

**UNIVERSITY OF GUAM
(A COMPONENT UNIT OF THE
GOVERNMENT OF GUAM)**

**INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE**

YEAR ENDED SEPTEMBER 30, 2012

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Regents
University of Guam:

We have audited the financial statements of the University of Guam (the University) and its discretely presented component unit, collectively a component unit of the Government of Guam, as of and for the year ended September 30, 2012, and which collectively comprise its basic financial statements and have issued our report thereon dated March 7, 2013. We conducted our audit 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.

Internal Control Over Financial Reporting

Management of the University is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, 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.

A *deficiency in internal control* 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 *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs (pages 16 through 22) as item 2012-01, that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

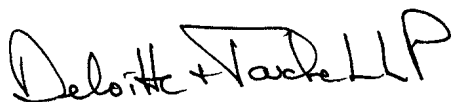
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the University in a separate letter dated March 7, 2013.

The University's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the University's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Regents, others within the entity, the Office of Public Accountability - Guam, federal awarding agencies, pass-through entities, and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.

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March 7, 2013

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133 AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

The Board of Regents
University of Guam:

Compliance

We have audited the University of Guam's (the University) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended September 30, 2012. The University's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs (pages 16 through 22). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the University's compliance with those requirements.

As described in items 2012-02 and 2012-03 in the accompanying Schedule of Findings and Questioned Costs, the University did not comply with requirements regarding equipment and real property management that are applicable to its CFDA 84.397 State Fiscal Stabilization Fund – Government Services Fund major program and requirements regarding subrecipient monitoring that are applicable to its CFDA 93.824 Area Health Education Centers Infrastructure Development Awards major program. Compliance with such requirements is necessary, in our opinion, for the University to comply with requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the University complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each its major federal programs for the year ended September 30, 2012.

Internal Control Over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

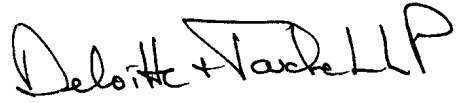
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2012-02 and 2012-03 to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the University of Guam (the University) and its discretely presented component unit, collectively a component unit of the Government of Guam, as of and for the year ended September 30, 2012, and which collectively comprise the basic financial statements and have issued our report thereon dated March 7, 2013, which contained an unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the University's financial statements. The accompanying Schedule of Expenditures of Federal Awards (pages 6 through 13) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

The University's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the University's responses, and accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the Board of Regents, others within the entity, the Office of Public Accountability - Guam, federal awarding agencies, pass-through entities, and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.

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

March 7, 2013

UNIVERSITY OF GUAM

Summary Schedule of Expenditures of Federal Awards, by Grantor
Year Ended September 30, 2012

<u>Federal Grantor Agency</u>	<u>Expenditures</u>
U.S. Department of Agriculture	\$ 4,875,532
U.S. Department of Commerce	873,247
U.S. Department of Defense	529,159
U.S. Department of the Interior	1,272,935
U.S. Department of Justice	77,007
U.S. Department of Labor	183,826
U.S. Department of Transportation	43
National Endowment for the Humanities	108,582
National Science Foundation	168,405
Small Business Administration	1,030,137
U.S. Department of Energy	755,800
U.S. Department of Education	30,551,265
U.S. Department of Health and Human Services	4,904,541
Corporation for National and Community Service	<u>365,305</u>
 Grand Total	 \$ <u><u>45,695,784</u></u>

Reconciliation to the basic financial statements:

Operating expenses	\$ 40,694,251
Capital asset additions	6,528,416
Indirect cost allocation	(1,422,340)
Program income	<u>(104,543)</u>
	 \$ <u><u>45,695,784</u></u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

UNIVERSITY OF GUAM

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2012

Federal CFDA #	Federal Grantor/Program Title	Expenditures
	Direct from U.S. Department of Agriculture:	
10.025	Plant and Animal Disease, Pest Control, and Animal Care	\$ 477,061
10.200	Grants for Agricultural Research, Special Research Grants	353,626
10.202	Cooperative Forestry Research	44,236
10.203	Payments to Agricultural Experiment Stations Under the Hatch Act	1,138,728
10.308	Resident Instruction Grants for Insular Area Activities	652,067
10.500	Cooperative Extension Service	1,143,507
10.678	Forest Stewardship Program	23,353
10.680	Forest Health Protection	5,428
10.688	ARRA Recovery Act of 2009: Wildland Fire Management	17,855
10.783	ARRA Rural Business Enterprise Grants - ARRA	4,371
10.912	Environmental Quality Incentives Program - ANR USDA (CIG)	<u>113,309</u>
	Subtotal Direct Programs	3,973,541
	Pass-through from Government of Guam Department of Agriculture:	
10.025	Plant and Animal Disease, Pest Control, and Animal Care	125,359
10.170	Specialty Crop Block Grant Program - Farm Bill	4,798
	Pass-through from Center for Tropical and Subtropical Agriculture:	
10.200	Grants for Agricultural Research, Special Research Grants	32,659
	Pass-through from University of Hawaii:	
10.200	Grants for Agricultural Research, Special Research Grants	24,916
10.310	Agriculture and Food Research Initiative (AFRI)	526,653
10.206	Grants for Agricultural Research: Competitive Research Grants	2,647
10.500	Cooperative Extension Service	17,461
	Pass-through from Utah State University:	
10.215	Sustainable Agriculture Research and Education	124,776
10.500	Cooperative Extension Service	487
	Pass-through from University of Arizona:	
10.303	Integrated Programs	17,257
	Pass-through from Kansas State University:	
10.500	Cooperative Extension Service	<u>24,978</u>
	Subtotal Pass-Through Programs	<u>901,991</u>
	U.S. Department of Agriculture Total	<u>\$ 4,875,532</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

UNIVERSITY OF GUAM

Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2012

Federal CFDA #	Federal Grantor/Program Title	Expenditures
	Direct from U.S. Department of Commerce:	
11.307	Economic Adjustment Assistance (Pacific Center for Economic Initiatives)	\$ 130,822
11.417	Sea Grant Support	189,083
11.426	Financial Assistance for National Centers for Coastal Ocean Science	420,196
11.452	Unallied Industry Projects	59,314
11.463	Habitat Conservation	4,438
	Subtotal Direct Programs	<u>803,853</u>
	Pass-through from Government of Guam Bureau of Statistics and Planning:	
11.307	Economic Adjustment Assistance (Pacific Center for Economic Initiatives)	15,760
11.426	Financial Assistance for National Centers for Coastal Ocean Science	32,298
11.482	Coral Reef Conservation Program	4,251
	Pass-through from University of Hawaii at Manoa:	
11.431	Climate and Atmospheric Research	5,285
11.432	NOAA and Cooperative Institutes	11,800
	Subtotal Pass-Through Programs	<u>69,394</u>
	U.S. Department of Commerce Total	<u><u>\$ 873,247</u></u>
	Direct from the U.S. Department of Defense:	
12.002	Procurement Technical Assistance for Business Firms	\$ 271,424
12.116	Department of Defense Appropriation Act of 2003	16,284
12.301	Basic and Applied Scientific Research	144,481
12.335	Navy Command, Control, Communications, Computers, Intelligence Surveillance, and Reconnaissance	74,184
	Subtotal Direct Programs	<u>506,373</u>
	Pass-through from University of Illinois - Chicago:	
12.615	Research and Technical Assistance	<u>22,786</u>
	U.S. Department of Defense Total	<u><u>\$ 529,159</u></u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

UNIVERSITY OF GUAM

Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2012

Federal CFDA #	Federal Grantor/Program Title	Expenditures
	Direct from U.S. Department of the Interior:	
15.650	Research Grants	\$ 49,278
15.805	Assistance to State Water Resources Research Institutes	296,947
15.875	Economic, Social and Political Development of the Territories	593,879
15.945	Cooperative Research and Training Programs Resources of the National Park System	55,006
15.DAV	Cooperative Ecosystem System Studies Unit Awards	<u>42,284</u>
	Subtotal Direct Programs	1,037,394
	Pass-through from Government of Guam Department of Agriculture:	
15.605	Sport Fish Restoration Program	64,925
	Pass-through from Government of Guam Bureau of Statistics and Planning:	
15.875	Economic, Social and Political Development of the Territories	140,859
15.808	U.S. Geological Survey - Research and Data Acquisition	<u>29,757</u>
	Subtotal Pass-Through Programs	<u>235,541</u>
	U.S. Department of the Interior Total	\$ <u><u>1,272,935</u></u>
	Direct from the U.S. Department of Justice:	
16.525	Grants to Reduce Domestic Violence, Dating Violence, Sexual Assault, and Stalking on Campus	\$ <u>77,007</u>
	U.S. Department of Justice Total	\$ <u><u>77,007</u></u>
	U.S. Department of Labor:	
	Pass-through from Government of Guam Department of Labor:	
17.260	WIA Dislocated Workers	\$ <u>183,826</u>
	U.S. Department of Labor Total	\$ <u><u>183,826</u></u>
	U.S. Department of Transportation:	
	Pass-through from the Research Corporation of the University of Hawaii:	
20.761	Biobased Transportation Research	\$ <u>43</u>
	U.S. Department of Transportation Total	\$ <u><u>43</u></u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

UNIVERSITY OF GUAM

Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2012

Federal CFDA #	Federal Grantor/Program Title	Expenditures
	Direct from National Endowment for the Humanities:	
45.312	National Leadership Grants	\$ <u>108,582</u>
	National Endowment for the Humanities Total	\$ <u><u>108,582</u></u>
	Direct from National Science Foundation:	
47.050	Astronomical, Atmospheric, Earth and Ocean Sciences	\$ 50,655
47.074	Biological Sciences	<u>117,750</u>
	National Science Foundation Total	\$ <u><u>168,405</u></u>
	Direct from Small Business Administration:	
59.037	Small Business Development Centers	\$ 836,527
59.XXX	Center Registration for Economic Development	35,298
59.044	Veterans Business Development	<u>158,312</u>
	Small Business Administration Total	\$ <u><u>1,030,137</u></u>
	U.S. Department of Energy:	
	Pass-through from Guam Energy Office:	
81.041	81.041A State Energy Program - ARRA ARRA State Energy Program	\$ <u>755,800</u>
	U.S. Department of Energy Total	\$ <u><u>755,800</u></u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

UNIVERSITY OF GUAM

Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2012

Federal CFDA #	Federal Grantor/Program Title	Expenditures
Direct from U.S. Department of Education:		
84.007	Federal Supplemental Educational Opportunity Grant	\$ 140,858
84.031	Higher Education Institution Aid	245,185
84.032	Federal Family Education Loans	67,532
84.033	Federal Work-Study Program	383,646
84.063	Federal Pell Grant Program	6,460,944
84.042	TRIO-Student Support Service	255,789
84.044	TRIO-Talent Search	316,249
84.047	TRIO-Upward Bound	349,328
84.116	Fund for the Improvement of Postsecondary Education	73,601
84.195	Bilingual Education: Professional Development	260,159
84.224	Assistive Technology	128,924
84.268	Federal Direct Student Loans	8,594,957
84.325	Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	253,835
84.373	Special Education-Technical Assistance on State Data Collection	388,032
84.375	Academic Competitiveness Grants	66,500
84.397	ARRA State Fiscal Stabilization Fund (SFSF) - Government Services Fund	12,455,137
	Subtotal Direct Program	<u>30,440,676</u>
Pass-through from Guam Department of Education and Federated States of Micronesia:		
84.215	GPSS Project Menhalom	9,244
84.402	Consolidated Grants to the Outlying Areas, Recovery Act	21,342
84.403	Consolidating Grant to the Outside Area	79,625
Pass-through from California State University:		
84.326	Special Education Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	<u>378</u>
	Subtotal Pass-Through Programs	<u>110,589</u>
	U.S. Department of Education Total	<u><u>\$ 30,551,265</u></u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

UNIVERSITY OF GUAM

Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2012

Federal CFDA #	Federal Grantor/Program Title	Expenditures
Direct from U.S. Department of Health and Human Services:		
93.110	Maternal and Child Health Federal Consolidated Programs	\$ 114,992
93.243	Substance Abuse and Mental Health Services - Projects of Regional and National Significance	6,283
93.251	Universal Newborn Hearing Screening	192,336
93.283	The Affordable Care Act: Centers for Disease Control and Prevention - Investigations and Technical Assistance	139,508
93.397	Cancer Centers Support	1,109,800
93.631	Developmental Disabilities Projects of National Significance	212,500
93.632	University Centers for Excellence in Developmental Disabilities Education, Research and Service	521,241
93.824	Area Health Education Centers Infrastructure Development Awards	1,482,350
93.708	ARRA - Head Start	245,679
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research	25,672
93.859	ARRA Pharmacology, Physiology, and Biological Chemical Research	45,402
93.887	Health Care and Other Facilities	<u>226,182</u>
	Subtotal Direct Programs	4,321,945
Pass-through from Government of Guam Department of Public Health and Social Services:		
93.052	National Family Caregiver Support, Title III, Part E	72,854
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances	330,314
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	89,165
Pass-through from Hawaii MCH Lend Program:		
93.110	Maternal and Child Health Federal Consolidated Programs	37,869
Pass-through from the Research Corps of the University of Hawaii:		
93.283	The Affordable Care Act: Centers for Disease Control and Prevention - Investigations and Technical Assistance	<u>52,394</u>
	Subtotal Pass-Through Programs	<u>582,596</u>
	U.S. Department of Health and Human Services Total	\$ <u><u>4,904,541</u></u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

UNIVERSITY OF GUAM

Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2012

Federal CFDA #	Federal Grantor/Program Title	Expenditures
	Corporation for National and Community Service:	
	Pass-through from Government of Guam Department of Labor:	
94.006	Americorps	<u>365,305</u>
	Corporation for National and Community Service Total	\$ <u><u>365,305</u></u>
	Grand Total	\$ <u><u>45,695,784</u></u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

UNIVERSITY OF GUAM
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2012

(1) Scope of Audit

The University of Guam (the University) is a component unit of the Government of Guam created by Public Law 13-194, "The Higher Education Act," which became effective on November 3, 1976 as an autonomous agency of the Government of Guam. Only the federal expenditures of the University are included within the scope of the OMB Circular A-133 audit (the "Single Audit").

Programs Subject to Single Audit

The Schedule of Expenditures of Federal Awards presents each Federal program related to the following agencies:

- U.S. Department of Agriculture
- U.S. Department of Commerce
- U.S. Department of Defense
- U.S. Department of the Interior
- U.S. Department of Justice
- U.S. Department of Labor
- U.S. Department of Transportation
- National Endowment for the Humanities
- National Science Foundation
- Small Business Administration
- U.S. Department of Energy
- U.S. Department of Education
- U.S. Department of Health and Human Services
- Corporation for National and Community Service

(2) Summary of Significant Accounting Policies

Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the University and is presented on the accrual basis of accounting, consistent with the manner in which the University maintains its accounting records. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. All expenses and capital outlays are reported as expenditures.

The University recognizes contributions from the federal government when qualifying expenditures are incurred, and expenditures are recognized on the accrual basis of accounting.

(3) American Recovery and Reinvestment Act of 2009 (ARRA)

In February 2009, the Federal Government enacted the American Recovery and Reinvestment Act of 2009 (ARRA). As of September 30, 2012, the University's grant award notification and expenditures are as follows:

UNIVERSITY OF GUAM
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2012

(3) American Recovery and Reinvestment Act of 2009 (ARRA), Continued

<u>CFDA Program</u>	<u>Grant Amount</u>	<u>FY 2012 Expenditures</u>
10.688 Recovery Act of 2009: Wildland Fire Management	\$ 182,000	\$ 17,855
10.783 Rural Business Enterprise Grants - ARRA	100,000	4,371
81.041 State Energy Program	2,516,085	755,800
84.397 State Fiscal Stabilization Fund (SFSF) – Government Services Fund	16,575,000	12,455,137
93.859 Pharmacology, Physiology and Biological Chemical Research	400,203	45,402
93.708 ARRA - Head Start	664,277	245,679

**UNIVERSITY OF GUAM
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

Part I - Summary of Auditors' Results Section

Financial Statements

- | | |
|--|-------------|
| 1. Type of auditors' report issued: | Unqualified |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | No |
| 3. Significant deficiency(ies) identified? | Yes |
| 4. Noncompliance material to financial statements noted? | No |

Federal Awards

- | Internal control over major programs: | | | | | |
|---|---|--------------------------------|---|---|--|
| 5. Material weakness(es) identified? | Yes | | | | |
| 6. Significant deficiency(ies) identified? | None reported | | | | |
| 7. Type of auditors' report issued on compliance for major programs: | | | | | |
| Student Financial Assistance Cluster | Unqualified | | | | |
| CFDA # 84.397 | Qualified | | | | |
| CFDA # 93.824 | Qualified | | | | |
| 8. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | Yes | | | | |
| 9. Identification of major programs: | | | | | |
| <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left; border-bottom: 1px solid black;"><u>CFDA Number</u></th> <th style="text-align: left; border-bottom: 1px solid black;"><u>Name of Federal Program</u></th> </tr> </thead> <tbody> <tr> <td style="padding-left: 20px;">84.007, 84.032, 84.033,
84.063, 84.268, 84.375
84.397
93.824</td> <td style="padding-left: 20px;">Student Financial Assistance Cluster
State Fiscal Stabilization Fund (SFSF) – Government Services
Area Health Education Centers Infrastructure Development Awards</td> </tr> </tbody> </table> | <u>CFDA Number</u> | <u>Name of Federal Program</u> | 84.007, 84.032, 84.033,
84.063, 84.268, 84.375
84.397
93.824 | Student Financial Assistance Cluster
State Fiscal Stabilization Fund (SFSF) – Government Services
Area Health Education Centers Infrastructure Development Awards | |
| <u>CFDA Number</u> | <u>Name of Federal Program</u> | | | | |
| 84.007, 84.032, 84.033,
84.063, 84.268, 84.375
84.397
93.824 | Student Financial Assistance Cluster
State Fiscal Stabilization Fund (SFSF) – Government Services
Area Health Education Centers Infrastructure Development Awards | | | | |
| 10. Dollar threshold used to distinguish between Type A and Type B Programs: | \$1,370,874 | | | | |
| 11. Auditee qualified as low-risk auditee? | No | | | | |

Part II – Financial Statement Findings Section

<u>Finding Number</u>	<u>Finding</u>
2012-01	Coordination among Finance Office, Plant Facilities Office and the Project Management Support Contractor in Monitoring of Construction in Progress

**UNIVERSITY OF GUAM
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Part III – Federal Award Findings and Questioned Costs Section

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Finding</u>	<u>Questioned Cost</u>
2012-02	84.397	Equipment and Real Property	\$0
2012-03	93.824	Subrecipient Monitoring	\$0

UNIVERSITY OF GUAM
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-01
Area: Coordination among Finance Office, Plant Facilities Office and the Project Management Support Contractor in Monitoring of Construction in Progress

Criteria: An effective system of internal control includes policies and procedures related to periodic monitoring of capital project status that includes coordination between project management and the finance and accounting personnel.

Condition: Procedures in place on Project Management and collective monitoring of capital project status throughout the construction period were not adhered in relation to the following matters:

- Items to be expensed or capitalized;
- Documentation supporting significant change orders;
- Status or percentage of completion.

Cause: The cause of the above condition is lack of adherence to established Project Management procedures to process, track and document capital projects transactions.

Effect: The effect of the above condition is a potential misstatement of capitalized assets and related expenses.

Recommendation: The University should consider adherence to established Project Management procedures and conduct periodic reviews of capital project status, e.g. on a quarterly basis. Monitoring procedures should include regular meetings between plant facilities and finance personnel.

Auditee Response and Corrective Action Plan:

Name and job title of responsible personnel: Vice President of Administration and Finance (VPAF)

Corrective procedures and date of performance:

We concur. Project Management Procedures: The University shall review and enhance its Project Control Checklist. A Quarterly CIP Status Report will be prepared by the Chief Plant and Facilities Officer (CPFO), including information related to estimated cost, funding source, contract, change orders, and percentage of completion. Timeline: First report within 20 working days of 31 March 2013 to be submitted to VPAF and Comptroller, thereafter within 20 working days of each quarter end. Monitoring Procedures: VPAF will conduct a quarterly coordination meeting attended by Comptroller's Office and Plant & Facilities Office to review the Quarterly CIP Status Report, ensure that capitalization is correctly captured, and monitor that change orders are properly documented and executed. Timeline: First meeting on 30 April 2013, thereafter by end of month following each quarter.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-02
Federal Agency: U.S. Department of Education
CFDA Program: 84.397 State Fiscal Stabilization Fund (SFSF) – Government Services Fund
Area: Equipment and Real Property Management
Questioned Costs: \$0

Criteria: In accordance with applicable equipment management requirements, procedures for managing equipment, whether acquired in whole or in part with grant funds, until disposition takes place will, at a minimum, meet the following requirements:

- Equipment records shall be maintained accurately and shall include a description of the property, manufacturer's serial number or other identification number, the source of the equipment, including the award number, whether title vests in the recipient or the Federal Government, the acquisition date and cost of the property, percentage of Federal participation in the cost of the equipment, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- A physical inventory of equipment must be taken and the results reconciled with the equipment records at least once every two years.
- A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.

Condition: Tests of equipment and real property noted the following:

1. The property listing provided by the program office does not include percentage of Federal participation in the cost of the property and any ultimate disposition data including the date of disposal and sale price of the property.
2. There is no documentation that a complete physical inventory of equipment and property and reconciliation with Procurement and Supply Management records was performed over the last two fiscal years. We were subsequently provided an inventory dated January 31, 2013.

Cause: The cause of the above condition is the lack of timely physical inventories of property and equipment.

Effect: The effect of the above condition is potential noncompliance with the applicable equipment management requirements. No questioned cost is presented at this finding due to our inability to assess the cumulative dollar amount of property and equipment acquired with program grant funds.

Recommendation: We recommend that the University perform timely physical inventories and comply with applicable property management policies and procedures.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-02, Continued
Federal Agency: U.S. Department of Education
CFDA Program: 84.397 State Fiscal Stabilization Fund (SFSF) – Government Services Fund
Area: Equipment and Real Property Management
Questioned Costs: \$0

Auditee Response and Corrective Action Plan:

Name and job title of responsible personnel: Comptroller and Supply Management Administrator (SMA)

Corrective procedures and date of performance:

Condition 1: We concur. It is important to note that the University's Colleague General Ledger System (CGLS) records the cost allocation of Federal and local participation for each property that is capitalized. The University's inventory module, a separate software independent of the CGLS, also records property information to include the cost, location (unit), purchase order number, condition, description (includes serial number), and tag number. However, the current inventory module does not track the percentage of Federal participation. On property listing changes in our inventory module, the Computer Center will expand the inventory module to include additional fields to capture the cost allocation between Federal and local funding sources, the dollar value of any asset sale, and the date of disposal. If current system modifications are not possible, the eWorks Project Office will assess other Colleague system solutions. Timeline: Inventory module software modifications by 30 April 2013. If not, implementation of new system solution targeted by 30 August 2013.

Condition 2: We concur. The SMA is directed to ensure timely completion of physical inventory by the end of August of each year. An inventory report shall be submitted to the Property Accountant by the end of each fiscal year to ensure timely recording and reconciliation of inventory items at the close of the fiscal year's general ledger system. Timeline: Physical inventory completed annually by the end of August.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-03
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.824 Area Health Education Centers Infrastructure Development Awards
Area: Subrecipient Monitoring
Questioned Costs: \$0

Criteria: OMB Circular A-133 states that a pass-through entity is responsible to monitor subrecipient audits by: (1) ensuring that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year for fiscal years ending after December 31, 2003 as provided in OMB Circular A-133 have met the audit requirements of OMB Circular A-133 and that the required audits are completed within 9 months of the end of the subrecipient's audit period; (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipient's audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

Condition: The program's subrecipient monitoring activities do not include established policies and procedures that will determine and verify that subrecipients are in compliance with OMB Circular A-133. Our examination noted that the program did not obtain copies of independent auditors' reports from its subrecipients, and program personnel were not aware whether the subrecipients were being audited. Further, the program does not perform verification procedures of subrecipient matching documentation. Total expenditure reimbursements to the subrecipients for the year ended September 30, 2012 follows:

<u>Subrecipient Reference Number</u>	<u>Total Expenditures</u>
55973	\$394,827
82995	\$427,650
60716	\$481,720

Cause: The cause of the above condition is lack of program office monitoring procedures that include verification of compliance with OMB A-133 and lack of training by program personnel.

Effect: The effect of the above condition is noncompliance with subrecipient monitoring; however, no questioned costs result as we are aware that the program's subrecipients are being audited.

Recommendation: We recommend that the University strengthen subrecipient monitoring control activities to include procedures that will determine whether subrecipients adhere with applicable OMB A-133.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-03, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.824 Area Health Education Centers Infrastructure Development Awards
Area: Subrecipient Monitoring
Questioned Costs: \$0

Auditee Response and Corrective Action Plan:

Name and job title of responsible personnel: Assistant Vice President of Graduate Studies, Sponsored programs and Research (AVP)

Corrective procedures and date of performance:

We concur. The Office of Sponsored Programs (OSP) and Compliance Consultant will conduct regular principal investigator and grant program manager training on grants management, compliance, and monitoring to include a specific module on Sub-Recipient Monitoring Compliance. OSP will develop and implement a centralized process to monitor the University's Grants Compliance requirements. OSP will soon implement monitoring templates such as a Subrecipient Monitoring Questionnaire and the Subrecipient Commitment Form that will be required from each grant's program managers. Timeline: Training will be ongoing: initial PI training is 6 March 2013 and subrecipient monitoring training will be during April-May 2013. Subrecipient monitoring process and forms by 30 April 2013.

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Schedule of Prior Year Findings and Questioned Costs
Year Ended September 30, 2012

Summary Schedule of Prior Audit Findings

Status of audit findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2011:

Findings relating to the financial statements, which are required to be reported in accordance with GAGAS:

None reported.

Findings and questioned costs – Major Federal Award Programs Audit

Finding No. 2011 – 1, Student Financial Assistance Cluster – Corrected.

Finding No. 2011 – 2, Student Financial Assistance Cluster – Corrected.