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May 2, 2019

Dr. Thomas W. Krise
President
University of Guam
UOG Station
Mangilao, Guam 96923

Dear Dr. Krise:

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, 2018 (on which we have issued our report dated May 2, 2019), 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, 2018 that we wish to bring to your attention.

We have also issued a separate report to the Board of Regents, also dated May 2, 2019, 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.

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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, 2018 that we wish to bring to your attention at this time:

1. Notes Receivable

Condition: Tests of notes receivable noted the following:

- Five of thirteen notes had no movement for more than twenty years and have been provided with a 100% allowance for doubtful accounts.

Recommendation: We recommend that accounts be monitored for balance fulfillment and that the University consider writing-off long outstanding receivables with no movement.

Auditee Response: The University does not concur considering a 100% write off. The status report of the five inactive items with a total balance of $194,877 shows the following:

a) SID #xxxx70 for $7,164 is currently being pursued for her Verification of Employment to clear her account;
b) SID #xxxx40 for $36,259 is currently being pursued for payment. Student was contacted on March 7, 2019 and advised that student will continue monthly payment from last payment period;
c) SID #xxxx06 for $80,000 was sent to the Collection Agency which is actively pursuing collections;
d) SID #xxxxx96 for $ 55,327 was sent to the Collection Agency which is actively pursuing collections;
e) SID #xxxx68 for $16,127 was sent to the Collection Agency which is actively pursuing collections.

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 the prior year. Details follow:

Project Title	Amount
1) SEOG10-2011	$ 11,792
2) AVP-UAP DPHSS Project Karinu TA & T	(50,748)
3) Direct Loan 09-14	239,405
4) PELL GRANT 09-16	233,459

- Other receivables at September 30, 2018 included the following inactive items:

5) A/R Returned Checks (Account #110600910)	$ 50,225
6) A/R Faculty and Administrative Advances (Account #110601510)	25,333
7) A/R Faculty and Staff Advances (Account #110601810)	18,440
8) A/R Others (Account #110606672)	51,124
9) A/R Default Interest (Account #110606010)	97,876

The above inactive accounts include funds advanced for program expenditures which may no longer be reimbursable.

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.

SECTION I –DEFICIENCIES, CONTINUED

2. Nonmoving and Inactive Accounts, Continued

Auditee Response: The University concurs on Item 2- Project Karinu grant. The receivable will be closed out in Fiscal Year 2019 which should allow the application of the University's cost sharing as depicted in the grant.

The University concurs on Items 1, 3 and 4. These are Title IV grants. The Financial Aid Office will be requesting the U.S. Department of Education to re-open previous award years. If unsuccessful, the University will recommend to the Board of Regents to write-off the amounts. The Financial Aid Office and the Business Office agreed on a plan to reconcile accounts twice each semester at the beginning and at the end as follows: 1) Fanomnakan (Spring) Semesters in March and May and 2) Fanuchanan (Fall) Semesters in October and December. Reconciling the student's accounts at these intervals will ensure that underpayments or overpayments in the Title IV aid is prevented. Business Office will take the lead in ensuring this reconciliation occurs.

The University concurs to have periodic analysis of these accounts. Based on our research and analysis, the Business Office may request for write-off from the Board of Regents. Note that Items 6, 7 and 9, have collection transactions in Fiscal Year 2019.

3. Construction in Progress Monitoring

Comment: The following current year fixed asset additions were not timely capitalized:

- BC170001, Invoice #3 dated March 15, 2017 amounting to $26,009 and Invoice #4 dated April 13, 2017 amounting to $47,196 were incurred in FY2017 but were not capitalized that year.
- BC180144, Invoice #BC-1808-097 dated August 13, 2018 amounting to $14,000 was incurred in FY2018 but was not capitalized in FY2018.

Recommendation: We recommend that timely coordination between the Business and the CIP Office occur to timely capitalize projects.

Auditee response: The University concurs. The Business Office will perform monthly Construction in Progress monitoring with the appropriate General Ledger object codes to identify CIP amounts and will then verify and confirm with the CIP Office.

4. Procurement

Comment: The following expenditures were not supported with sufficient procurement documents including the basis of vendor selection:

Reference Number	Amount
619535	$ 14,660
622155	20,225
628559	40,500

Recommendation: We recommend that the University strengthen monitoring procedures over procurements documentation. Specifically, the Procurement Office should maintain documentation supporting vendor selection.

SECTION I –DEFICIENCIES, CONTINUED

4. Procurement, Continued

Auditee Response: The University concurs with the finding and will work on streamlining its processes to enure that it maintains documentation supporting vendor selection.

- #619535 for $14,660 is a payable for a bookstore procurement. The University concurs and the Procurement Office will work with the Bookstore to ensure compliance with the University's Procurement Policy as advocated by the 5GCA of the Procurement Law.
- #622155 for $20,225 is a payable to a service vendor. The University concurs and the procurement office will work with respective unit to ensure compliance with the University's Procurement Policy as advocated by the 5GCA of the Procurement Law.
- #628559 for $40,500 is a payable for professional services. The University concurs and the Procurement Office will work with the respective unit to ensure compliance with the University's Procurement Policy as advocated by the 5GCA of the Procurement Law.

5. Cash Handling

Comment: It appears that certain petty cash discrepancies and unaccounted for cash collections from different departments have not been resolved.

Recommendation: We recommend that management establish a documented process for resolving such discrepancies and unreconciled petty cash funds. We understand that the University is considering the addition of an internal auditor and if the position is filled, we recommend quarterly audits of related processes occur.

Auditee Response: The University concurs. The University Executive Office is currently developing a revised version of the University Procedures Manual and will include required monitoring of cash management to ensure cash is safeguarded.

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. Payroll

Comment: Tests of payroll expenditures noted the following:

- Five of twenty-three employee timesheets did not reflect employee signatures but supervisors approved the hours.
- One of twenty-three employee timesheets did not evidence supervisory approval, but the payroll was processed.

Recommendation: We recommend that management revisit its policies and procedures on timesheet preparation and approval as UOG changes from manual to online process through its Web Time Entry (WTE).

Auditee Response: The University concurs. The following will be implemented:

a. WTE procedures will be updated and shared with all employees.
b. Unapproved WTEs will not be paid.
c. The WTE timesheet will be changed to reflect zero hours so that employees will be required to complete and sign their WTE.

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.