
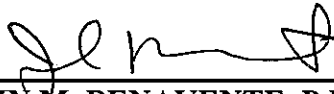


<p style="text-align: center;">GUAM POWER AUTHORITY</p> <p style="text-align: center;">AUTHORITY POLICY</p>	<p>PREPARED & AMENDED BY:</p> <p style="text-align: center;"></p> <hr/> <p>Maripaz N. Perez, CGRM, CGAP, CICA, CIA, CFE Internal Auditor</p>
<p>TITLE: Charter of the Guam Power Authority Internal Audit Office</p>	<p>APPROVED BY:</p> <p style="text-align: center;"></p> <hr/> <p>JOHN M. BENAVENTE, P.E. General Manager</p>
<p>NO: AP-073</p> <p>Supersedes: AP-073, dated 3/24/09</p> <p>Page 1 of 7</p>	<p>Dated: 3/21/19</p>

1.0 PURPOSE

In 2003, the Consolidated Commission of Utilities (CCU) established an Audit Committee for purposes which included approving the audit plan, receiving internal audit reports, following up on audit findings, and meeting with external auditors. This Authority Policy (AP) is established to define the authority and responsibilities of the Guam Power Authority (GPA) Internal Audit Office Division (IAO). The IAO, headed by the Internal Auditor, is comprised of the Internal Audit and Revenue Protection Sections. This policy also provides guidance to the Authority's IAO with procedures and practices in conducting internal audits, investigations, and assurance services.

2.0 # SCOPE

This policy applies to all employees, board members, contractors, sub-contractors, consultants, vendors, volunteers, temporary, and other workers of the Authority. This policy will be reviewed and updated as needed by IAO personnel to keep the division's operations current on auditing techniques, standards, and Audit Committee composition.

3.0 * FUNCTIONS

The Internal Audit Office's mission is to assist GPA Management and the CCU in the effective discharge of their responsibilities by furnishing independent analysis, recommendations, counsel, and objective assurance and consulting services. The office is

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also responsible for the Revenue Protection Services (RPS) program, which aims to minimize revenue losses due to meter tampering and unauthorized electrical connections.

Internal Auditing is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of GPA. It assists in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the Authority's governance, risk management, and internal controls. These services range from providing audits, consulting services, and investigations.

3.1 Nature of Assurance and Consulting Services

- a) Audits are assurance services defined as examinations of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. Examples include financial, performance, compliance, systems security and due diligence engagements.
- b) Consulting services is a service where the IAO and the auditee agree on the nature and scope of the engagement. The services are intended to add value and improve the Authority's governance, risk management, and control processes without the Internal Auditor assuming management responsibility. Examples include reviews, recommendations (advice), facilitation, and training.
- c) Investigations are independent evaluations of allegations generally focused on improper governmental activities including misuse of resources, fraud, financial irregularities, significant control weaknesses, and unethical behavior or actions.

3.2 The primary function of the IAO is to evaluate the economy, efficiency, and effectiveness of management's established system of internal controls by auditing:

- a) The reliability of controls established and accuracy of the Authority's financial and operating information and the methods used to identify, measure, classify and report such information;
- b) The system of controls established to ensure compliance with and effectiveness of Authority policies, plans, procedures, laws, and regulations;
- c) The means used to safeguard the Authority's assets and, as appropriate, validation on the existence of these assets;
- d) GPA's utilization of resources;
- e) Whether results of operations and programs are consistent with established goals and objectives;
- f) The Authority's existing or planned information systems to determine existence and adequate levels of controls, or if controls are included in projected program designs for new systems or programs; and

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g) Potential frauds, conflicts of interest or other irregularities.

- 3.3 The primary function of the RPS unit is to investigate suspected meter tampering and unauthorized electrical connections. SOP-121 relative to *Meter Tampering/Illegal Power Hookup Investigating and Reporting Procedures* outlines the procedures on this function.

4.0 *** STANDARDS AND CODE OF ETHICS**

The internal audit activities of the IAO shall be guided by the Standards set forth by the Institute of Internal Auditors on the *Professional Practice of Internal Auditing and IIA's Code of Ethics*. The office will also be guided and abide by the *Authority's Code of Ethics*. IAO personnel shall not engage in any activities that are or can be perceived as conflicts of interests. The IAO is also prohibited from having any operational responsibility or authority over any activities audited.

5.0 *** JURISDICTION AND AUTHORITY**

The IAO shall have full, free, and unrestricted access to all activities, records, physical properties, and personnel of the Authority. If access is required to Performance Management Contract (PMC) employees or contractors, the IAO will coordinate with the PMC General Manager, a designee, and pertinent division manager.

5.1 The IAO is authorized to:

- a) Have unrestricted access to all GPA functions, records, property, and personnel.
- b) Have full and free access to the CCU Audit Committee.
- c) Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives.
- d) Obtain the necessary assistance of GPA personnel that perform audits, as well as other specialized services from within or outside of GPA.

5.2 The IAO is **not** authorized to:

- a) Perform any operational duties for GPA management or its affiliates.
- b) Initiate or approve accounting transactions external to the IAO functions.
- c) Have direct operational responsibility or authority over any of the activities audited. Accordingly, the IAO will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair the Internal Auditor's judgment.

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- d) Direct the activities of any GPA employee not employed by IAO, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the IAO.

6.0 *** RELATIONSHIP AND COMMUNICATIONS WITH OTHER DIVISIONS**

The Internal Auditor has direct reporting to the GPA Audit Committee and administrative reporting to the General Manager of GPA. The IAO's function of reviewing, evaluating, and reporting on the effectiveness of the Authority's system of internal controls does not, in any way, relieve operating division personnel of responsibilities assigned to them. Although the IAO will recommend the courses of action, the responsibility for taking action in response to such recommendations shall rest with the operating management.

The IAO is highly encouraged to regularly communicate with GPA managers and staff throughout the audit engagement. The IAO officials shall inform the appropriate GPA division heads and pertinent staff of the audit prior to fieldwork except in situations when notification may compromise the audit. Examples include investigation, unannounced site visits, and reviews of suspected fraud or special projects, which may require different procedures involving little to no prior notification. In these situations, the IAO shall document the justification and maintain them in the working papers.

7.0 *** REPORTING PROTOCOL**

Internal audit reports present the results of an audit, review, analysis, investigation, or inquiry. Although the standard reporting format is suggested, a memo format may be used for reporting specific results to an inquiry. The memo may also be used to communicate results that are brief or to present matters that require management's immediate corrective actions.

7.1 The reporting protocol for audit reports is as follows:

- a) The IAO shall notify pertinent and appropriate GPA management and officials of the engagement scope and/or tentative objective(s) except in situations where prior notification may compromise the engagement such as suspected fraud. The engagement notification may be sent via email.
- b) Regular updates on the progress of the engagement shall be provided to pertinent management, process owners, and employees involved in the subject matter under review. These communications shall include, at the minimum, findings notification, status on progress of corrective actions, and any ongoing corrective measures by the auditee or responsible process owners.
- c) Upon conclusion of an audit, the IAO shall prepare and transmit a draft report addressed to the GPA General Manager with a copy to the appropriate division manager. The communication may also be a synopsis of the findings, conclusion, corrective actions implemented, and recommendations.

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- d) The GPA General Manager will afford the division managers ten (10) workdays from the receipt date of the draft report or synopsis the opportunity to respond to the findings and recommendations. A written response to be provided to the Internal Auditor, at a minimum, will include the following:
 - i. Whether the division manager agrees with the finding(s). If not, provide written justification(s).
 - ii. Whether the division manager agrees with the recommendation(s). If not, provide written justification(s).
 - iii. An action plan to implement the recommendation(s). The action plan should include the individual responsible for implementing the recommendation, the specific actions, and a timetable for full implementation.
- e) After receipt of the division response, the IAO shall prepare a final report that will include: (1) findings and matters that were addressed; (2) issues that remains; (3) recommendations; (4) management's response; and (5) action plans submitted by the division manager to implement the recommendations.
- f) All audit reports will be provided to the Audit Committee, General Manager, pertinent Assistant General Manager, division manager, and other appropriate officials.
- g) In the event the Audit Committee determines the audit report merits discussion of audit issues with the CCU, the Audit Committee Chair shall schedule a presentation at the earliest CCU Board meeting or at a special CCU meeting.
- h) Urgent Matters or Hotlines: Reports addressing situations of an urgent nature or hotlines investigated by the IAO shall be immediately investigated and addressed accordingly:
 - i. If the issue involves a staff or division manager, the Internal Auditor shall confer with the General Manager for guidance and direction.
 - ii. If the issue involves the General Manager, the Internal Auditor shall confer with the Audit Committee Chair for guidance and direction.
 - iii. The report, at the minimum, shall contain the purpose; scope or urgent matter/concern; analyses; interviews; and results of the investigation.

7.2 The reporting protocol for the RPS section is delineated in a separate standard operating procedure document (Reference: *SOP-121 Meter Tampering/Illegal Power Hookup Investigating and Reporting Procedures*).

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8.0 # WORKING PAPERS , RETENTION, AND ACCESS

- 8.1 Working Papers Documentation and Contents. The IAO must document relevant information to support the conclusions and engagement results. Working papers should contain sufficient and appropriate evidence and be prepared completely, accurately, clearly, neatly, and legibly. Working papers generally (1) aid in engagement planning, performance, and review; (2) provide principal support for results; (3) document whether objectives were achieved; (4) support accuracy and completeness of the work performed; (5) provide a basis for the internal audit quality assurance; and (6) facilitate third-party reviews.
- 8.2 Records Retention. Working papers, to include reports, shall be retained by the IAO for five (5) years after the issue date of the audit report (Reference: *SOP-039 Records Retention Schedule*). After the retention period, working papers will be archived unless recommendations remain unresolved; the report is part of an ongoing investigation or legal action; or other requirements necessitating the preservation of the files.
- 8.3 Access to Working Papers. Working papers are official records of the IAO and Authority. They are confidential and remain the property of the Internal Audit Division and must be safeguarded to prevent unauthorized access. Access to working papers and reports shall not be provided unless approved by the Audit Committee and/or Legal Counsel, as appropriate, to any requesting parties. In cases of suspected fraud or investigations, the Internal Auditor may release pertinent working papers and reports to appropriate authorities, such as the Guam Police Department and the Office of the Attorney General.

9.0 RECOMMENDATIONS FOLLOW-UP

The IAO will follow up with management on action plans submitted to ensure the effective implementation of audit recommendations. The IAO shall periodically review all open recommendations to monitor progress and validate that agreed upon actions have been taken and intended results have been achieved.

10.0 REFERRALS

When appropriate, the Internal Audit Office may refer findings to other authorities such as the Guam Police Department or the Office of the Attorney General for further investigation.

11.0 MODIFICATIONS OF POLICIES

This policy may be updated as necessary to reflect the IAO's operations and/or changes to audit standards. Proposed changes or amendments to this policy are subject to the review and concurrence of GPA's Audit Committee.

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12.0 **AUDIT COMMITTEE APPROVAL**



Commissioner Judith Guthertz, Audit Committee Chairwoman

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Date