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April 3, 2019

Mr. John Benavente
General Manager
Guam Power Authority
Gloria B. Nelson Public Service Building
688 Route 15, Mangilao, Guam 969135

Dear Mr. Benavente:

In planning and performing our audit of the financial statements of Guam Power Authority (GPA) as of and for the year ended September 30, 2018 (on which we have issued our report dated April 3, 2019), 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 that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, in connection with our audit, we identified, and included in the attached Appendix I, a deficiency and other matters related to GPA's internal control over financial reporting as of September 30, 2018 that we wish to bring to your attention.

We have also separately reported in a letter dated April 3, 2019 addressed to GPA's management, certain deficiencies and other matters involving GPA's information technology environment.

We have also issued a separate report to the Consolidated Commission on Utilities, also dated April 3, 2019, 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.

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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

SECTION I – DEFICIENCY

We identified the following deficiency involving GPA's internal control over financial reporting for the year ended September 30, 2018 that we wish to bring to your attention:

1. Estimated Billings

   Comment: GPA's 1979 Service Rules and Regulations state that GPA may bill the customer for estimated electricity consumed but not registered for a period of three months. As of September 30, 2018, there were 245 accounts billed based on estimated consumption for more than three months.

   Recommendation: We recommend GPA work to resolve accounts that are being billed based on estimated consumption within the three-month policy.

SECTION II – OTHER MATTERS

Other matters related to our observations concerning operations and best practices involving GPA's internal control over financial reporting as of September 30, 2018 that we wish to bring to your attention are as follows:

1. Revenue Rate Classification

   Comment: Two of 57 customer accounts tested were not in the proper rate classification.

   - Acct# 3214500000 is eligible for rate upgrade based on consumption for the past 12 months. However, the Customer Service Department performed the rate upgrade several months after year-end.

   - Acct# 4966100000 is a commercial premise but is under the residential rate class. The account was previously under the commercial rate but because the consumption levels are within the residential threshold, the account was downgraded to residential rate.

   In addition, Revenue Accounting provided a listing of 423 accounts eligible for rate reclassification as of June 30, 2018 (latest listing) to the Customer Service Department. We were unable to determine how many reclassifications have subsequently been performed as reclassifications are not monitored.

   Recommendation: We recommend GPA establish a time frame policy for reclassifying accounts that are eligible for rate reclassification and monitor compliance with the policy. GPA should also follow the rate classification specified in the Tariff Schedule.

2. Performance Management Contractors (PMC)

   Comment: Per GPA's standard operating procedures, a Purchase Order document shall be used in the acquisition of all materials, supplies and/or services. We noted instances of delays in the approval of PMC purchase orders, resulting in PMC expenditures being incurred before approved purchase orders are issued to the PMC. The PMC expenditures are incurred under multi-year contracts.

   As part of the PMC's procurement authority under the PMC Agreements, the PMC will obtain the best terms, conditions, pricing, and availability to meet the needs of the station. However, an invoice from the PMC (ref: O&M Claim No. 167 - B) has no evidence on file to support that the PMC obtained the best pricing for GPA.

SECTION II – OTHER MATTERS, CONTINUED

2. Performance Management Contractors (PMC), Continued

   Recommendation: GPA should determine the accounting for multi-year contracts for budgetary purposes. GPA should discuss documentation requirements to support procurement decisions with the PMC's.

3. Inactive Accounts

   Comment: Approximately $366,000 of inactive accounts receivable appear to have corresponding active accounts in the Customer Care & Billing System (CC&B). GPA provides an allowance for all inactive accounts.

   Recommendation: GPA should continuously clear inactive accounts that have corresponding active accounts in the CC&B.

SECTION III – DEFINITION

The definition of a deficiency is as follows:

A *deficiency* in internal control over financial reporting 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.