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March 7, 2013

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, 2012 (on which we have issued our report dated March 7, 2013), 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 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, 2012 that we wish to bring to your attention.

We have separately reported in a letter dated March 7, 2013 addressed to the University's management, certain deficiencies involving the University's information technology environment.

We have also issued a separate report to the Board of Regents, also dated March 7, 2013, 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,

Deloitte & Touche LLP

APPENDIX I

SECTION I –DEFICIENCIES

We identified the following deficiencies involving the University's internal control over financial reporting as of September 30, 2012 that we wish to bring to your attention:

1. Fixed Assets

   Comment: Tests of fixed assets noted the following:

   a. Five assets (tag number per asset register #21700, 22049, 21756, 21423, and 22092) sighted had no tag number attached.

   b. Four assets (tag number per asset register #21981, 22055, 21949, and 22106) could not be located. Further, no survey documents were available to corroborate disposal.

   c. Three assets (tag number per asset register #21700, 21935, and 21756) were located but were not in use during fiscal year 2012; however, survey documentation supporting disposal has not been prepared.

   d. One current year acquisition (contract number BC110464) is not in use but depreciation was recognized.

   e. Five current year equipment acquisitions (reference numbers BC110533, P1112559, BC110413, BC110463 and BC110464) such as air-conditioning and information technology were capitalized. However, related disposals were not documented and recorded.

   f. Only one asset number is assigned to a total purchase regardless of the number of units included, which makes it difficult to physically trace tag number to assets.

   It does not appear that a complete physical count of assets was performed and results reconciled to the fixed asset register. Thus, the fixed asset register appears to include dated items that may no longer exist, items that exist but are no longer in use, or items that should be surveyed for disposal.

   Recommendation: We recommend that UOG strengthen control procedures over fixed assets which includes (1) assigning unique asset tags to each unit, (2) conducting a complete biennial physical inventory and a reconciliation of count results to the asset register, (3) enforcing asset survey policies and maintaining documentation of asset disposals.

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 are as follows:

1. Cash Subsidiary Clearing Account

   Comment: The cash clearing account at 09/30/2012 includes $23,903 of FY2010 and FY2011 transactions. These transactions have not cleared pending receipt of invoices and receiving reports.

   Recommendation: We recommend that periodic analyses of the cash clearing account occur.

2. Collections

   Comment: The following collections were not timely deposited.

Reference No.	Receipt Number	Receipt Date	Deposit Date	Amount
V0484967/ V0485089	000248308	5/23/2012	5/29/2012	$ 88,820
V0483535	000248310	5/23/2012	5/29/2012	$ 311,677
V0485091	000248311	5/23/2012	5/29/2012	$ 89,160
V0487061/ V0487066	000250478	6/15/2012	6/25/2012	$ 312,302
V0486165	000248309	5/23/2012	5/29/2012	$ 285,246

   Recommendation: Collections received should be deposited on the following business day.

3. Receivable Confirmations

   Comment: Of forty-nine tuition and twenty notes receivable confirmations, eleven (six tuition and five notes receivable) were returned due to incorrect addresses.

   Recommendation: The University should take reasonable steps to update student contact information.

4. Reserve for Inventory Obsolescence

   Comment: The University does not have a policy to provide a reserve for inventory obsolescence.

   Recommendation: We recommend that the University establish policies and procedures to determine whether a reserve is necessary.

5. Construction in Progress

   Comment: Construction-in-progress of $232,049 recorded in previous years was found to have been abandoned and was accordingly charged to current year expense during the audit process.

   Recommendation: We recommend that the University periodically monitor the status of construction projects.

6. Annual Leave Request

   Comment: The University's Rules, Regulations, and Procedures Manual's state that "request for annual leave shall be submitted to the appropriate supervisor by the employee, at least 48 hours in advance, for leave in excess of 40 consecutive hours; and 24 hours in advance for leave less than 40 hours. Reasonable consideration shall be afforded for emergency situations."

   Annual leave requests were submitted after the leave period for the following instances:

Employee Number	Annual Leave Hours Taken	Date Annual Leave was Taken	Date Request was Submitted
9262	8	03/02/2012	03/05/2012
114935	8	07/11/2012	07/12/2012

   Recommendation: We recommend that the University follow established annual leave request policies.

7. Nonmoving and Inactive Accounts

   Comment: Tests of deferred revenue accounts noted $53,657 which did not move from prior year, of which $17,305 was identified as inactive.

   Recommendation: We recommend that the University perform periodic analysis of general ledger accounts to determine whether inactive accounts should be adjusted.

8. Disbursement

   Condition: Tests of disbursements noted the following:

   1. Expenditures for four disbursements were not recorded in the proper period.

Document No.	Date	Amount
V0471387	10/19/11	$ 46,025
V0471387	10/19/11	$ 57,773
V0475338	12/21/11	$ 20,711
V0474194	12/05/11	$ 68,286

   2. Seven subsequent disbursements relate to expenditures incurred in fiscal year 2012 but were recorded in fiscal year 2013. Details follow:

Document No.	Date	Amount
0007875	10/12/12	$ 1,350
0547199	10/31/12	$ 7,560
0547422	11/07/12	$ 12,500
0547614	11/15/12	$ 32,555
0547991	11/20/12	$ 35,000
0548478	11/30/12	$ 30,048
0548490	11/30/12	$ 33,228

   Recommendation: The University has a standard cut-off as of the 17^{th} of each month. We recommend that the University establish procedures to track expenses applicable to a specific fiscal year that are posted after the cut-off date to assess the potential impact on the year end financial statements.

9. <u>Contracts and Change Orders</u>

   Comment: Ten original change orders (CO) were not signed by at least one authorized signatory and/or the contractor.

   Recommendation: We recommend that the University strengthen controls over review and approval of contracts and change orders.

10. <u>Procurement</u>

    Comment: Test of procurement transactions noted the following:

    - Six invitations to bid or requests for proposals (reference numbers P54-11, P63-11, P27-11, P79-11, RFP P06-11 and RFP P26-09) provided a bidding period that was shorter than the minimum fifteen (15) working days; however, written determination by the President that a shorter period is deemed necessary is not available. In all cases, adequate numbers of bidders were obtained evidencing competition.

    - Examination of contracts noted that a standard 120-day notice to proceed date was used for all contracts regardless of the nature and type of the project. Further, several projects related to these contracts were still ongoing subsequent to the 120-day contract period due to unexpected significant changes or additions to the scope of work; however, written change orders or contract modifications were not always utilized.

    Recommendation: We recommend that the University follow established procurement regulations. We further recommend that the University consider revisiting it's regulations to determine whether changes need to be made to maintain compliance.

SECTION III – DEFINITIONS

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.

The definition of a deficiency and a significant deficiency are 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 University 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.