

March 19, 2015

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, 2014 (on which we have issued our report dated March 19, 2015), 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, 2014 that we wish to bring to your attention.

We have also issued a separate report to the Board of Regents, also dated March 19, 2015, 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.

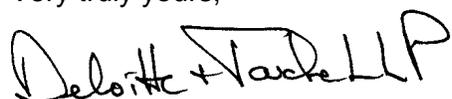
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with 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, 2014 that we wish to bring to your attention at this time:

**1. Bank Reconciliation**

Comment: Tests of cash accounts noted the following:

- a. Unrecorded book reconciling items of \$116,627 for the general account and \$625,995 for the payroll account were noted. These were subsequently corrected after our inquiry.
- b. One bank account closed in March 2014 has a recorded balance of \$9,061 as of September 30, 2014.
- c. There appears to be delay in the preparation of bank reconciliations or schedules. As of October 31, 2014, 8 of 16 September 30, 2014 bank account reconciliations or schedules were provided. The rest were provided in December 2014.

Recommendation: Bank account reconciliations and schedules should be prepared monthly and reconciling items should be timely recorded.

Auditee Response and Action Plan:

Comment No. a. Starting FY15, required monthly bank reconciliations will be done timely.

Comment No. b. Starting FY15, required monthly bank reconciliations will be done timely.

Comment No. c. This is a timing issue that is dictated by the scheduling of fiscal year end closing procedures, which is usually towards mid-November to accommodate year-end adjustments to our cash accounts. The GF operations account with has the most transactions as this account is used for all of University's operational activities. The fiscal year 2014 GL closed mid-November and bank reconciliation for operations bank account was finished before end of the following month, December 2014. Prior audits recommended a 60-day period from the closing of the month to process bank reconciliation.

Person Responsible: GL Supervisor and Cash Management Accountant

**2. Fixed Assets**

Comment: Tests of fixed assets noted the following:

- a. Four assets (asset register tag #s 3268, 22261, 22286, and 20584) were sighted but had no tag number attached.
- b. One asset (asset register tag # 21949) could not be located; but no survey documents were available to corroborate disposals.
- c. One fully depreciated asset (asset register tag # 21651) with original acquisition cost of \$169,800 is not in use and condition is undeterminable; plan of action for asset is unknown.
- d. Approved asset survey forms were not evident for two disposals (Tag #s 22055 and 20583).

Recommendation: We recommend that UOG continue its efforts to tag assets with property tag numbers. It is also recommended that assets be regularly monitored for existence, condition, and need-for-disposal to allow property register to be timely updated. We further recommend that asset survey forms be prepared and approved prior to disposal. This was reported in our previous letter dated February 24, 2014.

2. Fixed Assets, Continued

Auditee Response and Action Plan: The Property Custodian Listing will be updated and equipment will be properly tagged. Under the leadership of the PCO, a mandatory meeting with Plant Management, Fixed Assets Accountant will be required at least twice a year, or as necessary to ensure property items are properly and timely tagged. The next property custodian meeting is scheduled for June 2015. Fixed Assets Accountant will closely work with PCO to ensure reconciliation is done timely and accurately.

- a. Comment Item a: Tag #3268 is for an old Toyota truck; Tag #22261 is a computer server equipment that is located in a stackable shelf and can't be accessed to verify the tag #; Tag #22286 this is one of the A/C ARRA replacement projects that listed 5 locations with an entry of \$1,502,929.31; Tag #20584 is the moveable storage shelving's that was installed since 04/07/1992.
- b. Comment Item b: Tag # 21949 consists of computers, printers, and scanners that were donated by the Endowment on 08/15/2002 (we are working with SON to get all this items surveyed). SMA/PCO will properly retag the items.
- c. Comment Item c: Located at Marine Lab, It has not been used for a long time.
- d. Comment Item d: Tag #22055 is one of the A/C units replaced by the ARRA A/C replacement project (see tag #22286 above); Tag #20583 is for the Planetarium, System 512 which was removed due to closure of Planetarium (it is now stored at Plant Management Division).

Person Responsible: Supply Management Administrator (SMA) and Property Control Officer (PCO); GL Supervisor and Fixed Assets Accountant

**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. Private Grants and Contracts

Comment: One grant (GL acct. #66-1W-415000 or old account #56-U-720720) of \$25,912 was not recorded in the correct revenue account. This was not corrected since management believes this is not material to the financial statements.

Recommendation: We recommend that UOG take reasonable steps to determine that all grants and contracts are identified and recorded in the correct account.

Auditee Response and Action Plan:

We concur. A second review will be implemented to ensure accuracy of GL numbers assigned.

Person Responsible: Grants Management Supervisor and Grants Accountant

2. Travel

Comment: For seven travel expenses (reference nos. PA140137, PT/PA140483, PT/PA140485, PT/PA 140481, PT/PA 140482, PA140340 and PA/T140496) of eleven tested, the travel clearance was not completed within ten business days after the end of the official travel.

Recommendation: We recommend that the University strengthen monitoring procedures to determine that travel advances are cleared within ten business days upon completion of the official travel.

Auditee Response and Action Plan:

We concur, except for PA140340 and PA140496 that were submitted within 10 days. Going forward, Travel Unit will send an email reminder days before due date to traveler cc copy to Deans/Director. For reasonableness of travel clearance period, we will recommend to Executive Office to change clearing time from 10 days to 30 days.

Person Responsible: GL/Grants Management Supervisors and Accountants

3. Nonmoving and Inactive Accounts

Comment: Unearned revenue accounts included debit balances of \$212,493 and total credit balances of \$297,427 related to nonmoving or inactive accounts. Further, due from/to accounts included debit balances of \$567,145 and credit balances of \$503,939 which did not move during the year.

Recommendation: We recommend that UOG perform timely and periodic analysis of general ledger accounts to determine that nonmoving and/or inactive accounts are adjusted. This was reported in our previous letter dated February 24, 2014.

Auditee Response and Action Plan: We concur. Quarterly monitoring of ending balances will include a second review to ensure that accounts are closed within 90 days with ending balance of zero.

Person Responsible: Grants Management Supervisor and Grants Accountant

**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.