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April 12, 2017

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, 2016 (on which we have issued our report dated April 12, 2017), 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, 2016 that we wish to bring to your attention.

We have also issued a separate report to the Board of Regents, also dated April 12, 2017, 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,

Deloitte + Touche LLP

SECTION I –DEFICIENCIES

We identified the following deficiencies involving the University's internal control over financial reporting for the year ended September 30, 2016 that we wish to bring to your attention at this time:

1. Bank Reconciliation

   Comment: The September 30, 2016 general and payroll account bank reconciliations were prepared; however, reconciling items of $705,484 and $912,292, respectively, were not timely recorded. These were subsequently recorded in January 2017.

   Recommendation: Bank reconciliation reconciling items should be timely recorded.

2. Notes Receivable

   Condition: Test of notes receivable noted the following:

   - An updated semi-annual employment verification was not available for 19 of 43 notes receivable. One employment verification was submitted; however, the notes receivable ledger was not timely updated to reflect year-of-service adjustments. For 6 notes receivable, the balances should have been adjusted to zero as of year-end due to fulfilment of obligation or satisfaction through court dismissal; however, such were not timely adjusted/removed from the subledger.

   - Variances of $58,000 exist for two notes between the September 30, 2016 balance in the student file and the subledger balance.

   Recommendation: We recommend that the University strengthen procedures to obtain required documentation such as employment verifications and to update student subledgers. We further recommend that accounts be monitored for deliquency or balance fulfillment.

3. Nonmoving and Inactive Accounts

   Comment: Tests of due from (to) accounts noted the following:

   - Due from grantor agencies included $396,000 of long outstanding inactive items. Details follow:

Project Title	Fund	
PRES-DOI-MCSF- 2011-10	Federal	$ (10,785)
PELL GRANT 09-10 to 12-13	Federal	(129,822)
Direct Loan 09-10 to 13-14	Federal	(243,502)
SEOG10-2011	Federal	(11,792)
		$ (395,901)

   - Due from (to) other accounts included long outstanding inactive receivables of $224,000 and payables of $12,000.

Project Title	Fund	
MARC-GPT Dev of Archeo & Museum Prog	Local	$ (54,474)
MARC-Pago Bay Resort	Local	(168,970)
Other government and private grants	Local	12,118
		$ (211,326)

SECTION I –DEFICIENCIES, CONTINUED

3. Nonmoving and Inactive Accounts, Continued

   The above inactive accounts included funds advanced for program expenditures which may no longer be reimbursed due to the statute of limitations.

   Recommendation: We recommend that the University assess long outstanding inactive accounts and document required corrective action. We further recommend that reconciliation of due from (to) accounts between the general ledger and subledger be timely performed.

4. Procurement

   Comment: Tests of nonpayroll disbursements noted the following:

   - One $15,849 disbursement for janitorial services (reference no. V0586402) had no required quotations filed to document vendor selection and no purchase order was prepared and approved prior to performance of services.

   Recommendation: We recommend that the University strengthen monitoring procedures of procurement. Specifically, the Procurement Office should maintain vendor selection documentation and a list of recurring services with contract expiration dates to monitor and ensure timely renewal.

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. Travel

   Comment: For two travel expenses [reference nos. PA160492 (Legal Counsel Office) and PA160431 (Office of the Senior Vice President – SVP)], the travel clearance was not completed within fifteen business days after the end of the official travel.

   Recommendation: We recommend that the University require compliance with its clearance policy.

2. Capital Assets

   Comment: Tests of capital assets noted the following:

   - One $590,078 asset (tag number 22244) has not been in use and is not in working condition.

   - Construction in progress was not timely analyzed and adjusted.

   Recommendation: The University should continue its efforts to regularly monitor assets for existence, condition, and need-for-disposal to allow the property register to be timely updated. Further, the University should timely coordinate with the CIP office to determine and adjust CIP projects as necessary.

SECTION III – DEFINITION

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.