

Reports on Compliance and on Internal Controls

Guam Power Authority

Year ended September 30, 1999

*Revised
March 6, 2001*

Guam Power Authority
Reports on Compliance and Internal Control
Year ended September 30, 1999

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Report of Independent Auditors on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
Guam Power Authority

We have audited the financial statements of the Guam Power Authority (GPA) as of September 30, 1999, and for the year then ended, and have issued our report thereon dated April 17, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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 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*.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might 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 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of GPA in a separate letter dated April 17, 2000.

This report is intended solely for the information and use of the Board of Directors and management of GPA, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

April 17, 2000

Report of Independent Auditors on Compliance and Internal Control Over
Compliance Applicable to Each Major Federal Award Program In Accordance
with OMB Circular A-133

The Board of Directors
Guam Power Authority

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 its major federal program for the year ended September 30, 1999. GPA's major federal program is identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program 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 generally accepted auditing standards; 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 items 99-1 through 99-13 in the accompanying Schedule of Findings and Questioned Costs, GPA did not comply with certain requirements that are applicable to its major federal program. Compliance with such requirements is necessary, in our opinion, for GPA to comply with requirements applicable to those programs.

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 federal program for the year ended September 30, 1999.

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 certain matters involving the internal control over compliance 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 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. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 99-1 and 99-2.

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. Our consideration of the internal control over compliance 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, we believe none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of the Board of Directors and management of GPA, and the federal awarding and is not intended to be and should not be used by anyone other than these specified parties.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Ernst & Young LLP

April 17, 2000

Guam Power Authority
Schedule of Expenditures of Federal Awards
Year ended September 30, 1999

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-Through Number</u>	<u>1999 Expenditures</u>
Government of Guam Y2K Remediation	15.875	GY2K-7, Amd.1	<u>\$2,196,167</u>

See accompanying note to schedule of expenditures of federal awards.

Guam Power Authority

Note to Schedule of Expenditures of Federal Awards

Year ended September 30, 1999

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Guam Power Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Year ended September 30, 1999

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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 1999

Part I - Summary of Auditors' Results, continued

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Project No.</u>	<u>Name of Federal Program or Cluster</u>
15.875	GY2K-7, Amd. 1	Government of Guam Y2K Remediation

Dollars threshold used to determine:

Type A programs: \$300,000

Yes

No

Auditee qualified as low-risk auditee?

X

Guam Power Authority

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 1999

Part II - Financial Statement Findings Section

This section identifies the reportable conditions, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with chapter 5.18 of *Government Auditing Standards*.

No reportable conditions, material weakness or instances of noncompliance related to the financial statements were noted.

Part III - Federal Awards Findings and Questioned Costs Section

This section identifies the reportable conditions, material weaknesses, and instances of noncompliance, including questioned costs, related to the audit of major federal programs, as required to be reported by Circular A-133 section - .510.

Guam Power Authority

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 1999

Finding 99-1

Federal program information:

Government of Guam Y2K Remediation

Criteria or specific requirement
(including statutory, regulatory or
other citation):

In accordance with the attachment to Grant No. GY2K-7, the funds will be released to cover expenses or expenditures associated with fixing the approved systems under the condition of verification of expenses which may be copies of invoices, contracts or procurement documents which show the work done or procurement made. Each document must be associated with at least one of the approved projects on the list attached to the grant document.

Condition:

The documentation examined did not specify as to which of the approved projects the documentation was associated.

Questioned costs:

\$2,196,167

Effect:

GPA is not in compliance with all required terms of the grant agreement.

Recommendation:

GPA should cite the applicable project on the respective documents.

Auditee Response and Corrective Action:

GPA will take the steps necessary to ensure corrective action of this identified reportable condition.

Guam Power Authority

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 1999

Finding 99-2

Federal program information:

Government of Guam Y2K Remediation

Criteria or specific requirement
(including statutory, regulatory or
other citation):

In accordance with the attachment to Grant No. GY2K-7, the funds will be released to cover expenses or expenditures associated with fixing the approved systems under the condition that a Standard Form 270 (SF-270), "Request for Advance or Reimbursement" will be prepared and signed by the Government Financial Officer.

Condition:

The Government of Guam does not have a position designated as Government Financial Officer. The SF-270 was signed by the Executive Director of the Y2K Council.

Questioned costs:

\$ ---

Effect:

GPA may be found to be not in compliance with the provisions of the grant agreement.

Recommendation:

GPA should request clarification as to who must sign the SF-270.

Auditee Response and Corrective Action:

GPA will take the steps necessary to ensure corrective action of this identified reportable condition.

Guam Power Authority

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 1999

Finding 99-3

Federal program information:

Government of Guam Y2K Remediation

Criteria or specific requirement
(including statutory, regulatory or
other citation):

In accordance with the attachment to Grant No. GY2K-7, the funds will be released to cover expenses or expenditures associated with fixing the approved systems under the condition that the documentation and completed SF-270 must be verified by the site manager and submitted to OIA.

Condition:

Examined documentation and noted that only a copy of the disbursement check was signed by the site manager. Additional documentation and SF-270's showed no indication that they were verified by the site manager.

Questioned costs:

\$ ---

Effect:

GPA is not in compliance with all required terms of the grant agreement.

Recommendation:

Procedures should be implemented to ensure that the verification by the site manager is documented on each item submitted to OIA for reimbursement.

Auditee Response and Corrective Action:

GPA will take the steps necessary to ensure corrective action of this identified reportable condition.

Guam Power Authority

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 1999

Finding 99-4

Federal program information:

Government of Guam Y2K Remediation

Criteria or specific requirement
(including statutory, regulatory or
other citation):

In accordance with the attachment to Grant No. GY2K-7 Amd. 1, the site manager must certify all payment documents such as invoices or contracts before they are submitted to OIA for payment.

Condition:

Examined documentation and noted that only a copy of the disbursement check was signed by the site manager. Additional documentation and SF-270's showed no indication that they were verified by the site manager.

Questioned costs:

\$ ---

Effect:

GPA is not in compliance with all required terms of the grant agreement.

Recommendation:

Procedures should be implemented to ensure that the certification by the site manager is documented on each item submitted to OIA for reimbursement.

Auditee Response and Corrective Action:

GPA will take the steps necessary to ensure corrective action of this identified reportable condition.

Guam Power Authority

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 1999

Finding 99-5

Federal program information:	Government of Guam Y2K Remediation
Criteria or specific requirement (including statutory, regulatory or other citation):	In accordance with the attachment to Grant No. GY2K-7 Amd. 1, all documentation submitted for payment must be identifiable and directly associated to the projects identified on the approved list.
Condition:	Examined documentation and noted there was no indication as to which project on the approved list the item is related.
Questioned costs:	\$ ---
Effect:	GPA is not in compliance with all required terms of the grant agreement.
Recommendation:	Procedures should be implemented to ensure that all documents supporting expenditures submitted for reimbursement identify the relative project on the approved list.
Auditee Response and Corrective Action:	GPA will take the steps necessary to ensure corrective action of this identified reportable condition.

Guam Power Authority

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 1999

Finding 99-6

Federal program information:

Government of Guam Y2K Remediation

Criteria or specific requirement
(including statutory, regulatory or
other citation):

In accordance with the attachment to Grant No. GY2K-7 Amd. 1, reimbursement for the cost of remediation completed after February 15, 1999 is allowed with proper documentation, only if the project is included on the approved list.

Condition:

Examined documentation and noted there was no indication as to which project on the approved list the item is related.

Questioned costs:

\$ ---

Effect:

GPA is not in compliance with all required terms of the grant agreement.

Recommendation:

Procedures should be implemented to ensure that all documents supporting expenditures submitted for reimbursement identify the relative project on the approved list.

Auditee Response and Corrective Action:

GPA will take the steps necessary to ensure corrective action of this identified reportable condition.

Guam Power Authority

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 1999

Finding 99-7

Federal program information:

Government of Guam Y2K Remediation

Criteria or specific requirement
(including statutory, regulatory or
other citation):

In accordance with General Service Agency procurement regulations payments for goods or services received should only be made to the vendor with whom a purchase order was issued.

Condition:

In 3 instances, the invoice supporting the payment was from a vendor other than the vendor contracted with GPA. In addition, there were 3 instances where payment was made directly to a vendor with whom GPA had no contract or purchase order.

Questioned costs:

\$ ---

Effect:

Disbursements were made without the proper documentation.

Recommendation:

Procedures should be implemented to ensure that disbursements are made based on supporting documents, and to ensure that disbursements are not made to parties without the proper contract or purchase order in place.

Auditee Response and Corrective Action:

GPA will take the steps necessary to ensure corrective action of this identified reportable condition.

Guam Power Authority

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 1999

Finding 99-8

Federal program information:

Government of Guam Y2K Remediation

Criteria or specific requirement
(including statutory, regulatory or
other citation):

In accordance with the Common Rule Subpart C 36(b)(9): Grantees and subgrantees will maintain records sufficient to detail the significant history of procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

Condition:

In one of four procurement files reviewed, the Authority was unable to locate the procurement file.

Questioned costs:

\$ ---

Effect:

The Authority was unable to support the proper procurement of federal expenses.

Recommendation:

Procedures should be implemented to ensure that documentation of the procurement of federally reimbursed expenses is readily available.

Auditee Response and Corrective Action:

GPA will take the steps necessary to ensure corrective action of this identified reportable condition.

Guam Power Authority

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 1999

Finding 99-9

Federal program information:

Government of Guam Y2K Remediation

Criteria or specific requirement
(including statutory, regulatory or
other citation):

In accordance with the Common Rule Subpart C 36(b)(9): Grantees and subgrantees will maintain records sufficient to detail the significant history of procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

Condition:

The history of the procurement process was not adequately maintained on file for one purchase order file. For this file, the original purchase order was for \$300,000, however, expenses exceeded this amount. No amendments were on file to support expenses in excess of the original purchase order.

Questioned costs:

\$ ---

Effect:

The Authority was unable to support the proper procurement of federal expenses.

Recommendation:

Procedures should be implemented to ensure that documentation of the procurement of federally reimbursed expenses is readily available.

Auditee Response and Corrective Action:

GPA will take the steps necessary to ensure corrective action of this identified reportable condition.

Guam Power Authority

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 1999

Finding 99-10

Federal program information:

Government of Guam Y2K Remediation

Criteria or specific requirement
(including statutory, regulatory or
other citation):

In accordance with the Common Rule Subpart C
36(b)(1) and (d)(4):

(b)(1): Grantees and subgrantees will use their own
procurement procedures which reflect applicable
State and local laws and regulations, provided that
the procurements conform to applicable Federal law
and the standards identified in this section.

(d)(4): Procurement by noncompetitive proposals is
procurement through solicitation of a proposal from
only one source, or after solicitation of a number of
sources, competition is determined inadequate.

(i) Procurement by noncompetitive proposals may
be used only when the award of a contract is
infeasible under small purchase procedures,
sealed bids or competitive proposals and one of
the following circumstances applies:

(A) The item is available only from a single
source.

(B) The public exigency or emergency for
the requirement will not permit a delay
resulting from competitive solicitation.

(C) The awarding agency authorizes
noncompetitive proposals; or

(D) After solicitation of a number of
sources, competition is determined
inadequate.

(ii) Cost analysis, i.e., verifying the proposed cost
data, the projections of the data, and the
evaluation of the specific elements of costs and
profit, is required.

(iii) Grantees and subgrantees may be required to
submit the proposed procurement to the

Guam Power Authority

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 1999

Condition:	awarding agency for pre-award review in accordance with paragraph (g) of this section. For one procurement file reviewed, no evidence was on file to support public notice of the invitation to bid.
Questioned costs:	\$ ---
Effect:	The Authority was unable to support the proper procurement of federal expenses.
Recommendation:	Procedures should be implemented to ensure that documentation of the procurement of federally reimbursed expenses is readily available.
Auditee Response and Corrective Action:	GPA will take the steps necessary to ensure corrective action of this identified reportable condition.

Guam Power Authority

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 1999

Finding 99-11

Federal program information:

Government of Guam Y2K Remediation

Criteria or specific requirement
(including statutory, regulatory or
other citation):

In accordance with the Common Rule Subpart C
36(b)(1) and (d)(4), :

(b)(1): Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section.

(d)(4): Procurement by noncompetitive proposals is procurement through solicitation of a proposal from only one source, or after solicitation of a number of sources, competition is determined inadequate.

(i) Procurement by noncompetitive proposals may be used only when the award of a contract is infeasible under small purchase procedures, sealed bids or competitive proposals and one of the following circumstances applies:

(A) The item is available only from a single source.

(B) The public exigency or emergency for the requirement will not permit a delay resulting from competitive solicitation.

(C) The awarding agency authorizes noncompetitive proposals; or

(D) After solicitation of a number of sources, competition is determined inadequate.

(ii) Cost analysis, i.e., verifying the proposed cost data, the projections of the data, and the evaluation of the specific elements of costs and profit, is required.

(iii) Grantees and subgrantees may be required to submit the proposed procurement to the awarding agency for pre-award review in accordance with paragraph (g) of this section.

Guam Power Authority

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 1999

Condition:	For one procurement file reviewed, no evidence was on file to justify limited competition.
Questioned costs:	\$ ---
Effect:	The Authority was unable to support the proper procurement of federal expenses.
Recommendation:	Procedures should be implemented to justify limited competition.
Auditee Response and Corrective Action:	GPA will take the steps necessary to ensure corrective action of this identified reportable condition.

Guam Power Authority

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 1999

Finding 99-12

Federal program information:	Government of Guam Y2K Remediation
Criteria or specific requirement (including statutory, regulatory or other citation):	<p>In accordance with the Common Rule Subpart C 36(f):</p> <p>36 (f):Grantees and subgrantees must perform a cost or price analysis in connection with every procurement action including contract modifications.</p>
Condition:	For one procurement file reviewed, no evidence was on file to support the contract modification process .
Questioned costs:	\$ ---
Effect:	The Authority was unable to support the proper procurement of federal expenses.
Recommendation:	Procedures should be implemented to ensure that documentation of the procurement of federally reimbursed expenses is readily available.
Auditee Response and Corrective Action:	GPA will take the steps necessary to ensure corrective action of this identified reportable condition.

Guam Power Authority

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 1999

Finding 99-13

Federal program information:

Government of Guam Y2K Remediation

Criteria or specific requirement
(including statutory, regulatory or
other citation):

In accordance with the Common Rule Subpart C
36(g)(1):

Grantees and subgrantees must make available, upon request of the awarding agency, technical specifications on proposed procurements where the awarding agency believes such review is needed to ensure that the item and/or service specified is the one being proposed for purchase. This review generally will take place prior to the time the specification is incorporated into a solicitation document. However, if the grantee or subgrantee desires to have the review accomplished after a solicitation has been developed, the awarding agency may still review the specifications, with such review usually limited to the technical aspects of the proposed purchase.

Condition:

For two procurement files reviewed, the Authority did not obtain approval from the grantee agency to engage in sole source procurement and to award the contract when only one bid was received.

Questioned costs:

\$ ---

Effect:

The Authority was unable to support the proper procurement of federal expenses.

Recommendation:

The Authority should review the Common Rule for requirements of recipients of federal awards to ensure the procurement process is properly applied.

Auditee Response and Corrective Action:

GPA will take the steps necessary to ensure corrective action of this identified reportable condition.