GUAM POWER AUTHORITY

INDEPENDENT AUDITORS' REPORTS ON COMPLIANCE AND ON INTERNAL CONTROL

YEAR ENDED SEPTEMBER 30, 2008

Deloitte.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Consolidated Commission on Utilities:

We have audited the financial statements of Guam Power Authority (GPA), as of and for the year ended September 30, 2008, and have issued our report thereon dated March 31, 2009. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered GPA'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 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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects GPA's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of GPA's financial statements that is more than inconsequential will not be prevented or detected by GPA's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2008-01 through 2008-04 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by GPA's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 2008-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Guam Power Authority'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 determination of financial statement amounts. 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

GPA's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit GPA's responses, and, accordingly, we express no opinion on them.

We noted certain matters that we reported to the management of Guam Power Authority in a separate letter dated March 31, 2009.

This report is intended solely for the information and use of the Consolidated Commission on Utilities, management of GPA, the Office of the Public Auditor of Guam, federal awarding agencies, pass-through entities and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

March 31, 2009

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Consolidated Commission on Utilities:

Compliance

We have audited the compliance of Guam Power Authority (GPA) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2008. GPA's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs (page 7). Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of GPA's management. Our responsibility is to express an opinion on GPA's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about GPA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on GPA's compliance with those requirements.

In our opinion, GPA complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended September 30, 2008.

Internal Control Over Compliance

The management of GPA is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered GPA's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of GPA's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as described above.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of GPA as of and for the year ended September 30, 2008, and have issued our report thereon dated March 31, 2009. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for additional analysis as required by OMB Circular A-133. The accompanying schedule is not a required part of the basic financial statements. This schedule is the responsibility of the management of GPA. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects when considered in relation to the basic financial statements taken as a whole.

This report is intended for the information and use of the Consolidated Commission on Utilities and management of GPA, the Office of the Public Auditor of Guam, federal awarding agencies, pass-through entities, and the cognizant audit and other federal agencies, and is not intended to be, and should not be, used by anyone other than these specified parties.

Deloitte & Touche LLP

March 31, 2009

GUAM POWER AUTHORITY

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2008

Grantor/CFDA Grantor's Program Title	Federal CFDA Number	Receivable balance September 30, 2007	FY 2008 Expenditures	FY 2008 Cash Receipts	Receivable balance September 30, 2008
Hazard Mitigation Projects	CFDA#97.039	$ 1,913,555	$ 4,926,027	$ 4,586,067	$ 2,253,515
Public Assistance Grant - Typhoon Pongsona	CFDA#97.036	501,306	-	-	501,306
Public Assistance Grant - Typhoon Chata'an	CFDA#97.036	(177,540)	-	(177,540)	-
Total Public Assistance Grant		323,766	-	(177,540)	501,306
Total Federal Awards		$ 2,237,321	$ 4,926,027	$ 4,408,527	$ 2,754,821

See notes to schedule of expenditures of federal awards.

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Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2008

1. Organization

   The Guam Power Authority 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 Federal expenditures of Guam Power Authority are included within the scope of the audit. The U.S. Department of the Interior has been designated as the Government of Guam's cognizant agency for the compliance audit.

2. Summary of Significant Accounting Policies

   a. Basis of Accounting

      The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting. For the purposes of this report, cash receipts relate to all cash derived from the federal agencies, as passed through the Government of Guam Department of Administration. Cash receipts do not include the matching funds from Guam Power Authority or receipts related to program income.

      All expenses and capital outlays that represent the federal share are reported as expenditures. Expenditures are recognized on the accrual basis of accounting, consistent with the manner in which Guam Power Authority maintains its accounting records.

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2008

Part I - Summary of Auditors' Results Section

Financial Statements

1. Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
2. Material weakness(es) identified?	Yes
3. Significant deficiency(ies) identified that are not considered to be a material weakness?	Yes
4. Noncompliance material to the financial statements noted?	No

Federal Awards

Internal control over major programs:	
5. Material weakness(es) identified?	No
6. Significant deficiency(ies) identified that is not considered to be a material weakness?	None reported
7. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	Yes
8. Type of auditors' report issued on compliance for major programs:	
CFDA Program 97.039	Unqualified

9. The Authority's major program was as follows:

CFDA Numbers	Name of Federal Program or Cluster
97.039	Hazard Mitigation Projects

10. Dollar threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133:	$ 300,000
11. The Authority qualified as a low-risk auditee as that term is defined in OMB Circular A-133?	No

Part II - Financial Statement Findings Section

Reference Number	Finding
2008-01	Property, Plant and Equipment Subsidiary Ledger
2008-02	Useful Lives of Plant and Equipment
2008-03	Fuel Inventory
2008-04	Accounts Receivable and Customers' Deposit Reconciliation

Part III – Federal Award Findings and Questioned Cost Section

No items are reportable.

Finding No.: 2008-01
Area: Property, Plant and Equipment Subsidiary Ledger

Criteria:

Property, plant, and equipment (PP&E) should be supported by accurate subsidiary ledgers. Information maintained should include the original cost and related improvements or betterments. Accurate depreciation listings should also be maintained.

Condition:

GPA does not maintain detailed PP&E listings or subsidiary ledgers of the production, transmission and distribution plant, which represents $630 million of $841 million of GPA's plant, at cost.

Cause:

In the past, GPA has not had sufficient manpower to inventory electric plant. Moreover, GPA has not maintained a fixed asset register since its inception.

Effect:

The propriety of underlying account balances may be questioned. Furthermore, the control procedure of attempting to reconcile physical assets with accounting records is rendered ineffective.

Prior Year Status:

This condition is reiterative of conditions identified in our prior year audit of GPA.

Recommendation:

We recommend that a full inventory of plant assets be performed. Upon completion of this inventory, a complete listing should be created inclusive of asset descriptions, costs, dates of acquisition/disposition as applicable, depreciation to date, identifying numbers and location. This listing should then be compared to accounting records and should be reconciled accordingly.

Auditee Response:

GPA Accounting personnel are continuing the process of setting up the subsidiary ledgers for the fixed assets in the JDEdwards Financial Information Management System. In February 2006, GPA hired an accountant to be fully dedicated to the set up and maintenance of the Fixed Asset System module. With the assistance of other Accounting and Power Plant personnel approximately 72% of the total utility plant has been established in the system as of September 30, 2008. Completion of this project is targeted for next fiscal year.

Finding No.: 2008-02
Area: Useful Lives of Plant and Equipment

Criteria:

The cost of plant and equipment should be depreciated over the assets' useful lives.

Condition:

In 2008, GPA recorded a loss on disposal of plant and equipment of approximately $1.8 million.

Cause:

In the past, GPA had no detailed subsidiary ledger for general plant assets and asset groups were depreciated over useful lives based on broad Federal Energy Regulatory Commission guide lines rather that actual useful lives.

Effect:

The fixed asset account maybe overstated and depreciation costs may not be systematically recognized over the assets' useful lives.

Recommendation:

GPA should reevaluate the estimated useful lives of plant and equipment.

Auditee Response:

The current Standard Operating Procedures related to the classification and recording of fixed assets are currently under revision. Completion of this project is targeted for September 30, 2009.

Finding No.: 2008-03
Area: Fuel Inventory

Criteria:

Fuel consumption should be closely monitored and differences in various fuel usage monitoring reports should be investigated.

Condition:

Fuel inventory consumption per generation department reports differs from accounting department volume by approximately $1.8 million for the year ended September 30, 2008. Currently, there is no formal policy that establishes the level of discrepancies that warrant an investigation.

Cause:

There is no formal policy as to the level of usage differences that warrant an investigation.

Effect:

This condition could result in unauthorized usage or loss of fuel inventory. Furthermore, monthly reports can be misstated by reporting inaccurate consumption.

Prior Year Status:

This condition is reiterative of conditions identified in our prior year audit of GPA.

Recommendation:

GPA should institute a formal written policy on the investigation of consumption differences between physical counts and actual plant consumption. Furthermore, calibration of fuel gauges should be regularly checked.

Auditee Response:

GPA concurs with this finding. GPA's Plant Accounting and Fuel Management personnel will work together to compile a policy to be reviewed and/or approved by GPA's Fuel Committee which is responsible for issues regarding fuel purchases, inventories, etc. Completion is targeted for December 31, 2009. In addition, there is a Request for Proposal advertised to obtain services to calibrate the existing fuel gauges at the power plants. This project should be completed before the end of FY 2009.

Finding No.: 2008-04
Area: Accounts Receivable and Customers' Deposit Reconciliation

Criteria:

Accounts receivable trade and customer deposit subsidiary ledgers should be regularly reconciled with the general ledger.

Condition:

GPA performs annual reconciliations of trade receivables and customer deposit subsidiaries versus the general ledger. Further, there is no schedule of customer deposit –inactive accounts that the Authority can use to analyze details of the account and to use as a basis to apply deposits against inactive accounts.

There were several post closing adjustments required to complete reconciliations of accounts receivable-trade and customer deposit accounts.

Cause:

GPA has had difficulty obtaining reports from the Utiligy application program that summarizes accounts receivable and deposit subsidiary ledgers.

Effect:

Monthly reporting may be inaccurate because reconciling items between subsidiary and general ledgers are not timely researched and resolved.

Prior Year Status:

This condition is reiterative of conditions identified in our prior year audit of GPA.

Recommendation:

Subsidiary ledgers and the general ledger should be reconciled at least quarterly. The Authority should continue to request assistance from the software vendor and other sources to resolve Utiligy system reporting issues.

Auditee Response:

GPA concurs with this finding. GPA's Computer Services and Accounting personnel continue to work closely with the software vendor to resolve these and other reporting issues. During 2007 these same personnel received formal training in Crystal report writing that have further facilitated the generation of the required reports.

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Resolution of Prior Year Findings and Questioned Costs
Year Ended September 30, 2008

The status of unresolved questioned costs from prior year Single Audit Reports is as follows:

Questioned Costs per the September 30, 2004 audit report	$ 11,956
Questioned Costs per the September 30, 2005 audit report	-
Questioned Costs per the September 30, 2006 audit report	-
Questioned Costs per the September 30, 2007 audit report	-
Total unresolved questioned costs as of September 30, 2008	$ 11,956