

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

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

YEAR ENDED SEPTEMBER 30, 2013

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, in accordance with the 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, the financial statements of the University of Guam (the University), which comprise the statement of net position as of September 30, 2013, and the related statements of revenues, expenses and changes in net position, and of cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated February 24, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 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. 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.

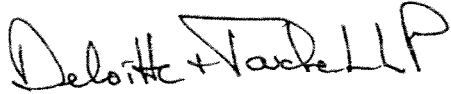
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Tamuning, Guam

February 24, 2014

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

The Board of Regents
University of Guam:

Report on Compliance for Each Major Federal Program

We have audited the University of Guam's (the University's) 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, 2013. The University's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.

Opinion on Each Major Federal Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2013-001 through 2013-005. Our opinion on each major federal program is not modified with respect to these matters.

The University's response to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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.

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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

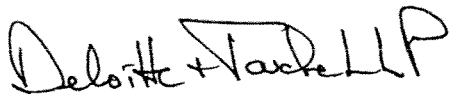
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2013-001 through 2013-005 that we consider to be significant deficiencies.

The University's response to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the University of Guam as of and for the year ended September 30, 2013, and have issued our report thereon dated February 24, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards 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.



Tamuning, Guam

February 24, 2014

UNIVERSITY OF GUAM
(A Component Unit of the Government of Guam)

Summary Schedule of Expenditures of Federal Awards, by Grantor
Year Ended September 30, 2013

<u>Federal Grantor Agency</u>	<u>Expenditures</u>
U.S. Department of Agriculture	\$ 4,761,666
U.S. Department of Commerce	692,121
U.S. Department of Defense	1,378,113
U.S. Department of the Interior	2,047,470
U.S. Department of Justice	104,854
U.S. Department of Labor	131,381
National Endowment for the Humanities	101,931
National Science Foundation	353,486
Small Business Administration	888,808
U.S. Environmental Protection Agency	40
U.S. Department of Energy	685,673
U.S. Department of Education	20,723,024
U.S. Department of Health and Human Services	4,037,424
Corporation for National and Community Service	<u>406,445</u>
 Grand Total	 \$ <u><u>36,312,436</u></u>
 Reconciliation to the basic financial statements:	
Operating expenses	\$ 35,395,513
Capital asset additions	1,392,000
Indirect cost allocation	(371,792)
Program income	<u>(103,285)</u>
	 \$ <u><u>36,312,436</u></u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

UNIVERSITY OF GUAM
(A Component Unit of the Government of Guam)

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2013

Federal CFDA #	Federal Grantor/Program Title	Expenditures	Research and Development Cluster
Direct from U.S. Department of Agriculture:			
10.025	Plant and Animal Disease, Pest Control, and Animal Care	\$ 503,606	\$ 503,606
10.200	Grants for Agricultural Research, Special Research Grants	149,795	149,795
10.202	Cooperative Forestry Research	44,393	44,393
10.203	Payments to Agricultural Experiment Stations Under the Hatch Act	1,028,589	1,028,589
10.206	Grants for Agricultural Research: Competitive Research Grants	2,451	2,451
10.308	Resident Instruction Grants for Insular Area Activities	771,483	-
10.500	Cooperative Extension Service	962,797	-
10.652	Forestry Research	13,961	13,961
10.680	Forest Health Protection	29,121	-
10.783	Rural Business Enterprise Grants - ARRA	8,818	-
10.912	Environmental Quality Incentives Program	13,335	13,335
10.912	Environmental Quality Incentives Program	62,760	-
	Subtotal Direct Programs	3,591,109	1,756,130
Pass-through from Government of Guam Department of Agriculture:			
10.025	Plant and Animal Disease, Pest Control, and Animal Care	100,349	100,349
10.170	Specialty Crop Block Grant Program - Farm Bill	189,040	189,040
Pass-through from Center for Tropical and Subtropical Agriculture:			
10.200	Grants for Agricultural Research, Special Research Grants	45,696	45,696
Pass-through from University of Hawaii:			
10.200	Grants for Agricultural Research, Special Research Grants	13,472	13,472
10.200	Grants for Agricultural Research, Special Research Grants	227	-
10.310	Agriculture and Food Research Initiative (AFRI)	685,462	-
Pass-through from University of Wyoming:			
10.500	Cooperative Extension Service	18,289	-
Pass-through from Utah State University:			
10.215	Sustainable Agriculture Research and Education	26,987	-
Pass-through from University of Arizona:			
10.303	Integrated Programs	5,137	-
Pass-through from University of California Davis:			
10.303	Integrated Programs	4,995	-
10.304	Homeland Security_Agricultural	6,440	6,440
Pass-through from University of Puerto Rico:			
10.309	Specialty Crop Research Initiative	46,686	-
Pass-through from University of Virgin Islands:			
10.322	Distance Education Grants for Institutions of Higher Education in Insular Areas	5,801	-
Pass-through from Kansas State University:			
10.500	Cooperative Extension Service	21,976	-
	Subtotal Pass-Through Programs	1,170,557	354,997
	U.S. Department of Agriculture Total	\$ 4,761,666	\$ 2,111,127

See accompanying notes to Schedule of Expenditures of Federal Awards.

UNIVERSITY OF GUAM
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Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2013

Federal CFDA #	Federal Grantor/Program Title	Expenditures	Research and Development Cluster
Direct from U.S. Department of Commerce:			
11.307	Economic Adjustment Assistance	\$ 32,158	\$ -
11.417	Sea Grant Support	159,784	159,784
11.417	Sea Grant Support	149,766	-
11.426	Financial Assistance for National Centers for Coastal Ocean Science	100,345	100,345
11.452	Unallied Industry Projects	30,569	30,569
11.452	Unallied Industry Projects	18,393	-
11.463	Habitat Conservation	60,399	60,399
11.482	Coral Reef Conservation Program	3,233	3,233
	Subtotal Direct Programs	554,647	354,330
Pass-through from Government of Guam Bureau of Statistics and Planning:			
11.419	Coastal Zone Management Administration Awards	29,939	29,939
11.426	Financial Assistance for National Centers for Coastal Ocean Science	18,235	18,235
11.482	Coral Reef Conservation Program	53,009	53,009
Pass-through from University of Hawaii at Manoa:			
11.432	NOAA Cooperative Institutes	24,872	24,872
Pass-through from National Oceanic & Atmospheric Administration:			
11.482	Coral Reef Conservation Program	11,419	11,419
	Subtotal Pass-Through Programs	137,474	137,474
	U.S. Department of Commerce Total	\$ 692,121	491,804
Direct from the U.S. Department of Defense:			
12.002	Procurement Technical Assistance for Business Firms	\$ 274,516	-
12.116	Department of Defense Appropriation Act of 2003	96,248	96,248
12.300	Natural Disasters Warning, Survival and Rehabilitation	232,734	232,734
12.335	Navy Command, Control, Communications, Computers, Intelligence Surveillance, and Reconnaissance	442,688	442,688
	Subtotal Direct Programs	1,046,186	771,670
Pass-through from Department of Navy:			
12.300	Natural Disasters Warning, Survival and Rehabilitation	232,886	-
Pass-through from National Marine Fisheries Service :			
12.300	Natural Disasters Warning, Survival and Rehabilitation	31,154	-
Pass-through from Naval Facilities:			
12.300	Natural Disasters Warning, Survival and Rehabilitation	23,414	-
Pass-through from Department of Defense Office of Economic Adjustment:			
12.607	Community Economic Adjustment Assistance for Establishment, Expansion, Realignment, or Closure of a Military Installation	44,473	-
	Subtotal Pass-Through Programs	331,927	-
	U.S. Department of Defense Total	\$ 1,378,113	771,670

See accompanying notes to Schedule of Expenditures of Federal Awards.

UNIVERSITY OF GUAM
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Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2013

Federal CFDA #	Federal Grantor/Program Title	Expenditures	Research and Development Cluster
Direct from U.S. Department of the Interior:			
15.649	Service Training and Technical Assistance	\$ 821	\$ 821
15.805	Assistance to State Water Resources Research Institutes	238,267	238,267
15.875	Economic, Social and Political Development of the Territories	248,170	-
15.945	Cooperative Research and Training Programs Resources of the National Park System	38,018	38,018
15.DAV	Cooperative Ecosystem System Studies Unit Awards	23,918	23,918
	Subtotal Direct Programs	<u>549,194</u>	<u>301,024</u>
Pass-through from Government of Guam Department of Agriculture:			
15.605	Sport Fish Restoration Program	16,729	16,729
15.634	State Wildlife Grants	34	34
Pass-through from the Research Corporation of the University of Hawaii:			
15.820	National Climate Change and Wildlife Science Center	1,640	-
Pass-through from Government of Guam Bureau of Statistics and Planning:			
15.808	U.S. Geological Survey - Research and Data Acquisition	14,272	14,272
15.875	Economic, Social and Political Development of the Territories	44,597	44,597
15.875	Economic, Social and Political Development of the Territories	1,415,105	-
15.975	Research Information	5,899	5,899
	Subtotal Pass-Through Programs	<u>1,498,276</u>	<u>81,531</u>
	U.S. Department of the Interior Total	<u>\$ 2,047,470</u>	<u>\$ 382,555</u>
Direct from the U.S. Department of Justice:			
16.525	Grants to Reduce Domestic Violence, Dating Violence, Sexual Assault, and Stalking on Campus	\$ 104,854	\$ -
	U.S. Department of Justice Total	<u>\$ 104,854</u>	<u>\$ -</u>
U.S. Department of Labor:			
Pass-through from Government of Guam Department of Labor:			
17.260	WIA Dislocated Workers	\$ 131,381	\$ -
	U.S. Department of Labor Total	<u>\$ 131,381</u>	<u>\$ -</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

UNIVERSITY OF GUAM
(A Component Unit of the Government of Guam)

Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2013

Federal CFDA #	Federal Grantor/Program Title	Expenditures	Research and Development Cluster
Direct from National Endowment for the Humanities:			
45.312	National Leadership Grants	\$ 101,931	\$ -
	National Endowment for the Humanities Total	<u>\$ 101,931</u>	<u>\$ -</u>
Direct from National Science Foundation:			
47.050	Astronomical, Atmospheric, Earth and Ocean Sciences	\$ 51,824	\$ 51,824
47.074	Biological Sciences	120,023	120,023
47.080	Office of Cyberinfrastructure	<u>164,762</u>	<u>164,762</u>
	Subtotal Direct Programs	336,609	336,609
Pass-through from University of Hawaii:			
47.076	Education and Human Resources	<u>16,877</u>	<u>16,877</u>
	Subtotal Pass-Through Programs	<u>16,877</u>	<u>16,877</u>
	National Science Foundation Total	<u>\$ 353,486</u>	<u>\$ 353,486</u>
Direct from Small Business Administration:			
59.037	Small Business Development Centers	\$ 708,139	\$ -
59.XXX	Center Registration for Economic Development	22,383	-
59.044	Veterans Business Development	<u>158,286</u>	<u>-</u>
	Small Business Administration Total	<u>\$ 888,808</u>	<u>\$ -</u>
Pass-through from Guam Economic Protection Agency:			
66.600	Environmental Protection Consolidated Grants for the Insular Areas - Program Support	<u>\$ 40</u>	<u>\$ -</u>
	U.S. Environmental Protection Agency Total	<u>\$ 40</u>	<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>\$ 685,673</u>	<u>\$ -</u>
	U.S. Department of Energy Total	<u>\$ 685,673</u>	<u>\$ -</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

UNIVERSITY OF GUAM
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Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2013

Federal CFDA #	Federal Grantor/Program Title	Expenditures	Research and Development Cluster
Direct from U.S. Department of Education:			
Student Financial Aid Cluster:			
84.007	Federal Supplemental Educational Opportunity Grant	\$ 108,350	\$ -
84.033	Federal Work-Study Program	356,403	-
84.063	Federal Pell Grant Program	7,924,514	-
84.268	Federal Direct Student Loans	9,402,667	-
84.375	Academic Competitiveness Grants	68,500	-
	Student Financial Aid Cluster Subtotal	<u>17,860,434</u>	<u>-</u>
TRIO Cluster:			
84.042	TRIO-Student Support Service	292,609	-
84.044	TRIO-Talent Search	358,237	-
84.047	TRIO-Upward Bound	400,606	-
	TRIO Cluster Subtotal	<u>1,051,452</u>	<u>-</u>
84.031	Higher Education Institution Aid	414,427	-
84.116	Fund for the Improvement of Postsecondary Education	13,911	13,911
84.195	Bilingual Education: Professional Development	4,646	-
84.224	Assistive Technology	148,569	-
84.325	Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	322,894	-
84.373	Special Education-Technical Assistance on State Data Collection	<u>139,524</u>	<u>-</u>
	Subtotal Direct Programs	19,955,857	13,911
Pass-through from Guam Department of Education and Federated States of Micronesia:			
84.027	Special Education Grants to States	9,569	-
84.181	Special Education-Grants for Infants and Families	13,730	-
84.215	GPSS Project Menhalom	50,354	50,354
84.264	Rehabilitation Training Continuing Education	(372)	-
84.336	Teacher Quality Partnership Grants	479,353	-
84.402	Consolidated Grants to the Outlying Areas, Recovery Act	55,534	-
84.403	Consolidating Grant to the Outside Area	<u>158,999</u>	<u>-</u>
	Subtotal Pass-Through Programs	<u>767,167</u>	<u>50,354</u>
	U.S. Department of Education Total	<u>\$ 20,723,024</u>	<u>\$ 64,265</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

UNIVERSITY OF GUAM
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Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2013

Federal CFDA #	Federal Grantor/Program Title	Expenditures	Research and Development Cluster
	Corporation for National and Community Service:		
94.006	Pass-through from Government of Guam Department of Labor: Americorps	\$ 406,445	\$ -
	Corporation for National and Community Service Total	<u>\$ 406,445</u>	<u>\$ -</u>
	Grand Total	<u>\$ 36,312,436</u>	<u>\$ 5,469,146</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, 2013

(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 financial statements 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
- National Endowment for the Humanities
- National Science Foundation
- Small Business Administration
- U.S. Environmental Protection Agency
- 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, 2013, the University's grant award notification and expenditures are as follows:

<u>CFDA Program</u>	<u>Grant Amount</u>	<u>FY 2013 Expenditures</u>
10.688 Recovery Act of 2009: Wildland Fire Management	\$ 38,000	\$ -
10.783 Rural Business Enterprise Grants - ARRA	50,000	8,818
81.041 ARRA – State Energy Program	1,500,000	685,673
93.708 ARRA - Head Start	664,277	263,319

UNIVERSITY OF GUAM
(A Component Unit of the Government of Guam)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2013

Part I - Summary of Auditors' Results Section

Financial Statements

- | | |
|--|---------------|
| 1. Type of auditors' report issued: | Unmodified |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | No |
| 3. Significant deficiency(ies) identified? | None reported |
| 4. Noncompliance material to financial statements noted? | No |

Federal Awards

- | | |
|---|------------|
| Internal control over major programs: | |
| 5. Material weakness(es) identified? | No |
| 6. Significant deficiency(ies) identified? | Yes |
| 7. Type of auditors' report issued on compliance for major programs: | Unmodified |
| 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: | |

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
15.875	Research and Development Cluster Economic, Social and Political Development of the Territories Student Financial Assistance Cluster

- | | |
|--|-------------|
| 10. Dollar threshold used to distinguish between type A and type B programs: | \$1,089,373 |
| 11. Auditee qualified as low-risk auditee? | No |

Part II – Financial Statement Findings Section

No matters were reported.

UNIVERSITY OF GUAM
(A Component Unit of the Government of Guam)

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Part III – Federal Award Findings and Questioned Costs Section

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Finding</u>	<u>Questioned Cost</u>
2013-001	SFA Cluster	Special Tests and Provisions	\$ 4,774
2013-002	R&D Cluster	Allowable Costs/Cost Principles	\$ -
2013-003	R&D Cluster	Equipment and Real Property Management	\$ -
2013-004	R&D Cluster	Matching, Level of Effort, Earmarking	\$ -
2013-005	R&D Cluster	Procurement and Suspension and Debarment	\$ 18,982

UNIVERSITY OF GUAM
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-001
Federal Agency: U.S. Department of Education
CFDA Program: Student Financial Assistance (SFA) Cluster
Grant Number: OPE ID Number: 00393500
Area: Special Tests and Provisions
Questioned Costs: \$4,774

Criteria: The SFA Handbook Volume 5 School Year 2012-2013 (SFA Handbook) states that Title IV funds are awarded to a student under the assumption that the student will attend school for the entire period for which the assistance is awarded. When a student withdraws, the student may no longer be eligible for the full amount of Title IV funds that the student was originally scheduled to receive.

If a recipient of Title IV grant or loan funds withdraws from a school after beginning attendance, the amount of Title IV grant or loan assistance earned by the student must be determined. If the amount disbursed to the student is greater than the amount the student earned, the unearned funds must be returned. Pursuant to the SFA Handbook, some schools can opt to use the 50% point as the withdrawal date for a student who unofficially withdraws in determining earned Title IV aid.

Condition: For one (or 1%) of seventy-five students tested aggregating disbursements of \$434,718, the Final Grade Report for student I.D. #28604 indicated an unofficial withdrawal (UW) for all six credits attempted during Fall 2012. The student obtained an unsubsidized \$9,547 direct loan for Fall 2012. In accordance with the criteria above, a return to Title IV is required; however, funds have not been returned as of 11/18/13. The University uses the 50% point as the withdrawal date for students who unofficially withdraw from their attempted courses, thus, 50% (or \$4,774) of the disbursement resulted in a questioned cost since the disbursed amount is greater than the amount earned.

Cause: The cause of the above condition is the lack of monitoring student academic progresses and the lack of coordination between the Financial Aid Office and the Office of Admissions and Records.

Effect: The effect of the above condition is noncompliance with special tests and provision requirements related to the return to Title IV. Questioned costs of \$4,774 result since the projected amount of potential noncompliance exceeds \$10,000.

Recommendation: We recommend that the University review current processes for monitoring student academic progresses and unearned funds have been assess whether applicable.

Auditee Response and Corrective Action Plan:

Name and job title of responsible personnel: Mark Duarte, Financial Aid Office (FAO) Director

Specific corrective procedures to be performed and date of performance: At the end of each semester the Admissions and Records Office will provide the Financial Aid Office (FAO) with a list of students who have officially and unofficially withdrawn. FAO will match this list to students awarded Title IV financial aid. For any matches FAO will process a return to Title IV (RTTIV) calculation. FAO will work through the Bursars Office to collect. This procedure shall be implemented beginning with a review of Fall 2014 awards.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-002
Federal Agency: U.S. Department of Agriculture
Federal Agency: U.S. Department of Defense
CFDA Program: Research and Development (R&D) Cluster
Grant Number: 2012-31100-06057 and N00014-10-1-0160
Area: Allowable Costs/Cost Principles
Questioned Costs: \$0

Criteria: Payroll expenditures must be supported by activity reports signed by the employee, principal investigator, or responsible official(s) to verify that work was performed. Further, if an employee spends less than 100% of his or her time on one federal program, the University is required to implement and maintain a method that must recognize the principle of after the fact confirmation or determination so that costs distributed represent actual costs, unless a mutually agreed satisfactory alternative is reached. The following methods are available to the University:

- Plan Confirmation: At least annually a statement will be signed by the employee, principal investigator, or responsible official(s) using suitable means of verification that the work was performed, stating that salaries and wages charged to sponsored agreements as direct charges, and to residual, F&A cost or other categories are reasonable in relation to work performed;
- After-the-fact Activity Records: For professorial and professional staff, the reports will be prepared each academic term, but no less frequently than every six months. For other employees, unless alternate arrangements are agreed to, the reports will be prepared no less frequently than monthly and will coincide with one or more pay periods; or
- Multiple-Confirmation Records: The reports will be prepared each academic term, but no less frequently than every six months.

Condition: Of twenty-five payroll expenditures tested, aggregating \$85,561, we noted the that for one employee (or 4%), the time and effort documentation does not clearly support that 50% of the employee's hours worked was spent on one federal program (reference no. 11190, charged to grant no. 2012-31100-06057). Time and effort documentation showed the employee worked to support academic, research and extension activities; however, no allocation of actual hours worked on each program/project to support 50% charged to the Hatch program is available. The estimated excess salaries charged to the Hatch program is \$10,956. No questioned costs result since the University subsequently corrected this amount through an adjustment dated December 29, 2013.

Cause: The cause of the above conditions is lack of oversight and of standard time and effort report documentation.

Effect: The effect of the above condition is noncompliance with applicable allowable costs/cost principles requirements.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.:	2013-002, Continued
Federal Agency:	U.S. Department of Agriculture
Federal Agency:	U.S. Department of Defense
CFDA Program:	Research and Development (R&D) Cluster
Grant Number:	2012-31100-06057 and N00014-10-1-0160
Area:	Allowable Costs/Cost Principles
Questioned Costs:	\$0

Recommendation: We recommend that the University take reasonable steps to establish standard time and effort reporting documentation and improve monitoring procedures of compliance.

Auditee Response and Corrective Action Plan:

Name and job title of responsible personnel: John Peterson, AVP, Office of Sponsored Programs, working with Unit Administrators/Directors, Principal Investigators, designated Timekeepers

Specific corrective procedures to be performed and date of performance: A Time and Effort (T&E) guideline will be approved and distributed in Spring 2014 under the leadership of the Office of Sponsored Programs (OSP). A standard form of reporting is already in place that can efficiently capture the necessary elements of the T&E Federal compliance requirements. Principal Investigators and Deans/Directors will be responsible for accuracy and compliance of submitted T&E forms. T&E records will be kept by the unit and by Payroll. OSP will be responsible for training and periodic compliance reviews.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-003
Federal Agency: U.S. Department of Agriculture
Federal Agency: U.S. Department of Defense
CFDA Program: Research and Development (R&D) Cluster
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:

- 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.
- Adequate maintenance procedures must be developed to keep the property in good condition.

Condition: Inventory counts have been ongoing during fiscal year 2013 for current year purchases; however, a complete reconciliation with Procurement and Supply Management has not been finalized over the last two fiscal years.

Cause: The cause of the above condition is the University is in the process of establishing required guidelines and is conducting required inventories and the process is ongoing.

Effect: The effect of the above condition is noncompliance with the applicable equipment management requirements. See below for cumulative dollar amount of property and equipment acquired with program grant funds.

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>Grand Total</u>
\$ 152,193	\$ 264,453	\$ 206,875	\$ 623,521

Recommendation: We recommend that the University continue its extensive efforts to reconcile results of inventory counts with property and equipment records.

Auditee Response and Corrective Action Plan:

Name and job title of responsible personnel: Sonny Perez, Chief Plant and Facilities Officer

Specific corrective procedures to be performed and date of performance: A property control officer (PCO) will be hired in 2014, reporting to Plant and Facilities. The PCO will work with the operational units, Business Office and Procurement to manage fixed assets at the University, including establish and maintain records with needed data; survey damaged, obsolete and stolen property; conduct and reconcile inventory counts. A full inventory will be conducted in 2014.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-004
Federal Agency: U.S. Department of Agriculture
Federal Agency: U.S. Department of Commerce
CFDA Program: Research and Development (R&D) Cluster
Grant Number: 11-8510-1466-CA, 12-8515-1200-CA and 0301.12.034503
Area: Matching, Level of Effort, Earmarking
Questioned Costs: \$0

Criteria: Pursuant to grant terms and conditions, the grantee is required to maintain a level of local matching support for the grant, as follows:

<u>CFDA</u>	<u>Account No.</u>	<u>Required Local Match</u>
10.025	61-1F-243019-R-5	\$ 30,500
10.025	61-2F-243032-R-5	15,000
11.463	61-1F-243035-R-5	<u>23,000</u>
		\$ <u>68,500</u>

Condition: For three (or 38%) of eight R&D grants tested, a final determination that matching requirements have been met is not available. A memo identifying local matching prepared at the start of the grant was provided; however, no documentation was available to support actual matching details.

Cause: The cause of the above condition is the lack of established policies and procedures to document compliance with matching requirements.

Effect: The effect of the above condition is potential noncompliance with matching requirements. No questioned costs reported since the final matching documentation was subsequently provided.

Recommendation: We recommend that existing procedures be evaluated to assess compliance with matching requirements.

Auditee Response and Corrective Action Plan:

Name and job title of responsible personnel: Dr. Lee Yudin, Dean/Director, College of Natural and Applied Sciences

Specific corrective procedures to be performed and date of performance: We concur with the finding. CNAS will implement monitoring steps to ensure that proper matching to these grants occur in a timely manner in FY2014.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-005
Federal Agency: U.S. Department of Agriculture
Federal Agency: U.S. Department of Defense
CFDA Program: Research and Development (R&D) Cluster
Grant Number: 12-25-B-0918 and N00014-10-1-0160
Area: Procurement and Suspension and Debarment
Questioned Costs: \$18,982

Criteria: Applicable regulations state that all procurement transactions will be conducted in a manner providing full and open competition. Grantees and subgrantees will use their own procurement procedures, which reflect applicable state and local laws and regulations provided that the procurements conform to applicable federal law. Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the simplified acquisition threshold fixed currently at \$100,000. If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.

Specifically, the UOG procurement regulations state the following:

- All sole source procurements require written explanation as to why no other bidder will be suitable or acceptable to meet the need for supplies or services. This method is allowed only in five (5) situations:
 - Compatibility of equipment, accessories, or replacement part is of paramount consideration;
 - Sole supplier's item is needed for trial use or testing;
 - Sole supplier's item is to be procured for resale;
 - Public utility services are to be procured; or
 - Supplies are offered thru bankruptcy or receivership sales, or other disposition at lower than prevailing market prices.
- Price quotations, solicitations or qualifications should be obtained from at least three potential vendors for contracts above \$1,500 and below \$15,000.

Condition: Of thirty-three nonpayroll expenditures tested aggregating \$379,503, the following was noted:

1. A \$11,482 purchase charged to grant no. 12-25-B-0918 under PO #P1130170 qualified under the small purchase method and was procured through sole source with justification indicating that only the selected vendor was willing to deliver or that no other vendors were available. However, documentation that the program contacted other vendors, whether written or oral, was not evident or was not timely documented. Further, the items or services purchased do not appear to qualify under the five conditions allowed for sole source.
2. For one \$7,500 independent contract payment (reference no. BC120071 charged to N00014-10-1-0160), documentation of contractor evaluation and selection was not provided.

Cause: The cause of the above condition is that applicable procurement regulations and procurement files were not adequately maintained.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-005, Continued
Federal Agency: U.S. Department of Agriculture
Federal Agency: U.S. Department of Defense
CFDA Program: Research and Development (R&D) Cluster
Grant Number: 12-25-B-0918 and N00014-10-1-0160
Area: Procurement and Suspension and Debarment
Questioned Costs: \$18,982

Effect: The effect of the above condition is potential noncompliance with procurement regulations and questioned costs of \$18,982 exist.

Recommendation: We recommend that the University comply with procurement regulations to provide full and open competition and that compliance with the entries be documented on file.

Auditee Response and Corrective Action Plan:

Specific corrective procedures to be performed and date of performance:

Condition 1.

Name and job title of responsible personnel: David O'Brien, Vice President for Administration and Finance (VPAF) and Comptroller Zeny Nace working with Vicente Borja, Supply Management Administrator, Centralized Procurement Office; Legal Counsel Victorina Renacia; and the operational units

The Vice President for Administration and Finance (VPAF) has re-issued the sole source procurement guidelines, first distributed in Q3 FY2013. Based on the guidelines and UOG Procurement Regulations, the Supply Management Administrator (SMA) will be responsible to ensure that purchase orders (Legal Counsel will do this for contracts) that call for sole sourcing are justified on the proper form and routed to VPAF or Comptroller for approval (or not) prior to any purchase or approval of contract.

Condition 2.

Name and job title of responsible personnel: John Peterson, AVP, Office of Sponsored Programs, working with Unit Administrators/Directors, Principal Investigators

The award of grant called for person selected to be the George Washington High School "environmental sustainability (sic) coordinator." The contractor was the only person in the designated position and was selected by Guam Department of Education (GDOE) following the GDOE procedures. Prospectively, we will ensure that proper support to document contractor selection and evaluation shall be filed appropriately in the University's records.

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Schedule of Prior Year Findings and Questioned Costs
Year Ended September 30, 2013

Summary Schedule of Prior Audit Findings

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

Finding No. 2012 – 1, Coordination between Finance Office and Plant Facilities Office in Monitoring of Construction in Progress – Corrected.

Findings and questioned costs – Major Federal Award Programs Audit

Finding No. 2012 – 2, State Fiscal Stabilization Fund: Government Services – Not Corrected. Refer to Finding No. 2013-003.

Finding No. 2012 – 3, Area Health Education Centers Infrastructure Development Awards – Corrected.

No prior year questioned costs were reported.