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February 24, 2014

Dr. Robert Underwood
President
University of Guam
UOG Station
Mangilao, Guam 96923

Dear Dr. Underwood:

In planning and performing our audit of the financial statements of the University of Guam (the University) as of and for the year ended September 30, 2013 (on which we have issued our report dated February 24, 2014), 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, we considered the University's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, in connection with our audit, we have identified, and included in the attached Appendix I, deficiencies related to the University's internal control over financial reporting and other matters as of September 30, 2013 that we wish to bring to your attention.

We have also issued a separate report to the Board of Regents, also dated February 24, 2014, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The definition of a deficiency is also set forth in the attached Appendix I.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of management, the Board of Regents, others within the organization, the Office of Public Accountability - Guam and the Federal cognizant agency and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of the University for their cooperation and assistance during the course of this engagement.

Very truly yours,

SECTION I –DEFICIENCIES

We identified the following deficiencies involving the University's internal control over financial reporting for the year ended September 30, 2013 that we wish to bring to your attention at this time:

1. Fixed Assets

Comment: Tests of fixed assets noted the following:

- a. Two assets (tag number per asset register #s 22049 and 22294) were sighted but a tag number was not attached.
- b. Five assets (tag number per asset register #s 21836, 20583, 21634, 21961, and 22106) could not be located. Further, no survey documents were available to corroborate disposal.
- c. One asset (tag number per asset register #162546) was reported stolen in 2011 but was not removed from the asset register.
- d. One asset (tag number per asset register #21643) was sighted, replaced and not in use; however, survey documentation to support the disposal has not been prepared.

Recommendation: We recommend that the University continue its efforts to conduct a complete reconciliation of property and equipment records. The University attempted to conduct an inventory count during fiscal year 2013 for current year purchases.

2. Time and Effort Documentation

Comment: Tests of payroll items noted the following:

- a. Daily time and effort documentation for one employee (reference no. 10414) for the payroll period ended 9/22/2012 was not signed by the employee's immediate supervisor/manager.
- b. For one employee (reference no. 100266), an adjustment of 78 hours related to a prior payroll period was paid in the payroll period ended 1/12/2013. However, hours worked were not included in the summary timesheet approved by the department head/administrator.
- c. The semi-annual certification for the period 1/1/13 to 6/30/13 was approved and certified on 5/1/13, which is prior to the end of the period covered.
- d. For seven (reference nos. 2252, 22820, 2036, 15104, 22820, 15104 and 975) of twenty-five employees tested, supporting semi-annual certifications were not signed by either the employee or the employee's immediate supervisor/manager or both.

Recommendation: We recommend that the University strengthen control and monitoring procedures over time and effort documentation. We further recommend that the University improve time and effort documentation by developing one standard format that includes all relevant information.

SECTION II – OTHER MATTERS

Other matters related to our observations concerning operations, compliance with laws and regulations, and best practices involving internal control over financial reporting that we wish to bring to your attention at this time are as follows:

1. Nonmoving and Inactive Accounts

Comment: Tests of deferred revenue accounts noted total debit balances of \$79,933 and total credit balances of \$79,855 that represent nonmoving or inactive accounts. Further, tests of due from (to) grantor agency accounts noted eight credit balances aggregating \$415,230 which did not move from the prior year.

Recommendation: We recommend that the University perform periodic analysis of the above accounts to determine whether these accounts should be adjusted.

SECTION III – DEFINITIONS

The definition of a deficiency is as follows:

A *deficiency* in internal control over financial reporting 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 deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

The University's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.