

GUAM POWER AUTHORITY

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

YEAR ENDED SEPTEMBER 30, 2004

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS 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, 2004, and have issued our report thereon dated May 23, 2005. 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

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 2004-01 through 2004-13.

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 2004-01 to be a material weakness.

We also noted another matter involving the internal control over financial reporting, which we have reported to management of GPA in a separate letter dated May 23, 2005.

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*.

This report is intended for the information and use of the Consolidated Commission on Utilities, management of GPA, the Office of the Public Auditor of 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.

A handwritten signature in cursive script that reads "Deloitte + Touche LLP".

May 23, 2005

**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, 2004. 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.

As described in finding number 2004-14 in the accompanying Schedule of Findings and Questioned Costs, GPA did not comply with requirements regarding allowable costs that is applicable to its Federal Emergency Management Agency (CFDA No. 83.544) program. Compliance with such requirements is necessary, in our opinion, for GPA to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, 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, 2004.

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. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 2004-14.

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, 2004, and have issued our report thereon dated May 23, 2005. 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 for the information and use of the Consolidated Commission on Utilities and management of GPA, the Office of the Public Auditor of 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.



May 23, 2005

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Schedule of Expenditures of Federal Awards
Year Ended September 30, 2004

<u>Grantor/CFDA Grantor's Program Title</u>	<u>Federal CFDA Number</u>	<u>FY 2004 Cash Receipts</u>	<u>Expenditures</u>
FEDERAL EMERGENCY MANAGEMENT AGENCY:			
Pass-Through Government of Guam Department of Administration:			
Public Assistance Grant - Typhoon Pongsona - DR 1446	83.544	\$ 4,819,197	\$ 952,558
Public Assistance Grant - Typhoon Chataan - DR 1426	83.544	727,393	-
Public Assistance Grant - Typhoon Paka	83.544	<u>8,549,793</u>	<u>-</u>
Total Federal Emergency Management Agency		<u>\$ 14,096,383</u>	<u>\$ 952,558</u>
Total Federal Awards		<u>\$ 14,096,383</u>	<u>\$ 952,558</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, 2004

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 Health and Human Services 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, 2004

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. A reportable condition in internal control over compliance with requirements applicable to major federal awards programs was identified.
5. The Independent Auditors' Report on compliance with requirements applicable to major federal award programs expressed a qualified opinion.
6. The audit disclosed findings required to be reported by OMB Circular A-133.
7. GPA'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. GPA 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>
2004-01	Property, Plant and Equipment Subsidiary Ledger	\$ -
2004-02	Procurement Policies and Procedures	\$ -
2004-03	Inventory Stock Levels	\$ -
2004-04	General Plant Assets	\$ -
2004-05	Construction Work in Progress Closings	\$ -
2004-06	Construction Work in Progress	\$ -
2004-07	Power Factor Calculation	\$ -
2004-08	Materials and Supplies Inventory	\$ -
2004-09	Leave of Absence Policies and Procedures	\$ -
2004-10	Proration of Customer Bills	\$ -
2004-11	Customer Payments	\$ -
2004-12	General Computer Controls	\$ -
2004-13	AS/400 Operating Controls	\$ -

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

Part III - Federal Award Finding and Questioned Cost Section

<u>Reference Number</u>	<u>CFDA Number</u>	<u>Finding</u>	<u>Questioned Costs</u>
2004-14	83.544	Supporting Documents	\$ 11,956

GUAM POWER AUTHORITY

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2004

Finding No.: 2004-01
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 related improvements or betterments. Accurate related depreciation listings should also be maintained.

Condition:

GPA does not maintain detailed PP&E listings or subsidiary ledgers of the production, transmission and distribution plant, which represents \$568 million of \$778 million of GPA's plant at cost.

Cause:

GPA may not have sufficient manpower to properly inventory electric plant. Moreover, GPA has not maintained a fixed asset register since its inception.

Effect:

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

Recommendation:

We recommend that a full inventory of plant assets be performed to account for all items. Upon completion of this inventory, a complete listing should be created inclusive of asset descriptions, costs, dates of acquisition/disposition as applicable, depreciation to date, identifying numbers and location. This listing should then be compared to accounting records and should be reconciled accordingly.

Auditee Response:

GPA recognizes the need to address this recurring finding. There has been a project underway for the last year to create the list, however, this is a very substantial task and we expect it to take at least two more years to complete the list.

GUAM POWER AUTHORITY

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2004

Finding No.: 2004-02
Area: Procurement Policies and Procedures

Criteria:

GPA should ensure that adequate records are maintained to document activities undertaken to comply with procurement regulations.

Condition:

During our examination of procurement activities, we noted the following conditions:

1. Five of twenty-five purchase orders tested were awarded on the basis of sole source procurement authority. It was not always evident based on the level of documentation made available for our review, that GPA solicited quotes from other vendors to corroborate sole source statements on record. In some instances, documentation was only an internal communication between the Procurement office and the end-users and in other instances, communication between GPA and the vendor to whom the award was eventually made.
2. Purchase Order No. 7535 was awarded based on an 11/23/01 GSA memorandum for Heavy Equipment Rental. Documentation made available for our review did not indicate if the memorandum was still in effect.
3. Purchase Order No. 8517, issued for diagnostic work on a vehicle, underwent three amendments to amount and scope of work. It was not evident, based on the documentation made available to us, if price quotes were requested for the additional work (amendment to included repair work) as such was not a part of the diagnostic services initially requested from the vendor.
4. Request for Proposal (RFP) 04-005 underwent three amendments to the amount and scope of work. Documentation made available (proof of ad) did not indicate if the RFP met the public notice requirement pursuant to Section 3-202.06.2 of the procurement regulations. Additionally, we were not able to determine if the successful proposer complied with the RFP submission deadline.

Cause:

Documentation of procurement activities is not always obtained or retained.

Effect:

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

GUAM POWER AUTHORITY

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2004

Finding No.: 2004-02, Continued
Area: Procurement Policies and Procedures

Recommendation:

Documentation indicating that all procurement transactions are properly approved by management and conducted in accordance with applicable laws and regulations should be obtained and retained.

Auditee Response:

1. There are some recurring items purchased by GPA that are generally known to be available from one vendor only. GPA does not believe it is necessary to go through a bidding process each time these items are procured. However, GPA will try to improve the level of documentation to support sole source purchases.
2. GPA concurs with the finding.
3. GPA has difficulty with this type of procurement. Once the heavy equipment is opened up and the diagnosis is complete, it is not practical to go through another bidding process. GPA will try to address this problem through a modification of its procurement rules.

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Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2004

Finding No.: 2004-03
Area: Inventory Stock Levels

Criteria:

GPA should continually assess inventory stock levels based on actual needs.

Condition:

Of thirteen T&D warehouse and pole yard inventory items tested for movement, none of these items had new receipts and eleven items totaling \$3,477,949 had less than 25% issuances during the year ended September 30, 2004.

Cause:

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

Effect:

Inventory on hand may include items not regularly used by GPA. Moreover, the continued purchase of unneeded materials decreases the amount of cash available for operations.

Prior Year Status:

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

Recommendation:

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

Auditee Response:

GPA concurs that inventory management is an area that requires additional management attention.

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Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2004

Finding No.: 2004-04
Area: General Plant Assets

Criteria:

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

Condition:

General plant assets include most moveable fixed assets such as vehicles and equipment and office furniture and equipment. Of fifteen general plant assets tested for physical existence, three were unidentifiable due to the lack of detail information and one was no longer in service. There is no process in place to identify other general plant assets, such as office furniture and equipment and vehicles that are no longer in use.

Cause:

GPA does not currently maintain an accurate fixed asset register. Based on discussions with Accounting staff, disposals of assets appear to be a function of disaster recovery, wherein assets are identified for disposal based solely on recovery efforts. This matter, coupled with a lack of manpower, contributes to this problem.

Effect:

There is the possibility that the fixed asset balances may include items that have been disposed of or are no longer of future economic benefit.

Prior Year Status:

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

Recommendation:

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

Auditee Response:

This finding appears to be related to finding No. 1. As soon as GPA completes its fixed asset listing, GPA will be performing periodic inventory procedures to ensure that assets that no longer have value to the Authority are removed from asset listings and properly disposed.

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Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2004

Finding No.: 2004-05
Area: Construction Work in Progress Closings

Criteria:

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

Condition:

In reviewing the Construction Work in Progress (CWIP) details, we noted that work orders outstanding at year end of \$1,536,663 appear to be expenses as opposed to capitalizable costs (i.e. pole & wire extensions and Macheche CT repair). We noted that these work orders were expensed when they were closed out at year end or as part of the audit.

Cause:

It appears that a lack of manpower and communication exists between the Engineering and Accounting Departments to adequately monitor the status of and classification of work orders.

Effect:

There is a possibility that the CWIP account is overstated, including projects that may never be fully realized and projects that ultimately will be expensed.

Prior Year Status:

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

Recommendation:

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

Auditee Response:

Monthly reports are being run to monitor progress, status and update documents pertaining to the specific work orders. Regular meetings with Operation and Budget are being held to assist in better understanding of the FERC system of accounts and guidelines are issued as to which items should be capitalized or expensed.

GUAM POWER AUTHORITY

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2004

Finding No.: 2004-06
Area: Construction Work in Progress

Criteria:

Work orders should only be closed when they are properly authorized and approved by management.

Condition:

The supporting journal entry for the close-out of work order 222753 was not properly approved and signed by the appropriate approving authority.

Cause:

It appears that a lack of manpower exists to closely monitor work orders.

Effect:

While no known material effect on the financial statements results from this condition, the propriety of the underlying account balance may be questioned.

Recommendation:

Management should establish and implement procedures to ensure that only authorized and approved work orders are closed.

Auditee Response:

Basis for closing completed works are receipts of completed documents from Operations or memorandum advising completion of a job order. At times, however, documents are not received and closing is based on the work order status codes in the system and analysis of related charges. A meeting with the engineer responsible for the project is necessary to determine status of the project.

Complete documentation and approval are required for all journal entries to close work orders and job orders.

GUAM POWER AUTHORITY

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2004

Finding No.: 2004-07
Area: Power Factor Calculation

Criteria:

The power factor, which is calculated by GPA's system for large customers only (rate schedules L and P), determines if such customers are using power efficiently. If the power factor falls between 83% to 87%, no adjustment is made to the customer's account. If the power factor is below 83% or above 87%, the customer is assessed a penalty (below 83%) or given a discount (above 87%). According to the rate schedule in effect, the power factor is calculated to the nearest whole percent.

Condition:

During our examination of twenty-five customer charges, we noted an error in the power factor calculation for the following customer:

<u>Account#</u>	<u>Service Address</u>	<u>Bill Date</u>	<u>Rate Schedule</u>
124381	151444	4/12/2004	L

Our manual recalculation of the power factor for this customer was 82.57%, or 83% when calculated to the nearest whole percent. Thus, there should be no adjustment to customer's billing. However, UCIS used a power factor of 82% instead, resulting in a power factor penalty to the customer in the amount of \$33.04.

Cause:

It appears there are flaws in the UCIS system regarding rounding of the power factor.

Effect:

Revenues and receivables may be misstated.

Recommendation:

GPA should establish, implement and monitor a program of periodic reviews and testing of system power factor calculations to ensure the accuracy of customer billings and reported revenues.

Auditee Response:

GPA concurs that there are problems with its billing system. GPA is in the process of implementing a new billing system that should address this type of issue.

GUAM POWER AUTHORITY

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2004

Finding No.: 2004-08
Area: Materials and Supplies Inventory

Criteria:

All inventory movements should be entered into perpetual inventory systems.

Condition:

Eight of thirteen inventory items tested required significant adjustments to subsidiary records to reconcile quantities reported on hand at year end to physical counts. The adjustments ranged from \$4,785 to \$132,767.

Cause:

It appears that inventory movements are not always recorded in perpetual inventory systems. Also, some of the reconciling adjustments may be a result of inventory items being excluded from inventory physical counts in prior years.

Effect:

No known material effect on the financial statements results from this condition. However, inventory information used for management purposes during the year may be erroneous.

Recommendation:

GPA should implement controls to ensure inventory receipts and issuances are properly accounted for and inventory physical counts are performed periodically and reconciled to perpetual records.

Auditee Response:

GPA concurs that inventory management is an area that requires additional management attention. GPA management will be addressing this area in the next 12 months.

GUAM POWER AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No.: 2004-09
Area: Leave of Absence Policies and Procedures

Criteria:

An authorized individual should approve leave applications before leave is taken. In some cases, leave is approved after it is taken. Upon an employee's return to work, an Administrative Excuse Slip is to be submitted, and the leave application is to be approved by the proper authority.

Condition:

During our examination of leave application forms for the following employees, we noted that there was no prior approval of leave of absence:

<u>Employee #</u>	<u>Type of leave</u>	<u>Dates</u>	<u>Date of approval</u>
23771	Sick	5/14/04 - 5/15/04	1/6/2005
23894	Annual	2/23/04 - 3/2/04	1/5/2005

We further noted that there was no subsequent approval of leave for the following employee after submittal of Administrative Excuse Slip for Governor's Parental Involvement Initiative:

<u>Employee #</u>	<u>Type of leave</u>	<u>Dates</u>	<u>Date of approval</u>
23974	Admin	12/27/03	None

Cause:

It appears GPA lacks controls to adequately ensure approval of employee leave of absence before such leave is paid.

Effect:

Employee pension and benefits expense may be overstated. Employees may be paid for unapproved leave, and amounts paid would have to be deducted from subsequent pay periods. However, subsequent deduction may not occur due to the unlikely detection of such overpayments resulting from lack of adequate controls.

Recommendation:

GPA should implement controls to ensure all leave applications are properly approved in accordance with applicable policies and procedures.

Auditee Response:

GPA concurs with this finding. Although follow up was made with the section involved, no response was received. A memorandum has been sent out to Division Managers addressing the issues on timesheets documentation and approval prior to submission to Payroll Office.

GUAM POWER AUTHORITY

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2004

Finding No.: 2004-10
Area: Proration of Customer Bills

Criteria:

Non-proration of bills should be consistent for all customers and billing periods. Any changes to these parameters should be approved prior to billing.

Condition:

The billing non-proration range was mistakenly changed from 27-34 days to 28-34 days, affecting five billing batches.

As in prior years, the error appears to be isolated to prorated billings affected by a program inconsistency. GPA, although aware of this issue, has been unable to identify the source of alteration and, as of 1/14/05, no adjustments have been made to customer accounts affected by the change. According to GPA personnel, the range has been subsequently restored to 27-34 days.

Cause:

The condition appears to be caused by a problem in the billing system.

Effect:

Revenues and receivables may be immaterially misstated. However, the total dollar value has not yet been determined, as some billing batches comprise thousands of customer accounts.

Recommendation:

GPA should establish, implement and monitor a policy over periodic reviews of system parameters to ensure the accuracy of customer billings.

Auditee Response:

GPA concurs with this finding related to GPA's billing system. GPA has recognized some recurring problems with its current billing system. GPA is in the process of implementing a new billing system that should address this type of problem.

GUAM POWER AUTHORITY

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2004

Finding No.: 2004-11
Area: Customer Payments

Criteria:

Customer payments should be accompanied by payment coupons, corresponding cashiers' balancing sheets and deposit slips.

Condition:

The payment coupon was not provided for the following customer payment:

<u>Acct #</u>	<u>Date</u>	<u>Amount</u>
168402	11/6/2004	\$ 53,104.29

Cashier balancing sheets were not provided for the following customer payments:

<u>Acct #</u>	<u>Date</u>	<u>Amount</u>
157864	11/5/2004	\$ 13,000.00
124395	2/1/2005	200,000.00
157864	2/9/2005	13,500.00
101826	2/4/2005	6,975.67

Payment coupons, cashier balancing sheets and deposit slips were not provided for the following customer payments:

<u>Acct #</u>	<u>Date</u>	<u>Amount</u>
124381	12/9/2004	\$ 716,924.23
101826	11/3/2004	6,554.72
194021	12/13/2004	200.00
206016	12/14/2004	5,000.00

The following customer payment was made at Guam Waterworks Authority (GWA). GWA posts payments directly to GPA's system and deposits the payments to GPA's account. GWA then submits the payment coupons and deposit slips to GPA. No payment/deposit detail was provided for this particular customer payment:

<u>Acct #</u>	<u>Date</u>	<u>Amount</u>
101826	12/10/2004	\$ 6,523.16

Cause:

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

GUAM POWER AUTHORITY

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2004

Finding No.: 2004-11, Continued
Area: Customer Payments

Effect:

No known effect on the financial statements results from this condition.

Recommendation:

GPA should ensure proper safekeeping of customer payment detail documents.

Auditee Response:

GPA receives many payments through the mail or through one of its drop boxes. It is not always possible to obtain the payment coupon for each payment. GPA will address the issue of safekeeping of cashier documents. GPA is working with the Guam Waterworks Authority to improve the record keeping for receipts collected on its behalf.

GUAM POWER AUTHORITY

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2004

Finding No.: 2004-12
Area: General Computer Controls

Criteria:

A current Disaster Recovery Plan/Business Continuity Plan and Short/Long Term Strategic Development Plans should be developed to guide upper management and management of the IT Department in developing a reliable IT Infrastructure. The Disaster Recovery Plan/Business Continuity Plan will guide management in proper procedures to restore the IT Infrastructure to previous working condition after a disaster. Short/Long Term Strategic Development Plans are used to assist management to develop future requirements and goals of the IT Department.

Condition:

We were unable to review a current Disaster Recovery Plan/Business Continuity Plan that specifically relates to the IT Department.

A Short/Long Term Strategy was also not available.

Cause:

It appears GPA has not developed a Disaster Recovery Plan/Business Continuity Plan and a Short/Long Term Strategy.

Effect:

During the event of a disaster (electronic failure (i.e. Hard Drive, CPU), collapse of facility, natural disaster, and death of one or more IT staff) the system may not be restored to its previous condition, resulting in an extended amount of system down time.

Without a Short/Long Term Strategic Plan, management and IT management do not have a specific outline of future system performance and investment. This condition could result in unfinished system projects, failed system investment, and an IT system not performing with management's goals.

Recommendation:

GPA should implement a detailed Disaster Recovery/Business Continuity Plan that includes job descriptions, restoration procedures, and back-up procedures. After completion of a Disaster Recovery/Business Continuity Plan, scheduled and unscheduled tests should be conducted to ensure the plans are working.

GPA should implement Short/Long Term Strategic plans to guide the IT system's performance to align with management's future system requirements. Short term goals include small projects, system changes, IT staff training, etc. Long term plans should include IT investment projects, which include system upgrades and expansions. Short and long term plans should be developed by both management and IT management with management reviewing the progress of each plan.

Auditee Response:

GPA has hired a consultant to assist in correcting a variety of issues related to general control over its computer systems. GPA will ensure that its recovery plan is updated.

GUAM POWER AUTHORITY

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2004

Finding No.: 2004-13
Area: AS/400 Operating Controls

Criteria:

AS/400 controls are used to restrict unauthorized system access and to implement proper segregation of user authorities. A majority of controls were set appropriately, but some system settings could be changed to increase system security.

Condition:

During our examination of AS/400 controls, we noted controls that can be changed. The following are AS/400 system areas of concern:

- System Values
- Redundant User Values
- Assignment of Users to Appropriate User Classes and Special Authorities
- Access to Production
- Menu Security
- Audit and History Log Settings
- Inappropriate Access to Sensitive System Commands

Cause:

It appears that GPA has relied upon the IBM Supplied System Values. IBM Supplied System Values are used to allow proper configuration of the AS/400 before GPA places the operating system into production.

Effect:

The AS/400 System's security settings are not securing the system to its fullest abilities.

Recommendation:

GPA should implement recommended changes to the system to ensure proper AS/400 security settings.

Auditee Response:

GPA has hired a consultant to assist in correcting a variety of issues related to general control over its computer systems. GPA will ensure that its recovery plan is updated.

GUAM POWER AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No.: 2004-14
CFDA No.: 83.544
Program Name: Federal Emergency Management Agency – Typhoon Pongsona, Grant #DR1446
Area: Supporting Documents
Questioned Costs: \$11,956

Criteria:

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

Condition:

The following documents could not be located for the following five Typhoon Pongsona charges:

<u>PW #</u>	<u>Description</u>	<u>W.O. #</u>	<u>Doc. Type</u>	<u>Federal Amount</u>
1474	Materials	-	-	\$ 6,699
1474	Inventory	183710	Inventory issuance	2,037
1474	T&D	-	Inventory issuance	2,225
1475	3015 Bucket Truck	-	Garage charge	468
-	Bucket Truck	163131	Garage charge	<u>527</u>
				\$ <u>11,956</u>

Cause:

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

Effect:

Questioned costs of \$11,956 exist.

Recommendation:

GPA should ensure proper safekeeping of supporting documents.

Auditee Response:

GPA has committed a great deal of resources to ensure all Typhoon Pongsona related costs are properly documented and supported. GPA acknowledges that there is always room for improvement; however, GPA believes its record keeping of these documents is a strength of the organization.