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March 15, 2012

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

Dear Mr. Flores:

In planning and performing our audit of the financial statements of Guam Power Authority (GPA) as of and for the year ended September 30, 2011 (on which we have issued our report dated March 15, 2012), in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered GPA's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of GPA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of GPA's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to GPA's internal control over financial reporting and other matters as of September 30, 2011 that we wish to bring to your attention. We have also separately reported in a letter dated March 15, 2012 addressed to GPA's management certain deficiencies involving GPA's information technology environment.

We have also issued a separate report to the Consolidated Commission on Utilities, also dated March 15, 2012, on our consideration of GPA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The definition of a deficiency is also set forth in the attached Appendix I.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of the Consolidated Commission on Utilities, management, others within the organization, the Office of Public Accountability - Guam and the Federal cognizant agency and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of GPA for their cooperation and assistance during the course of this engagement.

Very truly yours,

Deloitte & Touche LLP

APPENDIX I

SECTION I –DEFICIENCIES

We identified the following deficiencies involving GPA's internal control over financial reporting as of September 30, 2011:

1. Allowance for Doubtful Accounts

   Condition: GPA has long outstanding receivables from the Department of Public Works (DPW) and Guam Waterworks Authority (GWA) of $390,377 and $216,993, respectively. However, both DPW and GWA dispute the balances owed to GPA. No allowance for doubtful accounts had been recognized for these accounts.

   Further, our analysis of the allowance for doubtful accounts provided for other receivables indicated that the provision is understated by approximately $283,000.

   Recommendation: We recommend that GPA consider discussing the DPW and GWA accounts with the CCU for appropriate action. Further, we recommend that all long outstanding receivables be considered in the analysis of the provision for doubtful accounts.

2. Utility Plant

   Condition: Our examination of certain utility plant assets' estimated useful lives indicated that the remaining useful lives may no longer be in line with the assets' service potential resulting in an understatement of depreciation of approximately $648,000.

   Recommendation: GPA should consider re-evaluating the useful lives of particular assets or asset groups that will be replaced or abandoned once major capital projects are in place.

3. Miscellaneous Accrued and Current Liabilities

   Condition: The miscellaneous accrued and current liabilities account (GL Account No. 242000) has a debit balance of $532,422. The cause of the debit balance is currently unknown.

   Recommendation: We recommend that the account balance be investigated and adjustment, if any, be timely recorded.

4. Electricity Sales

   Condition: Our tests of electricity sales noted the following:

   a. Two accounts (Account Nos. 256857 and 258323) had customer payments improperly applied to outstanding invoices. We were informed that on the payment application side of the system, if the Utiligy software is not able to find a match of the invoice number, it applies the payment to the latest billing, or, if the customer does not have an outstanding bill tagged, it dumps the payment into unapplied payments until a bill is tagged for the customer to which Utiligy can apply the payment.

   b. One account (Account No. 131312) indicated meter activity; however, it was discovered that the account was disconnected in 2003. The ensuing GPA investigation indicated that a meter was non-existent at the address indicated. We were further informed that the meter activity detected was a result of an error in the Utiligy process and such could not be fixed as changes are not planned to the Utiligy code.

SECTION I – CONTROL DEFICIENCIES, CONTINUED

4. Electricity Sales, Continued

   c. One account (Account No. 191793) indicated meter activity; however, it was discovered that the account was disconnected in 2009. The ensuing GPA investigation into this account indicated that the meter had been illegally tapped by the customer.

   Recommendation: We recommend that a periodic review or comparison of meters listing uploaded in roadrunners against meter information in Utiligy be conducted.

5. Cancellation and Rebills

   Condition: Our examination of cancellations and rebills indicated the following:

   a. Billings for five accounts (Account Nos. 101380, 113836, 158663, 112041 and 123387) had been cancelled five to nine times during the year due to an unprocessed change-out work order.

   b. Billings for three accounts (Account Nos. 103885, 5265079 and 5265017) had been cancelled five to six times during the year due to an unprocessed termination work order.

   c. Current GPA standard operating policy allows estimated readings for a period of three months. However, billings for nine accounts (Account Nos. 118427, 111752, 150152, 5247016, 5253674, 163300, 5240356, 158761 and 158873) had been cancelled and rebilled five to ten times during the year due to estimations or errors in readings.

   Recommendation: We recommend that change-out and termination work orders be processed timely. Further, we recommend that GPA revisit its standard operating procedures on estimated readings to deal with estimated readings beyond three months.

6. Payroll

   Condition: Our examination of payroll expenses noted that for one employee (Employee no. 25996), time charges on the approved timesheet differed from the payroll register. We were informed that such could have been an error during the input process.

   Recommendation: We recommend that GPA strengthen its control over the review of timesheets and payroll registers.

SECTION II – OTHER MATTERS

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

1. Defective Fuel Auto Gauges

   Condition: Fuel auto gauges are devices used to record fuel consumption and issuance. During the fuel inventory observation, we noted the following tanks with defective fuel auto gauges:

No.	Location	Tank No.
1	Temes	Service Tank no. 1
2	Temes	Service Tank no.2
3	Piti (MEC) #6 & #7 (Old Tanks)	Tank 1
4	Piti (MEC) #6 & #7 (Old Tanks)	Tank 2
5	Piti Power Plant 8 & 9 (MEC)	TA-FO-01
6	Piti Power Plant 8 & 9 (MEC)	TA-FO-03
7	Piti Power Plant 8 & 9 (MEC)	TA-FO-26

   Recommendation: We recommend that auto gauges are maintained so that accurate measurement of fuel consumption and issuance are achieved.

2. Allowance for Funds Used During Construction

   Condition: GPA has developed a policy for recognizing allowance for funds used during construction (AFUDC) and recorded AFUDC of $1,779,789 for the year ended September 30, 2011. The policy has not been approved by the Public Utilities Commission (PUC).

   Recommendation: We recommend that the AFUDC policy be reviewed and approved by the PUC.

SECTION III – DEFINITIONS

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

A *deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

GPA's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.