

GUAM POWER AUTHORITY

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

YEAR ENDED SEPTEMBER 30, 2003



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING 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, 2003, and have issued our report thereon dated May 19, 2004. 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.

Compliance

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 no instances of noncompliance that are required to be reported under Government Auditing Standards.

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 2003-01 through 2003-19.

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 2003-08 to be a material weakness.

This report is intended solely for the information and use of the Consolidated Commission on Utilities, management of GPA, 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

May 19, 2004



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
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, 2003. 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.

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, 2003.

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.

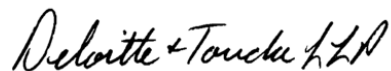
We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, 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. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as item 2003-20.

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, 2003, and have issued our report thereon dated May 19, 2004. 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 solely for the information and use of the Consolidated Commission on Utilities and management of GPA, 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.



May 19, 2004

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Schedule of Expenditures of Federal Awards
Year Ended September 30, 2003

<u>Grantor/CFDA Grantor's Program Title</u>	<u>Federal CFDA Number</u>	<u>FY 2003 Cash Receipts</u>	<u>Expenditures</u>
FEDERAL EMERGENCY MANAGEMENT AGENCY:			
Pass-Through Government of Guam Department of Administration:			
Public Assistance Grants - Typhoon Pongsona	83.544	\$ <u>8,072,207</u>	\$ <u>14,550,448</u>
Total Federal Emergency Management Agency		\$ <u>8,072,207</u>	\$ <u>14,550,448</u>
Total Federal Awards		\$ <u>8,072,207</u>	\$ <u>14,550,448</u>

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, 2003

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 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 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.

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Schedule of Findings and Questioned Costs Year Ended September 30, 2003

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 instance of noncompliance considered material to the financial statements was disclosed by the audit.
4. No reportable conditions in internal control over compliance with requirements applicable to major federal awards programs were identified.
5. The Independent Auditors' Report on compliance with requirements applicable to major federal award programs expressed an unqualified opinion.
6. The audit disclosed findings required to be reported by OMB Circular A-133.
7. The Authority's major program was as follows:

<u>Name of Federal Program</u>	<u>Federal/LSC CFDA Number</u>
Public Assistance Grants – Typhoon Pongsona	83.544

8. A threshold of \$300,000 was used to distinguish between Type A and Type B programs.
9. The Authority 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>	<u>Questioned Costs</u>
2003-01	Internal Audit	\$ -
2003-02	Supporting Documents	\$ -
2003-03	Disconnection Policies	\$ -
2003-04	System Controls Over New Accounts	\$ -
2003-05	Property, Plant and Equipment Subsidiary Ledger	\$ -
2003-06	Inactive Accounts Receivable	\$ -
2003-07	Procurement Policies and Procedures	\$ -
2003-08	GovGuam Receivables	\$ -
2003-09	Bank Reconciliation	\$ -
2003-10	Timely Processing of Customer Adjustments	\$ -
2003-11	Inventory Overstock	\$ -
2003-12	Fixed Assets Disposals	\$ -
2003-13	CWIP Closings	\$ -
2003-14	Overtime	\$ -
2003-15	Customer Billings	\$ -
2003-16	Customer Information System Errors	\$ -
2003-17	Processing Vendor Payments and Letters of Credit	\$ -
2003-18	Consultant Services Procurement	\$ -
2003-19	Bond Reserve Fund Forward Delivery Contract	\$ -

Part III - Federal Award Finding and Questioned Cost Section

<u>Reference Number</u>	<u>CFDA Number</u>	<u>Finding</u>	<u>Questioned Costs</u>
2003-20	83.544	Procurement	\$ -

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Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2003

Finding No.: 2003-01
Area: Internal Audit

Criteria:

The internal audit function should be directed by the board of directors, now the Consolidated Commission on Utilities (CCU), to maintain objectivity in the application of internal audit procedures and to avoid the influence of management on the reporting of findings. The CCU has the responsibility for addressing any findings, including evaluating the conditions reported and handing down corrective action plans to management.

Condition:

During the year ended September 30, 2003, the internal audit function was directed by the general manager of GPA.

Cause:

Management believed a greater degree of focus on significant current problems, and thus an overall increase in efficiency, could be achieved through management oversight of the internal audit function.

Effect:

Although greater efficiency may have been achieved, such may have been attained at the expense of objectivity and overall usefulness of information produced by internal audit. Because evaluation of the conditions reported, creation of corrective action plans, and ensuring implementation were all performed by one individual, the internal audit function may not have achieved its intended effectiveness.

Prior Year Status:

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

Recommendation:

Internal audit should be directed by the CCU. GPA management may continue to request that the CCU direct the internal audit to investigate certain problems and situations as deemed necessary.

Auditee Response dated August 6, 2004:

The CCU has established an internal audit committee made up of two Commission members, the General Manager from each utility, the Chief Financial Officer, and the Internal Auditor. The Committee will be reviewing the internal audit reports and the responses provided by management. The Committee is also responsible for making personnel decisions regarding the internal auditor.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding No.: 2003-02
Area: Supporting Documents

Criteria:

Effort should be made to ensure the proper safekeeping of documents supporting transactions.

Condition:

The following files could not be located:

<u>Purchase Order #</u>	<u>Requisition #</u>
30013	10250
30314	
30316	
30419	
6941	

The following documents could not be located:

1. Customer payment coupon, cashier balancing report and validated bank deposit slips for the following subsequent receipts:

<u>Date</u>	<u>Amount</u>	<u>Customer #</u>
10/02/03	\$ 39,575.14	124422
01/30/04	\$ 1,222.45	162955

2. RFP file for RFP #03-01, requisition number 10250 dated August 13, 2002.
3. Inventory control logs for Cabras 1, 2, 3, 4, Marbo, MDI and Transmission and Distribution physical inventories.
4. Order of the PUC for workorders 100011, 100034, 21949700, 23889700, 27939900, 21809700, 27889900, 2810990.
5. Inventory count cards for three physical inventory items.

Cause:

There appears to be a lack of internal control over safekeeping of supporting documents.

Effect:

No known material effect on the financial statements results from this condition. However, the propriety of underlying account balances may be questioned.

Prior Year Status:

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

GUAM POWER AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding No.: 2003-02, Continued
Area: Supporting Documents

Recommendation:

GPA should ensure proper safekeeping of supporting documents.

Auditee Response dated August 6, 2004:

One of the files has since been located. GPA concurs that the safeguarding of documents needs to be improved. GPA is reviewing policies to ensure these findings are not repeated.

GUAM POWER AUTHORITY

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2003

Finding No.: 2003-03
Area: Disconnection Policies

Criteria:

The Guam Power Authority should enforce policies and procedures regarding disconnection of non-paying customers.

Condition:

Of forty-seven accounts tested that had balances over 120 days outstanding, eight should have been disconnected in accordance with GPA policy. However, the following customers were not disconnected:

	<u>Account #</u>	<u>Balance at September 30, 2003</u>	<u>Balance at May 19, 2004</u>
1	122989	\$ 57,968	\$ 23,252
2	124267	63,218	48,691
3	116483	6,004	5,804
4	125349	13,278	12,408
5	190113	3,762	3,685
6	198909	16,210	16,055
7	199755	5,135	5,035
8	196718	8,605	6,734

Cause:

In some cases, GPA may not have sufficient manpower or have knowledge of the exact location of the meter to disconnect non-paying customers.

Effect:

GPA continues to provide power to non-paying customers.

Prior Year Status:

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

Recommendation:

GPA should follow existing policies and procedures regarding disconnection of non-paying customers.

Auditee Response dated August 6, 2004:

GPA has been aggressively disconnecting delinquent customers in accordance with its policies and procedures. Most of the customers noted above have arisen from unusual circumstances.

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Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2003

Finding No.: 2003-04
Area: System Controls Over New Accounts

Criteria:

The Guam Power Authority should ensure that policies, procedures and system controls exist that prevent customers from reopening another account (in the same physical location) when the original account has been disconnected and the outstanding balance is significant and remains outstanding.

Condition:

We noted that disconnected customers with outstanding balances sometimes request other family members to open a new account in the same physical location under a different name.

Cause:

Currently, GPA service rules and regulations do not allow the agency to refuse service under these circumstances.

Effect:

Old accounts with large outstanding balances exist resulting in a significant bad debt provision.

Prior Year Status:

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

Recommendation:

We recommend that the Authority amend its service rules and regulations to prevent related parties from obtaining power under different names at recently disconnected locations.

Auditee Response dated August 13, 2004:

GPA concurs with this finding. GPA's legal counsel is currently working on a revision of GPA's service rules and regulations.

GUAM POWER AUTHORITY

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2003

Finding No.: 2003-05
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 subsequent related improvements or betterments. Accurate related depreciation listings should also be maintained.

Condition:

During 2003, the Authority did not maintain detailed PP&E listings, nor maintain subsidiary ledgers.

Cause:

Guam Power Authority may not have sufficient manpower to properly inventory items of electric plant. Moreover, the Authority has not maintained a fixed asset register since its inception.

Effect:

The propriety of underlying accounting 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 the prior year and does not appear to have been corrected in the current year.

Recommendation:

We recommend that a full inventory be performed to account for all items. Upon completion of this inventory, a complete listing should be created including asset description, cost, date of acquisition/disposition as applicable, depreciation to date, identifying number and location. This listing should then be compared to accounting records and reconciled accordingly.

Auditee Response dated August 6, 2004:

GPA concurs with this finding and is dedicating staff to address this problem. However, it is likely to take more than one year to resolve the finding.

GUAM POWER AUTHORITY

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2003

Finding No.: 2003-06
Area: Inactive Accounts Receivable

Criteria:

An allowance for doubtful accounts based on historical collection data should be recorded against inactive accounts receivable.

Condition:

Accounts receivable should be periodically reviewed for collectibility. At September 30, 2003, GPA had \$13.4 million of inactive accounts receivable with an allowance for doubtful accounts of approximately \$12 million.

Cause:

The cause of this condition is due to lack of manpower to track inactive accounts.

Effect:

This condition results in overstated receivables that require a significant allowance for doubtful accounts.

Recommendation:

The Authority should implement procedures to determine whether inactive accounts are collectible or they should be written off.

Auditee Response dated August 6, 2004:

GPA concurs with this finding. The Authority will develop standard operating procedures to ensure that uncollectible receivables are written off on a timely basis.

GUAM POWER AUTHORITY

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2003

Finding No.: 2003-07
Area: Procurement Policies and Procedures

Criteria:

The Authority should adhere to the procedures governing the procurement process, as set forth by Guam Public Law.

Condition:

During our examination of procurement documentation, we noted the following, which may be inconsistent with Guam Public Law:

1. For Purchase Order (PO) #6939 in the amount of \$3,624, the PO was issued based on a reduced scope of services from the original request for quotation without re-soliciting for request for quotation.
2. For PO #6773 and #6985 in the amounts of \$14,500 and \$60,000, respectively, the awards were based on correspondence from the vendor stating that it was the only supplier of a certain manufactured product.

Cause:

The cause of these conditions appears to be due to a lack of control over the compliance with Guam Public Law pertaining to the procurement process.

Effect:

While individually, these items may not have direct financial statement impact, the possibility of mismanaged funds could result from the condition.

Recommendation:

Proper procurement procedures, including the issuance of purchase orders, should occur before vendors are engaged to provide goods or services.

Auditee Response dated August 13, 2004:

1. GPA contends the bid allowed for vendors to bid on all or part of the scope of work.
2. The engine parts were known to GPA to be manufacturer specific. In order to get documentation for the procurement file, GPA requested the vendor to write a letter stating the parts were available only from that manufacturer. In the future, GPA will document other work done to verify statements from vendors regarding sole source representations.

Auditors' Response:

1. GPA was unable to provide us with documentation to support the contention that vendors could bid on portions of the work scope. Therefore the comment remains.

GUAM POWER AUTHORITY

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2003

Finding No.: 2003-08
Area: GovGuam Receivables

Criteria:

The Guam Power Authority should enforce policies and procedures regarding disconnection of non-paying customers.

Condition:

GPA receivables from Government of Guam agencies were \$51 million at September 30, 2003.

Approximately \$32 of the \$51 million is due from two agencies: the Department of Education (DOE), the Department of Public Works (DPW). DOE and DPW are line agencies of the Government of Guam and receive funding from the General Fund.

Cause:

GPA has not enforced its policies with respect to disconnection of non-paying customers. GPA has required DOE and DPW to pay current charges since March 2003, but minimal payment has been received on balances due from periods prior to March 2003. GPA management was hoping that balances due from these prior periods would be paid from the proceeds of the bonds to be issued by the Government of Guam.

Effect:

GPA has suffered severely restricted cash flow and is in danger of noncompliance with its bond covenants.

Prior Year Status:

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

Recommendation:

The bonds have not been issued by the Government of Guam as of May 19, 2004. GPA should enter into new repayment agreements with the above Gov Guam agencies for the balances due from periods prior to March 2003. Terms of these repayment agreements should be strictly enforced and disconnections should be made promptly if the agencies do not make their scheduled payments.

Auditee Response dated August 6, 2004:

Since the Consolidated Commission on Utilities took office, the growth in government receivables stopped. The CCU negotiated for the past due bills to be included in legislation authorizing the issuance of bonds by the government of Guam. Government agencies have remained current on their bills and they have been disconnected for failure to pay their bills on a timely basis. GPA is negotiating new promissory notes with the agencies in question and will strictly enforce the notes to ensure all required payments are made on a timely basis.

GUAM POWER AUTHORITY

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2003

Finding No.: 2003-09
Area: Bank Reconciliation

Criteria:

Checks outstanding at year-end should be included in the year-end bank reconciliation.

Condition:

The general ledger balance for one bank account was increased by \$780,000 at September 30, 2003 as all outstanding checks were eliminated from the bank reconciliation.

Cause:

An adjustment was made to remove outstanding checks at year-end.

Effect:

There is a misstatement of cash and certain liability accounts.

Recommendation:

Adjustments should be thoroughly reviewed before they are approved and recorded.

Auditee Response dated August 13, 2004:

GPA has taken steps to ensure that this adjustment will be done properly in the future.

GUAM POWER AUTHORITY

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2003

Finding No.: 2003-10
Area: Timely Processing of Customer Adjustments

Criteria:

Customer account details should be consistently reconciled between Accounting and Customer Service.

Condition:

Of forty-two customer accounts tested that had balances outstanding for over 120 days, two accounts (#00102444 for \$103,168.24 and #00135859 for \$23,443.02) had various credit adjustments that were not properly reflected.

Cause:

The cause of this condition is due to a lack of communication between Customer Service and Accounting. These adjustments were calculated by Customer Service. However, as the accounts were already closed, they were unable to apply the adjustment directly to the customers' accounts. Instead, they relied on Accounting, via a memo from Customer Service, to apply the adjustments to the particular accounts.

Effect:

There is a possibility that accounts receivable may be overstated due to the lack of timely recording of adjustments to individual accounts.

Recommendation:

The Authority should implement a process whereby Customer Service adjustments to accounts are regularly reconciled with Accounting's records.

Auditee Response dated August 6, 2004:

GPA is implementing a process for cleaning-up all unposted adjustments. A monthly report is being generated for all adjustments that were not properly posted and billed to customer accounts.

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Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2003

Finding No.: 2003-11
Area: Inventory Overstock

Criteria:

The Guam Power Authority should continually assess inventory stock levels based on actual needs.

Condition:

Of twenty-one items tested at the T&D warehouse and pole yard, we noted the following:

- 1) Nine items totaling \$1,175,011 had no new receipts and less than 25% movement in fiscal year 2003.
- 2) Two items totaling \$444,599 had fiscal year 2003 receipts when existing stock on hand appears to adequately support GPA's needs.
- 3) Two items totaling \$64,074 had fiscal year 2003 receipts and no movement of such items.
- 4) The remaining eight items had new receipts in fiscal year 2003, with a movement range from 1% - 68%.

Cause:

The cause of this condition is a lack of communication between end users and supply management.

Effect:

The inventory on hand may represent items that are not in use by the Authority. Moreover, the continued purchase of unneeded materials decreases the amount of cash available for operations.

Recommendation:

The Authority should streamline the inventory purchasing process. End users need to fully communicate inventory requirements to Supply Management.

Auditee Response dated August 6, 2004:

GPA concurs with this finding. GPA intends to recruit a strong candidate to fill the vacant position of Inventory Management Officer to improve coordination of inventory purchases.

GUAM POWER AUTHORITY

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2003

Finding No.: 2003-12
Area: Fixed Assets Disposals

Criteria:

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

Condition:

Based on discussions with the Accounting staff, disposals of fixed assets appear to be a function of disaster recovery, wherein assets are identified for disposal based solely on recovery efforts. Other general plant assets, such as office furniture and equipment and vehicles do not have a process in place to identify items no longer in use.

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 account balance may include items that have been disposed of or are no longer of future economic benefit.

Recommendation:

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

Auditee Response dated August 6, 2004:

GPA concurs with this position and is budgeting for a person in the Fiscal Year 2005 budget to be responsible for this function.

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Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2003

Finding No.: 2003-13
Area: CWIP Closings

Criteria:

GPA should regularly review construction work in progress activity to better assess the status of these projects and to determine if the Authority's assets are efficiently utilized.

Condition:

In reviewing the Construction Work in Progress details, we noted one job in particular, with approximately \$941,000 in charges that had not been completed, and did not have any current year activity. Per the Plant Maintenance Supervisor, this project has been delayed at least twice due to funding issues.

Cause:

There appears to be a divergence of views with respect to this project. Engineering has indicated that the project should have been completed and implemented two years ago. However, management has not directed funding to support the project.

Effect:

There is a possibility that the CWIP account is overstated, representing projects that may never be fully realized.

Recommendation:

The Authority should implement a process whereby CWIP projects are evaluated on a recurring basis.

Auditee Response dated August 6, 2004:

This project was for the installation of a Mark V control panel at the Dededo Combustion Turbine. The project is necessary in order to have the plant function efficiently. This was a decision made by prior management, but its hard to justify spending money on this plant when there is major maintenance needed at the baseload plants. GPA expects to complete this project in calendar year 2004.

GUAM POWER AUTHORITY

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2003

Finding No.: 2003-14
Area: Overtime

Criteria:

Overtime worked should be properly approved.

Condition:

1. We reviewed seven individuals, one of which was noted to have one hour of unapproved overtime.
2. We noted 32 instances of overtime paid in excess of 16 hours on a weekday in addition to the regular 8 hours.
3. We noted 391 instances when overtime of between 10 to 16 hours was paid to employees on weekdays in addition to the regular 8 hours.
4. We noted 40 instances when overtime of 24 hours was paid to employees on a single day in addition to the regular 8 hours.
5. We noted 291 employees in fiscal year 2003, who earned overtime in excess of 35% of their annual salary and their annual hours. Additionally, six employees received overtime in excess of 100% of base annual pay.

We noted that much of the overtime was incurred during the recovery from Typhoon Pongsona. Overtime for the period of December 2002 through March 2003 accounted for 64% of total overtime.

Cause:

The cause of this condition is due to weak internal controls over processing and approval of overtime.

Effect:

CWIP and salaries and wages accounts may be overstated by an immaterial amount.

Recommendation:

Overtime should be reviewed and approved by the immediate supervisor, and then approved for payment by management at a level higher than the supervisor. Management should monitor overtime costs to ensure they remain within expectations.

Auditee Response dated August 6, 2004:

GPA has budgeted for the development of an application package that requires supervisory approval prior to timekeeping information being accepted into the JDEdwards payroll module.

GPA acknowledges that there is room for improvement in the control of overtime. However, GPA has found instances in which employees worked 16 hours in a day, but no instances in which greater than 16 hours were worked. GPA has had great difficulty in recruiting qualified personnel for shift work at the power plants and the power system control center. Employees have been frequently requested to work double shifts.

GUAM POWER AUTHORITY

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2003

Finding No.: 2003-14, Continued
Area: Overtime

Auditee Response dated August 6, 2004, Continued:

With respect to employees working more than 24 hours in a day, GPA has not found any instances in which an employee was paid for working more than 24 hours in a day. When typhoon conditions are expected, it has been GPA's practice to retain two shifts of workers at the power plants and power system control center to man the shifts when weather conditions do not permit employees to freely leave their work station. Even though the employees work on alternating shifts, GPA believes federal law requires the employees to be paid for all the time they are at work.

GPA's practice has been to require employee's to work overtime in the aftermath of a storm in order to restore electrical service as quickly as possible. Even though this practice causes GPA to pay a large number of employees a significant amount of overtime, GPA believes the costs are outweighed by the revenue generated by restoring power to customers earlier.

GUAM POWER AUTHORITY

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2003

Finding No.: 2003-15
Area: Customer Billings

Criteria:

Customer billing rates should be periodically reviewed to ensure that they are billed at appropriate rates based on consumption.

Condition:

One out of twenty-five customer billings tested was understated by \$154.81.

Cause:

The cause of this finding is due to a lack of manpower to monitor and implement changing customer consumption and demand.

Effect:

Revenues and receivables may be misstated.

Recommendation:

The Authority should establish, implement and monitor a policy over periodic reviews of customer consumption and demand to ensure the accuracy of reported revenues.

Auditee Response dated August 6, 2004:

This was the result of a problem in GPA's billing software. GPA is addressing this problem through the implementation of a new billing software package.

GUAM POWER AUTHORITY

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2003

Finding No.: 2003-16
Area: Customer Information System Errors

Criteria:

The Authority asserts that revenue presented in the financial statements represents billings for all services provided during the period which is being reported. The exception report generated upon upload of readings for each route should be thoroughly examined and cleared prior to posting journal entries in the Customer Information System (CIS). To ensure accurate reporting of revenue, closing dates of the general ledger system (G/L) and the CIS should be synchronized.

Condition:

Subsequent to September 30, 2003, the Authority had approximately \$203,000 of adjustments to FY03 customer billings. Approximately \$155,000 related to rebilling of FY03 revenue that was initially recorded in FY04. Approximately \$48,000 related to cancellations of FY04 billings that were recorded in FY03.

Cause:

The rebillings and cancellations represent the manual correction of billing errors due to reading exceptions not properly cleared. Exception reports do not flag errors due to exceptions falling below threshold, and/or meter readers being overwhelmed with the number of exceptions to investigate. Consequently, the customer will complain about the billing, and most of the time the reading is changed. Also, because of a timing difference between the G/L and the CIS, corrections are posted in periods other than those in which the errors occurred.

Effect:

The accounting department must focus effort on preparing rebillings and cancellations of billing errors that should have been resolved prior to billing and then preparing necessary correcting entries.

Prior Year Status:

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

Recommendation:

The Authority should consider efforts to make meter reading easier and more accurate, including but not limited to, requiring customers to make meters more accessible and readable, lowering the threshold for exceptions in readings to avoid later corrections, and training meter readers to perform readings more accurately to limit subsequent investigations. Concerning the G/L and CIS timing difference, the Authority should consider synchronizing the closing dates and/or programming systems to allow rebills and cancellations to be posted in the same period as the billing, even when already closed.

Auditee Response dated August 6, 2004:

This year's errors dropped drastically compared to the prior year. This is because Revenue Accounting and Customer Service Department are working together to minimize these CIS errors. We are also working with the programmers to synchronize the closing dates to resolve timing difference between GL and CIS.

GUAM POWER AUTHORITY

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2003

Finding No.: 2003-17
Area: Processing Vendor Payments and Letters of Credit

Criteria:

Purchases and payments should be made in accordance with management directives, policies and applicable regulations.

Condition:

A local vendor was paid through a line of credit drawdown without the required number of authorizing officials approving the payment. GPA practice is to only utilize the line of credit to pay off-island vendors. The local vendor was paid a second time when invoices were processed through normal accounts payable procedures. The double payment was later recovered.

Cause:

The Authority deviated from its normal accounts payable process for this vendor. Also, the accounts payable supervisor had been removed and replaced by a less experienced accountant.

Effect:

There is the possibility of unauthorized use of cash and the misappropriation of funds.

Recommendation:

Procedures for processing vendor payments and the use of line of credit should be documented in writing. Deviation from these written procedures should only occur in unusual or emergency situations and should be approved by upper level management.

Auditee Response and Corrective Action Plan dated August 13, 2004:

GPA is drafting a standard operating procedure formalizing the process for the issuance of letters of credit.

GUAM POWER AUTHORITY

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2003

Finding No.: 2003-18
Area: Consultant Services Procurement

Criteria:

Procurement of services should be made through competitive procurement to ensure the Authority obtains the best available services at a competitive cost.

Condition:

At the request of the Authority's previous board of directors, legal counsel contracted with a consultant to assist the Authority in negotiations with the Federal Emergency Management Agency (FEMA). The consultant was engaged without going through a competitive procurement process. The Authority's contract with its legal counsel allows legal counsel to hire any consultants necessary to perform the legal services required by the Authority.

In May 2004, the Authority settled its negotiations with FEMA and is to receive approximately \$8.5 million from its claims. The consultant is to receive 10.5% - 13% of the settlement amount or approximately \$893,000.

Cause:

FEMA had denied several claims for reimbursement of typhoon related costs. The Authority had minimal time to respond to a FEMA appeal deadline.

Effect:

Contracting services through outside parties prevents competitive bidding and negates the possibility that the Authority is able to obtain the best available services for a competitive rate.

Recommendation:

We noted that the agreement with the consultant was requested and approved by the Authority's board of directors. However, better planning by management may have afforded the Authority time to obtain the services through the competitive bidding process.

Auditee Response and Corrective Action Plan dated August 13, 2004:

GPA believes the actions taken were appropriate under the circumstances. Because professional services were retained, they would not have been subject to bidding under Guam Procurement Regulations. The contract would have been subject to negotiation which is not dissimilar from the method used.

GUAM POWER AUTHORITY

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2003

Finding No.: 2003-19
Area: Bond Reserve Fund Forward Delivery Contract

Criteria:

GPA is subject to rate regulation by the Public Utilities Commission of Guam (PUC). Oversight by the PUC includes the requirement that certain transactions entered into by GPA may be subject to approval by the PUC.

Condition:

In September 2000, GPA entered into two Bond Reserve Fund Forward Delivery Agreements. The Agreements provided GPA with a cash infusion of approximately \$12.7 million, and cost GPA approximately \$4.8 million in fees or 38% of the cash proceeds. GPA did not obtain prior PUC approval before entering into these agreements. The \$4.8 million in fees has been capitalized as a deferred asset and is being amortized through the year 2034.

In March 31, 2004, the PUC issued an order stating that the Agreements required prior PUC review and approval. The PUC has reserved its decision as to whether it will ratify the Agreements.

Cause:

GPA apparently relied on an opinion from the Attorney General of Guam which stated that the Agreements did not require prior PUC approval.

Effect:

If the PUC were to determine that GPA cannot recover the capitalized fees through electricity rates, the deferred asset, carried at \$4.3 million at September 30, 2003, would require write off.

Recommendation:

GPA should obtain PUC approval for all financing transactions in excess of \$1.5 million in accordance with the PUC contract review protocol.

Auditee Response and Corrective Action Plan August 13, 2004:

The Consolidated Commission on Utilities is developing a procedure to help ensure that contracts are not approved unless they have obtained any required approvals from the Public Utilities Commission.

At its July 2004 meeting, the Public Utilities Commission approved an order that ratifies the contracts even though they didn't receive approval from the Commission in accordance with the GPA contract review protocol.

GUAM POWER AUTHORITY

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2003

Finding No.: 2003-20
CFDA No. 83.544
Program Name: Public Assistance Grants
Area: Procurement
Questioned Costs: \$0

Criteria:

All potential costs involved in obtaining goods and services should be considered in the procurement process.

Condition:

Following typhoon Pongsona, GPA was in an emergency situation needing, in particular, bucket trucks to assist in the recovery. Through purchase and rental, GPA obtained usage of essentially all available bucket trucks on Guam, which did not fully address the need for bucket trucks during the restoration of power to the island. Purchase Order #30226 was issued to an off island vendor for the rental of bucket trucks. While the order was awarded to the vendor with the lowest bid, the request for proposal (RFP) did not address airfreight costs for the vehicles. Purchase order #30253 was subsequently issued to cover the air freight costs of \$496,800. It appears that air freight charges would have been incurred with any of the respondents to the RFP.

Cause:

The cause of this condition appears to be an oversight by GPA procurement as a result of the emergency situation.

Effect:

No known material effect on the financial statements results from this finding.

Recommendation:

Management should ensure that the procurement process addresses all potential costs associated with the acquisition of goods and services.

Auditee Response and Corrective Action Plan August 13, 2004:

GPA agrees that the documentation for the transaction should be more clear and easy to follow.