



OFFICE OF THE PUBLIC AUDITOR

**Guam Power Authority  
FY 2007 Financial Highlights**

May 09, 2008

The fiscal year (FY) 2007 financial audit of the Guam Power Authority (GPA) reported that \$13.5 million (M) of unpaid Department of Public Works (DPW) streetlights bills was reserved as bad debt resulting in an \$8.1M loss for the year. Had the loss not been absorbed, GPA would have realized a \$5.4M increase in net assets which would have been a considerable improvement from the \$1.7M loss in FY 2006. Additional challenges include rising fuel costs spurring higher power rates for consumers and establishing a detailed listing for property, plant and equipment that has been noted by the independent auditors as being a material weakness for over five years.

**Lingering DPW Streetlight Receivable**

A significant receivable of \$13.5M for DPW public streetlights had been accruing from 1997 through 2002. After years of anticipating payment from bond financing, funding never materialized and GPA charged the receivable to bad debt, which reduced GPA net assets by \$8.1M. The General Fund is not a likely funding source since it is plagued with a half a billion dollar deficit.

Despite the reserve, GPA and its board, the Consolidated Commission on Utilities, are committed to collecting the debt from the government of Guam (GovGuam). Due to a petition for base rate relief filed by GPA, the Public Utilities Commission (PUC) approved the delay of a base rate increase if a portion of the streetlight debt is collected. Specifically, if GovGuam does not pay by May 31, 2008, a 6.14% base rate increase for customers will take effect June 1, 2008. If GovGuam pays at least \$7.9M of the debt, the increase will be suspended until March 1, 2009. The PUC will also consider a GovGuam arrearage surcharge and a disconnection policy for GovGuam delinquencies. GPA is considering street light disconnection for non-payment.

GPA has been able to collect from other GovGuam entities for long-term receivables. The Guam Public School System owes \$12M and the Guam Waterworks Authority has reduced its debt from a high of \$18M in 2001 to \$7.5M. The Guam Memorial Hospital Authority paid off its note of \$1.2M.

**Impact of Escalating Cost of Fuel**

Rate increases are also evident as fuel costs per barrel have escalated since the beginning of FY 2007 from \$54.35 a barrel to \$55.51 a barrel at October 2007. Today, fuel is \$91.94 per barrel.

Residential power customers are using less power reacting to the rise in fuel charges. However, power sales revenues increased by 6% or \$17.3M (from \$288.5M in FY 2006 to \$305.9M in FY 2007) due to the increase in rates. The Levelized Energy Adjustment Clause allows GPA to recover actual fuel and related costs and is adjusted every six months.

## **Report on Compliance and Management Letter**

The Independent Auditors' Report on Compliance and Internal Control identified five significant deficiencies,<sup>1</sup> one of which was considered to be a material weakness. This material weakness has been identified since prior to FY 2002 and is relative to GPA's inability to maintain details such as original costs and accurate depreciation listings for \$613M in property, plant and equipment out of \$815M. The other four findings involved the following:

- Unreliable accounts receivable aging report.
- Discrepancies in fuel inventory reports.
- Problems with the software application program delayed the audit due to the lack of subsidiary ledger reports.
- Operational issues are not timely reviewed by the Internal Audit Department.

This fiscal year, there were no questioned costs identified for the above findings. Other matters related to GPA's internal control were reported in a separate management letter, which had fifteen findings compared to seven in FY 2006. These findings include:

- The lack of documentation supporting why one employee hired after October 1, 1995 was allowed to enroll in the Defined Benefit Retirement Plan instead of the Defined Contribution Plan;<sup>2</sup>
- Ensuring that fixed asset subsidiary ledgers are regularly updated and periodic inventory reviews are performed to verify the physical status of the assets;
- Reviewing inventory aging reports to assist in the identification of obsolete inventory; and
- Ensuring that the use of sensitive system commands is restricted.

The audit was conducted by independent auditors, Deloitte and Touche, who rendered an unqualified or "clean" opinion after several years of expressing uncertainties in their opinion of the collectibility of the DPW receivable.

For more details, refer to the Management Discussion and Analysis in the audit report.

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<sup>1</sup> A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects GPA's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles.

<sup>2</sup> Public Law 23-42 mandated that "beginning October 1, 1995, the Government of Guam Defined Contribution Retirement System shall be the single retirement program for all new employees whose employment commences on or after that date."