

May 2, 2018

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, 2017 (on which we have issued our report dated May 2, 2018), 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, 2017 that we wish to bring to your attention.

We have also issued a separate report to the Board of Regents, also dated May 2, 2018, 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.

Although we have included management's written response to our comments in the attached Appendix I, such responses have not been subjected to the auditing procedures applied to our audit and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the responses or the effectiveness of any corrective actions described therein.

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,

A handwritten signature in black ink that reads "Deloitte + Tatchell LLP". The signature is written in a cursive, slightly stylized font.

SECTION I –DEFICIENCIES

We identified the following deficiencies involving the University's internal control over financial reporting for the year ended September 30, 2017 that we wish to bring to your attention at this time:

1. Notes Receivable

Condition: Test of notes receivable noted the following:

- Two of eleven notes receivable were not supported by semi-annual updated verification of employment.
- Six of eleven notes receivable have no movement since the 1990s.

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 delinquency or balance fulfillment and that the University consider writing-off long outstanding receivables with no movement in the past ten years.

Auditee Response:

- 1a. Two of eleven notes receivable were not supported by semi-annual updated verification of employment.
 - i. SID #0044798: We concur. The due date of the VOE was November 2017. We received it January 2018.
 - ii. SID #0104351: This is not a finding. The student defaulted on her Merit Scholarship on October 2016. A student under the default status is not required to submit a Verification of Employment. Her account has since been forwarded to the collection agency.
- 1b. Six of eleven notes receivable did not have movements since the 1990s.
 - i. SID #0111908 –This is not a finding. While this was a defaulted Student Loan on 10/30/2016, student is on a current monthly payment plan. Student payments have been consistent every month. Last payment transaction was on 04/09/18.
 - ii. SID #0018971 - Account is over 10 years old. Billing statements were sent at least 3 times with no response. Student account has been part of the Allowance for Doubtful accounts.
 - iii. SID #0001594 - Account is over 10 years old. Billing statements were sent at least 3 times with no response. Student account has been part of the Allowance for Doubtful accounts.
 - iv. SID #0010001 -. The student account was referred to Collection Agency on September 2006 and payment has been consistent every month. Last transaction date was 04/25/2018.
 - v. SID #0001383 - Account is over 10 years old. Billing statements were sent at least 3 times with no response. Student account has been part of the Allowance for Doubtful Accounts.
 - vi. SID #0000696 – The student account was referred to Collection Agency in April 1995. Last payment was made on 05/08/1995.

SECTION I –DEFICIENCIES, CONTINUED

2. Nonmoving and Inactive Accounts

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

- Due from grantor agencies included outstanding accounts that had no movement since 9/30/2016. Details follow:

<u>Project Title</u>	<u>Amount</u>
ML-DOI/DOA Assess Unicornfish	\$ 77,932
CLASS-GVB Chamoru Lang Competition	(3,750)
MARC-GPT Dev of Archeo & Museum Program	54,474
WERI-GEPA GWUDI Project	(5,808)
MLI-GCC-SAO-IMAGINE SOARING	4,264

- Other receivables at September 30, 2017 included inactive items as follows:

A/R FICA Advances	\$ 23,553
A/R Returned Checks	56,467
A/R Insurance Premium	29,235
A/R Faculty/Staff Advances	44,243
A/R Others	32,559

Specifically, other receivable matters were noted:

- AR-Invoices account include a \$23,553 receivable related to FICA advances dated 1994-2013 and \$29,235 of student insurance premiums dated 2000-2006.
- AR-Returned checks of \$56,467 have been outstanding since prior years.
- AR-Others account include various outstanding receivables of \$32,559 which are aged 2016 and older.
- Other receivables include \$44,243 of advances to faculty/staff which have been outstanding since 2016 and earlier.

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

Recommendation: We recommend that the University perform timely and periodic analysis of general ledger accounts and assess long outstanding inactive accounts and document required corrective action.

Auditee Response:

- A/R FICA Advances of \$23,553 - These are old accounts still sitting in advances. Since there are no outstanding obligations with FICA, this will be eliminated in FY2018.
- A/R returned checks for \$56,467 - We concur. The accounts have been analyzed and determined that these returned checks were already paid out. We will reverse the accounts to correctly reflect the A/R balance.
- A/R Insurance Premium of \$29,235. This amount has been fully provided for under Allowance for bad debts account since 2005. We will take this off the ledger in FY 2018.

SECTION I –DEFICIENCIES, CONTINUED

2. Nonmoving and Inactive Accounts, Continued

- d. Faculty/Staff Advances of \$44,243 - \$20,565 relates to accounts still with current activities. The amount of \$23,677.88 relates to old accounts of employees no longer with the University’s Payroll system. Last activities were between 1993 and 2009. We will recommend write off of these old accounts in FY2018.
- e. A/R Others for \$32,559 - A DOI Mobilization funding was granted to Guam and Micronesian Islands to conduct a Technical Assistance Program to assist the Micronesian Center for Sustainable Future. In the review of documentation submitted to DOI, the responses from UOG and participating Micronesian Islands were considered not adequate; hence, this resulted in the disallowance of these costs. General Fund advanced the funds. This will be reversed in FY2018 as this is no longer collectible from the Federal funding agency.

3. Construction in Progress Monitoring

Comment: The following current year fixed asset additions were completed as of fiscal year 2016:

<u>Reference Number</u>	<u>Amount</u>
BC150188	\$ 45,794
BC150150	73,499
BC150322	73,784
PCC-160011	226,431

Recommendation: We recommend that timely coordination between the Business Office and the CIP Office occur to substantiate CIP project capitalization upon completion.

Auditee response: We concur. It was an oversight in the analysis of CIP projects between Facilities and Business Office-CIP sections. A better coordination will be strengthened moving forward. These have meanwhile been reverted to Fixed Assets account.

4. Procurement

Comment: Procurement documents including vendor selection documentation could not be located/provided for the following disbursements:

<u>Reference Number</u>	<u>Amount</u>
614081	\$ 44,111
614042	4,200
611949	34,250
614097	2,500
615245	1,732
24314	2,246

Recommendation: We recommend that the University strengthen monitoring procedures over documentation of procurement regulation compliance. Specifically, the Procurement Office should maintain vendor selection documentation.

SECTION I –DEFICIENCIES, CONTINUED**4. Procurement, Continued**

Auditee Response: The Procurement Office has maintained proper documentation of non-conformity by the following units of the University's Planned Procurement Policy, as advocated by 5GCA of the Procurement Law:

- a. Check 614081 for \$44,111 payable to a concessioner. A letter of concern was issued to PIP Director for i) the absence of bidding process involving an amount over the \$15,000 threshold, and (ii) after the fact procurement.
- b. Check 614042 for \$4,200 payable to a construction company. A letter of concern was issued to DORM Director (under EMSS Section) for after the fact procurement.
- c. Check 611949 for \$34,250 payable to a hotel. A letter of concern was issued to PIP Director for the absence of bidding process involving an amount over the \$15,000 threshold.
- d. Check 614097 for \$2,500 payable to a nursery company. A letter of concern was issued to DORM Director (under EMSS Section) for i) the absence of a Purchase Order, and ii) frequent direct payments amounting to over \$23,000 for the FYE 2017 that should have gone through the bidding process.
- e. Check 615245 for \$1,732 payable to a shuttle company. A letter of concern was issued to DORM Director (under EMSS Section) for the absence of a Purchase Order, and ii) frequent direct payments amounting to over \$11,000 for the FYE 2017 that should have gone through the bidding process.
- f. Ref. 24314 ACH for \$2,246. This is an invoice payable to a lecturer for a University lecture on Cyber Security. The service contract lacked the 3-quote requirement and was returned to Computer Center for document completion. Computer Center did not resubmit. The service has since been rendered and was paid as a direct payment.

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. Dorm Laundry Collections

Comment: During FY 2017, only \$3,000 of dorm laundry collections were remitted to the Business Office which was for the month of April 2017.

Recommendation: We recommend that management strengthen monitoring of dorm collections to minimize risks of misappropriation.

Auditee response: We concur. The DORM director reports to the EMSS Dean. Monitoring of cash collections was tasked under the EMSS Unit. Controls over cash management of the washer/dryer collections were not strictly implemented. EMSS and Business Office have since developed a log that will regularly track the collections to minimize risks of misappropriation.

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.