

**GUAM POWER AUTHORITY**

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**INDEPENDENT AUDITORS' REPORTS ON  
COMPLIANCE AND ON INTERNAL CONTROL**

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**YEAR ENDED SEPTEMBER 30, 2005**

**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, 2005, and have issued our report thereon dated March 31, 2006. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operations of the internal control over financial reporting that, in our judgment, could adversely affect GPA's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2005-01 through 2005-09.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 2005-01 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 grants, 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 on instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Compliance

We also noted other matters involving the internal control over financial reporting, which we have reported to management of GPA in a separate letter dated March 31, 2006.

This report is intended 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, 2006

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL  
CONTROL OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD  
PROGRAM 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, 2005. GPA's major federal program is 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.

As described in finding number 2005-09 in the accompanying Schedule of Findings and Questioned Costs, GPA did not comply with requirements regarding allowable costs that is applicable to its Federal Emergency Management Agency (CFDA No. 83.548) program. Compliance with such requirements is necessary, in our opinion, for GPA to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, 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, 2005.

### 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect GPA's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 2005-09.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that may be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we believe that the reportable condition described above is not a material weakness.

### Schedule of Expenditures of Federal Awards

We have audited the financial statements of GPA as of and for the year ended September 30, 2005, and have issued our report thereon dated March 31, 2006. Our audit was performed for the purpose of forming an opinion on the 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 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 financial statements and, in our opinion, is fairly stated, in all material respects when considered in relation to the 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, 2006

**GUAM POWER AUTHORITY**

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2005

Grantor/CFDA Grantor's Program Title	Federal CFDA Number	FY 2005 Expenditures	FY 2005 Cash Receipts	Receivable balance September 30, 2005
<b>FEDERAL EMERGENCY MANAGEMENT AGENCY:</b>				
Pass-Through Government of Guam Department of Administration:				
Hazard Mitigation Project - Typhoon Pongsona - DR 1446	CFDA#97.039/83.548	\$ 988,309	\$ 306,549	\$ 681,760
Hazard Mitigation Project - Typhoon Chataan - DR 1426	CFDA#97.039/83.548	411,420	-	411,420
Subgrantee Fee	CFDA#97.039/83.548	26,940	5,159	21,781
<b>Total Federal Emergency Management Agency</b>		<b>\$ 1,426,669</b>	<b>\$ 311,708</b>	<b>\$ 1,114,961</b>
<b>Total Federal Awards</b>		<b>\$ 1,426,669</b>	<b>\$ 311,708</b>	<b>\$ 1,114,961</b>

See notes to schedule of expenditures of federal awards.

## **GUAM POWER AUTHORITY**

### **Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2005**

#### **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 the Guam Power Authority are included within the scope of the audit. The U.S. Department of Health and Human Services 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 the 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 the Guam Power Authority maintains its accounting records.

# GUAM POWER AUTHORITY

## Schedule of Findings and Questioned Costs Year Ended September 30, 2005

### Part I - Summary of Auditors' Results

1. The Independent Auditors' Report on the financial statements expressed an unqualified opinion.
2. Reportable conditions in internal control over financial reporting were identified, one of which was considered a material weakness.
3. No instances of noncompliance considered material to the financial statements were disclosed by the audit.
4. A reportable condition in internal control over compliance with requirements applicable to major federal awards programs was identified.
5. The Independent Auditors' Report on compliance with requirements applicable to major federal award programs expressed a qualified opinion.
6. The audit disclosed findings required to be reported by OMB Circular A-133.
7. GPA's major program was as follows:

<u>Name of Federal Program</u>	<u>Federal/LSC CFDA Number</u>
Hazard Mitigation Projects	83.548/97.033

8. GPA did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

### Part II - Financial Statement Findings Section

<u>Reference Number</u>	<u>Finding</u>
2005-01	Property, Plant and Equipment Subsidiary Ledger
2005-02	Accounts Receivable Aging
2005-03	Procurement Policies
2005-04	Accounts Receivable
2005-05	Construction Work-In Progress (CWIP) Closings
2005-06	General Plant Assets
2005-07	Payroll Accrual
2005-08	Materials and Supplies Inventory

### Part III - Federal Award Finding and Questioned Cost Section

<u>Reference Number</u>	<u>CFDA Number</u>	<u>Finding</u>	<u>Questioned Costs</u>
2005-09	83.548	Cost Accumulation – FEMA Hazard Mitigation Grant Projects	\$ -



## GUAM POWER AUTHORITY

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2005

Finding No.: 2005-01  
Area: Property, Plant and Equipment Subsidiary Ledger

Criteria:

Property, plant, and equipment (PP&E) should be properly supported by accurate subsidiary ledgers. Information maintained should include the original cost and related improvements or betterments. Accurate related 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 \$588 million of \$799 million of GPA's plant at cost.

Cause:

GPA may not have sufficient manpower to properly 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 was noted in prior years and does not appear to have been corrected in the current year.

Recommendation:

We recommend that a full inventory of plant assets be performed to account for all items. 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 concurs with this finding. GPA has been in the process of creating this listing for the last two years. GPA is targeting the end of 2007 for completion of this project.

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Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2005

Finding No.: 2005-02  
Area: Accounts Receivable Aging

Criteria:

The accounts receivable aging report should properly age outstanding receivables.

Condition:

Trade accounts amounting to \$607,819, which are classified as "Others" are not properly aged. There are some accounts that are current, but were classified as over 120 days old.

Cause:

The report used to age the special billing accounts does not properly age outstanding billings.

Effect:

There is no effect on the financial statements, but monitoring of receivables may be based on inaccurate information.

Recommendation:

Receivable monitoring is an important tool for GPA to ensure that overdue accounts are addressed in accordance with Service Rules. The aging report should be reviewed to determine why these accounts are not properly aged.

Auditee Response: GPA concurs with this finding.

## GUAM POWER AUTHORITY

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2005

Finding No.: 2005-03  
Area: Procurement Policies

Criteria:

GPA should ensure that adequate records are maintained to document activities undertaken to comply with procurement regulations.

Condition:

Two (2) of twenty-five (25) purchase orders tested were awarded on the basis of a blanket purchase agreement. Based on the blanket purchase procurement regulation, requisitions submitted shall be divided among at least three (3) vendors. However, based on the procurement package, only two vendors were awarded.

Cause:

There appears to be a lack of internal controls over compliance with the blanket purchase procurement regulation.

Effect:

GPA did not comply with the blanket purchase procurement regulation.

Recommendation:

GPA should implement controls to ensure all procurements are awarded in accordance with applicable regulations.

Auditee Response: GPA will ensure that at least three vendors are awarded blanket purchase contracts in the future.

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### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2005

Finding No.: 2005-04  
Area: Accounts Receivable

Criteria:

Active accounts receivable should be closely monitored to minimize write-offs and bad debt.

Condition:

Over the past six years, receivables transferred to inactive accounts have averaged more than \$2 million per year, including more than \$1.5 million in fiscal year 2005. As of September 30, 2005, total inactive accounts amounted to \$12.3 million.

Cause:

While disconnections of past due accounts are generally performed in a timely manner, very little other monitoring of active accounts is performed.

Effect:

This condition results in increased bad debt expense and negative cash flow.

Recommendation:

GPA should review its credit and collection policies and procedures. Such review may entail a revision of existing customer service rules and regulations. GPA should consider hiring an experienced credit and collection manager.

Auditee Response: GPA intends to craft a major revision to its customer service rules and regulations which should address most of this finding. GPA is considering whether or not it would be appropriate to hire a credit manager and whether or not special legislation would be required in order for the position to have maximum impact.

## GUAM POWER AUTHORITY

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2005

Finding No.: 2005-05  
Area: Construction Work in Progress (CWIP) Closings

Criteria:

GPA should regularly review construction work in progress activity to better assess the status of these projects and to determine if assets are properly capitalized or should be expensed.

Condition:

Construction work in progress work orders are initiated and controlled by the Engineering Department and occasionally are established solely for the purpose of tracking expenses of a particular activity. An adjustment of \$291,835 occurred at year end to expense construction in progress work orders, and close-outs of CWIP with no activity in 2005 amounted to \$448,321.

Cause:

The volume of work orders resulted in back logs in close-outs. Furthermore, it appears that there is a need to improve coordination between Engineering and Accounting relative to the status of work orders.

Effect:

There is a possibility that the CWIP account is overstated, including projects that may never be fully realized and projects that will ultimately be expensed.

Prior Year Status:

This condition was noted in prior audits. We noted a reduction in the number and dollar amount of CWIP close-outs made during the 2005 year end in comparison with prior years.

Recommendation:

GPA should put into place a process whereby CWIP projects are evaluated on a recurring basis.

Auditee Response: GPA concurs with the finding. GPA believes this finding will be resolved when a Controller is hired.

## GUAM POWER AUTHORITY

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2005

Finding No.: 2005-06  
Area: General Plant Assets

Criteria:

GPA should regularly examine fixed assets to assess if they represent viable assets, or if they should be disposed of.

Condition:

General plant assets include most moveable fixed assets such as vehicles and equipment and office furniture and equipment. Of twenty-two general plant assets tested for physical existence, fifteen personal computers with a total original cost of \$26,975 and no book value at September 30, 2005, could not be located. We were informed that a digger derrick with an acquisition cost of \$95,995 and a depreciated cost of \$47,997 had been in the repair station for approximately two years.

Cause:

GPA does not currently maintain an accurate fixed asset register. This matter, coupled with a lack of manpower, contributes to this problem.

Effect:

There is the possibility that the fixed asset balances may include items that have been disposed of or are no longer of future economic benefit.

Prior Year Status:

This condition was noted in prior years and does not appear to have been corrected in the current year.

Recommendation:

GPA should implement a process whereby fixed assets are evaluated on a recurring basis to determine if they exist and are still of benefit.

Auditee Response: GPA concurs with this finding. As soon as the listing in Finding 2005-01 is completed, GPA will begin a bi-annual or annual inventory of fixed assets.

## GUAM POWER AUTHORITY

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2005

Finding No.: 2005-07  
Area: Payroll Accrual

Criteria:

Accrual calculations should be verified before accruals are recorded in the financial statements.

Condition:

The following items were discovered in the audit of payroll accruals:

- a. The Defined Contribution sick leave benefit was over accrued for one individual by \$176,654.
- b. Hazard pay of \$235,435 was double recorded.
- c. Additional expense and penalty of \$91,510 was incurred with the Internal Revenue Service because of unresolved variances in FICA filings.

Cause:

There appears to be a lack of a proper review process and a lack of regular analysis of the accrual accounts.

Effect:

Accruals and expenses may be immaterially misstated.

Recommendation:

Accrual calculations should be reviewed by a supervisor before being recorded in the financial statements. All payroll tax returns should be filed and deductions paid in a timely manner.

Auditee Response: GPA concurs with the finding. GPA believes this finding will be resolved when a Controller is hired.

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Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2005

Finding No.: 2005-08  
Area: Materials and Supplies Inventory

Criteria:

Perpetual inventory records should be consistently updated for all inventory movements. Significant variances between inventory counts and perpetual records should be researched.

Condition:

Eleven of twelve materials supplies inventory locations required a year-end adjustment to record discrepancies between inventory counts and perpetual records. The reasons for differences are not researched and documented. Differences are automatically adjusted against expense and causes of significant differences are rarely investigated.

Cause:

It appears GPA lacks adequate controls to monitor inventory movement.

Effect:

No known material effect on the financial statements results from this condition. However, the appropriateness of the usage of inventory for management monitoring purposes may not be validated.

Prior Year Status:

This condition was noted in the prior years and does not appear to have been corrected in the current year.

Recommendation:

GPA should implement controls to ensure inventory receipts and issuances are properly accounted for and perpetual inventory records are updated. Significant variances between perpetual inventory records and physical counts should be investigated.

Auditee Response: GPA concurs with this finding.



**GUAM POWER AUTHORITY**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2005

Finding No.: 2005-09  
CFDA No.: 83.548  
Program Name: Federal Emergency Management Agency (FEMA)  
– Typhoon Chataan, Grant #DR1426  
Area: Cost Accumulation –FEMA Hazard Mitigation Grant Projects  
Questioned Costs: \$0

Criteria:

Costs that are not associated with FEMA projects should not be charged or accumulated in FEMA reimbursed job orders.

Condition:

The following costs were charged to FEMA job orders, but the supporting invoices indicate that they are not part of a FEMA funded project:

<u>Job order #</u>	<u>Invoice</u>	<u>Amount</u>
100043	MG-1185-03A	\$ 10,705

Cause:

The invoices were apparently encoded to the wrong job order.

Effect:

Non-allowable costs could be charged to a federal grant. No questioned cost exists as federal reimbursement has not been requested.

Recommendation:

We recommend that a review of invoices charged to federal grants be performed to ensure that invoices are charged to the correct project and are eligible for federal reimbursement.

Auditee Response:

Incorrect allocation of Invoice #MG-1185-03A when it was recorded on August 18, 2005 was corrected in FY 2006.

GPA has a Contract Management Section to review and to ensure that all claims to FEMA are correct. Invoice #MG-1185-03A was properly billed to FEMA and GPA received the reimbursement on November 2005.

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Resolution of Prior Year Findings and Questioned Costs  
Year Ended September 30, 2005

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	<u>-</u>
Total unresolved questioned costs as of September 30, 2005	\$ <u>11,956</u>