

Management Letter

University of Guam

Year ended September 30, 2023





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June 6, 2024

Management
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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, 2023, in accordance with auditing standards generally accepted in the United States, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

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 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. A significant deficiency is a deficiency, or 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.

During our audit, we identified deficiencies in internal control and other matters (as described above). The University's written response to the deficiencies and other matters identified in our audit was not subject to auditing procedures.

Revenue Recognition and Restricted Component of Net Position

Condition:

During the year ended September 30, 2023, the University did not recognize appropriations and federal grants and contracts amounting to approximately \$980,000 and \$44,000, respectively. Management did not perform detailed evaluations of the terms and conditions of the related agreements to ensure that revenues are recorded in the period earned. We evaluated and projected the misstatement resulting to possible understatement of revenues by approximately \$960,000.

Further, the appropriations of \$980,000 is received from the Government of Guam to comply with federal requirements designating the University as a Sea Grant "Coherent Area Program", and to support potential future designations as a "Sea Grant Institution" and "Sea Grant College Program". As of September 30, 2023, remaining funds of approximately \$830,000 was not classified as restricted component of net position.

Per Governmental Accounting Standards Board (GASB) codification, net position should be reported as restricted when constraints placed on net position use are either:

- a. Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments
- b. Imposed by law through constitutional provisions or enabling legislation

Management recorded the adjusting entries to correct the \$980,000 restricted appropriations in the September 30, 2023 financial statements.

Recommendation:

Management should ensure that controls are in place to ensure that the terms of grant agreements are considered when recognizing revenues on an accrual basis. For government mandated or voluntary nonexchange transactions, revenues shall be earned when all applicable eligibility requirements, including time requirements, are met.

Management should continue assess and monitor the restricted component of net position in accordance with the GASB codification.

Elimination Entries for External Reporting Purposes

Condition:

As part of the University's year-end financial statement close process, eliminations were not performed for the following internal accounts:

1. Scholarships granted and administered by third parties outside the University of approximately \$1,760,000
2. Other revenues related to internal transactions with the University's Global Learning and Engagement (GLE) of approximately \$385,000 and corresponding expenses
3. Research Corporation of the University of Guam (RCUOG) administration fees of \$597,946

Recommendation:

Management should eliminate all internal revenues and expenses as part of its financial statement close process.

Pension: Employee Status Changes and New Hires

Condition:

In the conduct of the procedures to determine that (1) eligible new employees were appropriately enrolled and included in the plan and (2) status changes are reported to the plan during the period from the prior valuation to the current valuation, we noted that the University did not maintain complete records of its delivery of employee files to the Guam Retirement Fund (GGRF) during the fiscal year 2021, which is the period from prior valuation date of September 30, 2020 to current valuation date of September 30, 2021.

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Alternatively, we performed direct inquiries of sample employee information with GGRF. The results of the confirmation procedures follow:

1. Eight out of eight (or 100%) new employee information samples were not confirmed by GGRF.
2. Nineteen out of twenty-five (or 76%) status change information samples were not confirmed by GGRF.

Subsequently, we also examined one transmitted report of UOG to GGRF dated December 1, 2021 and is able to trace four out of twenty-five status change information samples. This may be considered a late submission of the employee files for the fiscal year ended September 30, 2021.

Recommendation:

The University should strengthen its internal controls over maintaining records of its delivery of employee files to GGRF and monitoring that employee files are timely submitted to GGRF.

Response by UOG:

The University believes that there were no issues with its internal controls in this matter. During the pandemic, the GGRF was closed and difficult to contact. A notice on their door instructed that all personnel changes should be submitted in a drop box. After the University started complying with their request, the agency apparently continued to receive personnel changes via email. This issue was a result of the pandemic and the instructions posted at the Retirement Fund building. To prevent such incidents in the future, we will ensure that an additional copy of submitted documents is available at the Human Resources Office.

This communication is intended solely for the information and use of management and the Board of Regents of the University, others within the organization and the Guam Office of Public Accountability, and is not intended to be and should not be used by anyone other than these specified parties.

We would be pleased to discuss the above matters or to respond to any questions, at your convenience.

Ernst + Young LLP

June 6, 2024