should be reviewed on a periodic basis.

Other Internal Control Matters:

Finding Number 3 – Employees' Retirement Election

Condition: One employee hired on April 15, 1996 is enrolled in the Defined Benefit (DB) Retirement Plan. In general, employees are only eligible to participate in the Defined Contribution Plan if hired on or after October 1, 1995. There is no documentation on file explaining the reason the employee was allowed to enroll in the DB Plan.

Recommendation: Documentation should be on file to support retirement plan elections.

Finding Number 4 – Allowance for Funds Used During Construction (AFUDC)

Condition: GPA's interest capitalization policy has not been approved by the Public Utilities Commission (PUC).

Recommendation: GPA should submit its interest capitalization policy to the PUC for approval.

Finding Number 5 – Monitoring of Fixed Assets and Maintenance of Fixed Asset Register

Condition: Of 40 personal computers tested, we noted the following:

- Three monitors, 2 CPUs and 2 keyboards cannot be located
- Two of 32 keyboards identified have no identification tags
- 1 monitor and 6 keyboards were scrapped but are still included in the fixed asset subsidiary ledger.

Recommendation: The Authority should ensure regular update of the fixed asset subsidiary ledgers and should perform periodic inventories to verify the physical status of the assets.

Finding Number 6 – Inventory Obsolescence Policy

Condition: GPA does not produce inventory aging reports to assist in the identification of obsolete inventory and the establishment of inventory obsolescence reserves. Furthermore, there is no established policy governing a periodic assessment of inventory valuation to ensure that inventories are carried at the lower of cost or market.

Recommendation: Regular preparation and review of an inventory aging report should identify potential inventory valuation issues and serve as an independent check that slow-moving items are evaluated for obsolescence.

Finding Number 7 – Retirement of Fixed Assets

Condition: Prenumbered documents are not sent to Accounting to record fixed assets retired by departments.

Finding Number 7 – Retirement of Fixed Assets, Continued

Recommendation: The Authority should adopt a prenumbered document to be completed by end-users for all fixed assets retired.

Finding Number 8 – Synchronization of Work Order Status between the JD Edward System (JDE) and the Utiligy Software

Condition: The work order status between JDE and Utiligy is not in sync.

Recommendation: The Authority should implement a process to ensure regular updates of the work order status between Utiligy and JDE. This would avoid an accumulation of work orders to be corrected and ensure completeness of billings.

Finding Number 9 - Prepayments

Condition: The Authority's prepaid parts account is not being reconciled against the outstanding bank letters of credit.

Recommendation: We recommend that a regular review of prepaid parts occur.

Finding Number 10 - OS 400 System Value Setting Best Practices

Condition: Currently, three of the Authority's security settings in its OS 400 environment differ from those settings that are considered best practices.

Recommendation: We recommend that the Authority consider changing its security settings to the more stringent settings that are considered best practices.

Finding Number 11 – Assignment of Users to the Appropriate Class

Condition: Computer system users should be granted access to the appropriate user classes. We noted that some users were granted access to incorrect user classes and assigned inappropriate special authorities.

Recommendation: We recommend that the Authority review the incorrect settings and make necessary corrections.

Finding Number 12 – Public Object Authority Assignment

Condition: Sensitive commands should have proper settings. We noted an instance where a *PUBLIC user was assigned an inappropriate Object Authority for an Object (which was set to *CHANGE where as the proper setting should be *USE). The improper access granted to the *PUBLIC user for sensitive objects increases the risk of user changes and/or deletion of the object.

Recommendation: We recommend that the proper setting be implemented.

Finding Number 13 – Inappropriate Access to Sensitive System Commands

Condition: Use of sensitive commands should be restricted. We noted that the "public authority" to a sensitive system command is set to *USE, which should be set to *EXCLUDE.

Finding Number 13 – Inappropriate Access to Sensitive System Commands, Continued

Recommendation: The Authority should ensure that the *PUBLIC are assigned *EXCLUDE access to these commands. For cases where further access is required, management should assess the appropriateness of the assignment.

Finding Number 14 – Business Continuity Plans

Condition: The Authority's Business Continuity Plans are generally focused on the Transportation and Distribution of Electrical Systems. The plans primarily focus on providing power to customers, not restoring the ability to process data in an efficient and timely manner.

Recommendation: A Business Continuity Plan and Disaster Recovery Plan should be developed to efficiently restore data processing abilities and should include these areas:

1. Off site processing facilities
2. Written procedures and assignment of Information Technology staffing in the event of a disaster
3. Planned and unplanned controlled system crashes to determine the efficiency and organizational planning in the event of a disaster.
4. Process of documenting and reporting disaster scenarios to senior management.

Finding Number 15 – Application System Implementation and Maintenance

Condition: Currently, the Authority does not have a formal system development and maintenance methodology to follow. Acquisition and implementation of new application systems and ongoing maintenance are performed on an ad-hoc basis.

Recommendation: We recommend that the Authority establish a system development and maintenance methodology.

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This report is intended solely for the information and use of the Consolidated Commission on Utilities, the management of Guam Power Authority and the Office of the Public Auditor of Guam.

We wish to express our appreciation for the cooperation of the staff and management of GPA during the course of our audit. We would be available to discuss any questions that you may have concerning the above comments at your convenience.

Very truly yours,

Deloitte & Touche LLP