

**GUAM POWER AUTHORITY
(A COMPONENT UNIT OF THE
GOVERNMENT OF GUAM)**

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

YEAR ENDED SEPTEMBER 30, 2012

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Commissioners
Consolidated Commission on Utilities:

We have audited the financial statements of Guam Power Authority (GPA) as of and for the year ended September 30, 2012, and have issued our report thereon dated April 8, 2013. 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

Management of GPA is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered GPA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of GPA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of GPA's internal control over financial reporting.

A *deficiency in internal control* 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 *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as item 2012-1 that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether GPA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of GPA in a separate letter dated April 8, 2013.

GPA's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit GPA's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Consolidated Commission on Utilities, management of GPA, the Office of Public Accountability - 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. However, this report is also a matter of public record.

Deloitte + Touche LLP

April 8, 2013

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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**

Commissioners
Consolidated Commission on Utilities:

Compliance

We have audited the Guam Power Authority's (GPA) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on GPA's major federal programs for the year ended September 30, 2012. GPA's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs (page 8). 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 of GPA's compliance with those requirements.

In our opinion, GPA complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2012-2 and 2012-3.

Internal Control Over Compliance

Management of GPA is responsible for establishing and maintaining effective internal control over compliance with the 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 the requirements that could have a direct and material effect on a major federal program to determine the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of GPA's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying Schedule of Findings and Questioned Costs as items 2012-2 and 2012-3. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Guam Power Authority as of and for the year ended September 30, 2012, and have issued our report thereon dated April 8, 2013, which contained an unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements. The accompanying Schedule of Expenditures of Federal Awards (page 5) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

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

This report is intended solely for the information and use of the Consolidated Commission on Utilities, management of GPA, the Office of Public Accountability - Guam, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies, and others within GPA and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.

Deloitte + Touche LLP

April 8, 2013

GUAM POWER AUTHORITY
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2012

<u>CFDA#</u>	<u>Agency/Program</u>	<u>Federal Expenditures</u>
	<u>U.S. Department of Energy</u>	
	Direct Program:	
81.122	ARRA - Guam Power Authority Connected Grid Project - An Integrated and Crosscutting System	\$ <u>5,149,777</u> *
	Pass through the Government of Guam - Guam Energy Office:	
81.041	ARRA - State Energy Program - Government of Guam Buildings Retrofit Project	7,885,549 *
81.128	ARRA - Energy Efficiency and Conservation Block Grant Retrofit of Government-Owned Street Lights	<u>2,445,312</u> *
	Subtotal Indirect Programs	<u>10,330,861</u>
	Total U.S. Department of Energy	<u>15,480,638</u>
	<u>U.S. Department of Homeland Security</u>	
	Pass through the Government of Guam:	
97.067	Controlled Vehicle Gate Entry System	<u>153,180</u>
	Total U.S. Department of Homeland Security	<u>153,180</u>
	Total Federal Program Expended	\$ <u><u>15,633,818</u></u>
	Reconciliation to the financial statements:	
	Capital asset additions	\$ 7,208,246
	Transfers to Government of Guam -	
	Department of Public Works for Street Lights Retrofit Project	540,023
	Government of Guam for Building Retrofit Project	<u>7,885,549</u>
		<u>8,425,572</u>
		\$ <u><u>15,633,818</u></u>

* Denotes a major program.

See accompanying notes to schedule of expenditures of federal awards.

GUAM POWER AUTHORITY
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2012

(1) Scope of Audit

The Guam Power Authority (GPA) 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 GPA are included within the scope of the OMB Circular A-133 audit (the "Single Audit"). The U.S. Department of the Interior has been designated as GPA's cognizant agency for the Single Audit.

Programs Subject to Single Audit

The Schedule of Expenditures of Federal Awards presents each Federal program related to the U.S. Department of Energy and the U.S. Department of Homeland Security.

(2) Summary of Significant Accounting Policies

a. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of GPA and is presented on the accrual basis of accounting, consistent with the manner in which GPA maintains its accounting records. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. All expenses and capital outlays are reported as expenditures.

GPA recognizes contributions from the federal government when qualifying expenditures are incurred, and expenditures are recognized on the accrual basis of accounting.

b. Matching Costs

The nonfederal share of certain programs are not included in the accompanying Schedule of Expenditures of Federal Awards.

(3) American Recovery and Reinvestment Act of 2009 (ARRA)

In February 2009, the Federal Government enacted the American Recovery and Reinvestment Act of 2009 (ARRA). As of September 30, 2012, GPA's grant award notification and expenditures are as follows:

<u>CFDA Program</u>	<u>Grant Amount</u>	<u>Fiscal Year 2012 Expenditures</u>
81.041 ARRA-State Energy Program – Government of Guam Buildings Retrofit Project	\$ 8,100,000	\$ 7,885,549
81.122 ARRA-Guam Power Authority Connected Grid Project – An Integrated and Crosscutting System	16,603,507	5,149,777
81.128 ARRA-Energy Efficiency and Conservation Block Grant Retrofit of Government-Owned Street Lights	<u>2,500,000</u>	<u>2,445,312</u>
	\$ <u>27,203,507</u>	\$ <u>15,480,638</u>

GUAM POWER AUTHORITY
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2012

(4) High-Risk Grantee Status

On October 25, 2012, the U.S. Department of Energy designated GPA as a high-risk recipient in relation to CFDA 81.122 ARRA-Guam Power Authority Connected Grid Project – An Integrated and Crosscutting System.

**GUAM POWER AUTHORITY
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

Part I - Summary of Auditors' Results Section

Financial Statements

- | | |
|--|-------------|
| 1. Type of auditors' report issued: | Unqualified |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | No |
| 3. Significant deficiency(ies) identified? | Yes |
| 4. Noncompliance material to the financial statements noted? | No |

Federal Awards

Internal control over major programs:

- | | |
|---|-------------|
| 5. Material weakness(es) identified? | No |
| 6. Significant deficiency(ies) identified? | Yes |
| 7. Type of auditors' report issued on compliance for major programs: | Unqualified |
| 8. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | Yes |
| 9. Identification of major programs: | |

<u>CFDA Number</u>	<u>Name of Federal Program</u>
81.041	ARRA-State Energy Program – Government of Guam Buildings Retrofit
81.122	ARRA-Guam Power Authority Connected Grid Project - An Integrated and Crosscutting System
81.128	ARRA-Energy Efficiency and Conservation Block Grant Retrofit of Government-Owned Street Lights

- | | |
|--|-----------|
| 10. Dollar threshold used to distinguish between Type A and Type B Programs: | \$469,014 |
| 11. Auditee qualified as low-risk auditee? | No |

Part II – Financial Statement Findings Section

<u>Finding Number</u>	<u>Finding</u>
2012-1	General Computer Controls

Part III – Federal Award Findings and Questioned Costs Section

<u>Finding Number</u>	<u>Finding</u>
2012-2	Equipment and Real Property Management
2012-3	Procurement and Suspension and Debarment

GUAM POWER AUTHORITY
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-1
Area: General Computer Controls

Criteria: An effective computer control environment includes adequate preventative and detective controls. Preventative controls include the configuration of system access rights on a need-to-know and need-to-do basis and a periodic review of these access rights to determine continuing pertinence. Detective controls include adequate audit trails of modification through the use of system reports with sufficient detail to identify the users who make the changes.

Condition: Users in the Utiligy systems who are assigned in the groups of accounting staff, accounting supervisor, customer service supervisors and customer service representatives (CSR) have the access rights of “Delete” and/or “Update1.” Users with these rights can delete and/or modify the meter reading and billing information. Although certain access rights within these groups are necessary in the normal course of business, others are not. For example, CSRs should not have the right to delete billing information. Additionally, the Utiligy system has not been configured to produce a system report that captures all the changes and modifications that are made by these users.

Cause: The condition was caused by a lack of a comprehensive system architectural design during Utiligy’s implementation phase.

Effect: Excessive access rights to users without compensating controls may result in unauthorized changes to meter readings. The lack of a direct system audit trail results in deficient detective controls to discover unauthorized activities.

Prior Year Status: This condition is reiterative of conditions identified in our prior year audit of GPA.

Recommendation: GPA should consider implementing compensating controls to remedy the lack of system audit trails and the provision of access to CSRs.

Auditee Response and Corrective Action Plan: The solution to this problem is the purchase of new software. Our existing software is no longer supported. It would not be economical to perform reprogramming to create audit trails within the software. GPA purchase new software in 2012 and is currently negotiating with a software implementation firm to implement the new software with a go-live date of October 1, 2014.

Name and job title of personnel responsible: Randall V. Wiegand, Chief Financial Officer

GUAM POWER AUTHORITY
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-2
Federal Agency: U.S. Department of Energy
CFDA Program: All Major Programs
Area: Equipment and Real Property Management
Questioned Costs: \$0

Criteria: In accordance with applicable equipment management requirements, grantees that acquire equipment with Federal funds are required to perform a physical inventory of the equipment and reconcile results with property records at least once every two years. Such property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data, including the date of the disposal and sale price of the property. In addition, adequate maintenance procedures must be established to keep the property in good condition.

Condition: GPA has not performed the required comprehensive physical inventories of its property and equipment in fiscal year 2012 or in the two prior years. We are unable to assess the overall cumulative monetary value of this deficiency.

Cause: The cause of the above condition is inadequate equipment and real property management system that complies with applicable equipment management standards.

Effect: The effect of the above condition is noncompliance with applicable equipment and real property management requirements.

Recommendation: GPA should conduct a physical inventory and reconcile results with property and equipment records at least once every two years.

Auditee Response and Corrective Action Plan: GPA completed a massive project at the end of 2010 to create a fixed asset system. This inventory project will be the first one completed by GPA and it is taking a little longer than expected to develop a strategy for completing the inventory. It will be completed by September 30, 2013.

Name and job title of personnel responsible: Lenora Sanz, Controller

GUAM POWER AUTHORITY
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-3
Federal Agency: U.S. Department of Energy
CFDA Program: 81.041 ARRA-State Energy Program – Government of Guam Buildings Retrofit
CFDA Program: 81.128 ARRA-Energy Efficiency and Conservation Block Grant
Retrofit of Government-Owned Street Lights
Area: Procurement and Suspension and Debarment
Questioned Costs: \$0

Criteria: In accordance with applicable procurement requirements, the subgrantee will conduct procurement transactions in a manner providing full and open competition, and will maintain records sufficient to detail the significant history of procurement. These records shall include a rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price. Further, recipients of Department of Energy’s Energy Efficiency and Conservation Block Grant (EECBG) funds are required to follow the EECBG Program Notice 10-014 effective June 23, 2010.

Condition: Services related to the ARRA-State Energy Program – Government of Guam Buildings Retrofit and ARRA-Energy Efficiency and Conservation Block Grant Retrofit of Government-Owned Street Lights (collectively, the projects), subgranted by the Guam Energy Office of the Government of Guam (GovGuam GEO), were procured by utilizing GPA’s two existing vendors working on other nonfederal related projects. Such procurement actions were concurred with by GovGuam GEO; however, documentation supporting such activities was not evident in GPA’s procurement files. Copies of procurement documentation supporting the rationale for vendor selection were ultimately sourced from GovGuam for examination purposes.

Expenditures for each of the projects as of September 30, 2012 are as follows:

CFDA 81.041	\$ 7,833,239
CFDA 81.128	<u>2,425,000</u>
	\$ <u>10,258,239</u>

Cause: The cause of the above condition is inadequate documentation in GPA’s procurement files to support the procurement decision.

Effect: The effect of the above condition is noncompliance with applicable procurement requirements. However, no questioned cost is presented for this finding as GovGuam GEO agreed to use noncompetitive procurement; specifically, “the public exigency or emergency for the requirement will not permit a delay resulting from competitive solicitation (10 CFR 600.236)” in order to meet the project deadlines. However, such record was not adequately documented within the procurement file until this transaction was chosen in the audit.

Recommendation: Records to support procurement decisions should be maintained in procurement files.

**GUAM POWER AUTHORITY
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-3, Continued
Federal Agency: U.S. Department of Energy
CFDA Program: 81.041 ARRA-State Energy Program – Government of Guam Buildings Retrofit
CFDA Program: 81.128 ARRA-Energy Efficiency and Conservation Block Grant
Retrofit of Government-Owned Street Lights
Area: Procurement and Suspension and Debarment
Questioned Costs: \$0

Auditee Response and Corrective Action Plan: This finding is resulting from the following situation. GPA contracted with two vendors in 2010 to work with GPA customers to identify opportunities for improving the efficiency of their energy usage. GPA was approached by the Government of Guam in 2011 and was asked if the Authority could assist with the retrofit grant projects. GPA agreed to help the government with these projects because the nature of the grant fit perfectly within the scope of the contracts. GPA received multiple verbal assurances from the Guam Energy Office that they had cleared the use of our existing contractors for the retrofit projects. During the audit, GPA was asked for written authorization to utilize the contractors. Such documentation did not exist. The matter was taken to the Government of Guam audit finding resolution process. The Director of the Bureau of Budget Management & Research determined there was sufficient documentation in the files of the government to indicate that GPA had received prior authorization to utilize its existing contracts before any grant funds were expended. In the future, GPA will ensure that such decisions are documented in writing and maintained in procurement files before the initialization of any grant funded projects.

Name and job title of personnel responsible: Joaquin C. Flores, General Manager

**GUAM POWER AUTHORITY
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

Schedule of Prior Year Findings and Questioned Costs
Year Ended September 30, 2012

Unresolved Prior Year Findings and Responses

The status of unresolved prior year finding is stated on page 9.

There are no unresolved prior year questioned costs.

Summary of Schedule of Prior Audit Findings

Status of audit findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2011:

Findings relating to the financial statements, which are required to be reported in accordance with GAGAS:

Finding No. 2011-1 - Not corrected.

Findings and questioned costs – Major Federal Award Programs Audit

None reported.