

**UNIVERSITY OF GUAM**

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**INDEPENDENT AUDITORS' REPORTS ON  
COMPLIANCE WITH LAWS AND REGULATIONS**

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**YEAR ENDED SEPTEMBER 30, 2004**

**UNIVERSITY OF GUAM**  
**SINGLE AUDIT REPORTS**  
**YEAR ENDED SEPTEMBER 30, 2004**  
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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT 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), as of September 30, 2004, and for the year then ended, and have issued our report thereon dated June 13, 2005. 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**

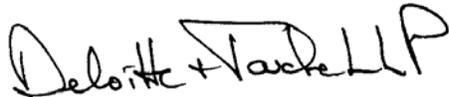
In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the University's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2004-1 and 2004-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

## 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 grants, 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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Regents and management of the University of Guam, the Office of the Public Auditor of 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.

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

June 13, 2005

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL  
OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM  
AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

The Board of Regents  
University of Guam:

### Compliance

We have audited the compliance of the University of Guam (the University) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2004. The University's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. 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 on the University's compliance with those requirements.

As described in items 2004-3 through 2004-7 in the accompanying Schedule of Findings and Questioned Costs, the University did not comply with requirements regarding eligibility, allowable costs/cost principles, reporting, activities allowed or unallowed, and special tests and provisions that are applicable to its major federal programs described on page 15 (number 7). 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 requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2004.

### Internal Control Over Compliance

The management of the University is responsible for establishing and maintaining effective internal control over compliance with 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 requirements that could have a direct and material effect on a major federal program in order to determine our 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.

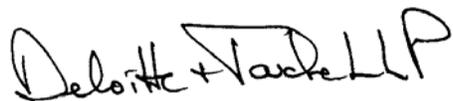
We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the University's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2004-3 through 2004-7.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above are material weaknesses.

### Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the University as of and for the year ended September 30, 2004, and have issued our report thereon dated June 13, 2005. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Supplementary 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 basic financial statements. This schedule is the responsibility of the management of the University. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects when considered in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Regents and management of the University of Guam, the Office of the Public Auditor of 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.



June 13, 2005

**UNIVERSITY OF GUAM**

Summary Schedule of Expenditures of Federal Awards, by Grantor  
Year Ended September 30, 2004

<u>Federal Grantor Agency</u>	Accrued (Deferred) Balance at September 30, 2003	Expenditures	Cash Receipts	Accrued (Deferred) Balance at September 30, 2004
U.S. Department of Agriculture	\$ 197,797	\$ 2,917,394	\$ 2,777,105	\$ 338,086
U.S. Department of Commerce	118,968	630,998	578,387	171,579
U.S. Department of Defense	(88,034)	164,901	76,867	-
U.S. Department of the Interior	165,012	259,964	320,753	104,223
National Science Foundation	69,546	172,513	225,647	16,412
Small Business Administration	96,067	479,573	467,925	107,715
U.S. Environmental Protection Agency	132,254	98,723	177,760	53,217
U.S. Department of Education	276,817	11,355,547	12,176,504	(544,140)
U.S. Department of Health and Human Services	201,651	3,795,886	3,683,335	314,202
GRAND TOTAL	<u>\$ 1,170,078</u>	<u>\$ 19,875,499</u>	<u>\$ 20,484,283</u>	<u>\$ 561,294</u>
Reconciliation to financial statements:				
Accounts receivable - U.S. Government				\$ 599,222
Other local contracts				<u>(37,928)</u>
Balance per Schedule of Expenditures of Federal Awards				<u>\$ 561,294</u>

**UNIVERSITY OF GUAM**

Supplementary Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2004

Federal CFDA #	Federal Grantor/Program Title	Audited Balance at September 30, 2003	Revised Accrued Balance at September 30, 2003	Expenditures	Cash Receipts	Accrued (Deferred) Balance at September 30, 2004
Direct from U.S. Department of Agriculture:						
10.025	Plant and Animal Disease, Pest Control, and Animal Care	\$ 13,124	\$ 13,124	\$ 34,627	\$ 27,560	\$ 20,191
10.200	Grants for Agricultural Research, Special Research Grants	20,945	20,945	605,030 *	612,700	13,275
10.202	Cooperative Forestry Research	17,521	17,521	43,612	36,300	24,833
10.203	Payments to Agricultural Experiment Stations Under the Hatch Act	(27,586)	(27,586)	921,871	804,300	89,985
10.206	Grants for Agricultural Research: Competitive Research Grants	(2,451)	(2,451)	21,468	21,000	(1,983)
10.220	Higher Education Multicultural Scholars Program	13,125	13,125	37,698	48,525	2,298
10.303	Integrated Programs	-	-	54,984	47,000	7,984
10.500	Cooperative Extension Service	113,486	113,486	1,064,928	1,081,754	96,660
10.769	Rural Business Enterprise Grants	393	393	1,659	393	1,659
10.855	Distance Learning and Telemedicine Loans and Grants	3,686	3,686	58,592	33,353	28,925
10.912	Environmental Quality Incentives Program	(1,126)	(1,126)	-	-	(1,126)
Pass-through from:						
University of Hawaii at Manoa:						
10.200	Grants for Agricultural Research, Special Research Grants	<u>46,680</u>	<u>46,680</u>	<u>72,925</u> *	<u>64,220</u>	<u>55,385</u>
U.S. Department of Agriculture Total		<u>\$ 197,797</u>	<u>\$ 197,797</u>	<u>\$ 2,917,394</u>	<u>\$ 2,777,105</u>	<u>\$ 338,086</u>

\*Denotes a major program as defined by OMB Circular A-133.

Note: Basis of Accounting - The Supplementary Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.

**UNIVERSITY OF GUAM**

Supplementary Schedule of Expenditures of Federal Awards, Continued  
Year Ended September 30, 2004

Federal CFDA #	Federal Grantor/Program Title	Audited Balance at September 30, 2003	Revised Accrued Balance at September 30, 2003	Expenditures	Cash Receipts	Accrued (Deferred) Balance at September 30, 2004
Direct from U.S. Department of Commerce:						
11.417	Sea Grant Support	\$ -	\$ -	\$ 186,791	\$ 50,342	\$ 136,449
11.463	Habitat Conservation	28,055	28,055	52,086	58,856	21,285
11.478	Center for Sponsored Coastal Ocean Research - Coastal Ocean Program	90,913	90,913	394,342 *	471,410	13,845
11.550	Public Telecommunications Facilities: Planning and Construction	<u>-</u>	<u>-</u>	<u>(2,221)</u>	<u>(2,221)</u>	<u>-</u>
	U.S. Department of Commerce Total	\$ <u>118,968</u>	\$ <u>118,968</u>	\$ <u>630,998</u>	\$ <u>578,387</u>	\$ <u>171,579</u>

\*Denotes a major program as defined by OMB Circular A-133.

Note: Basis of Accounting - The Supplementary Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.

**UNIVERSITY OF GUAM**

Supplementary Schedule of Expenditures of Federal Awards, Continued  
Year Ended September 30, 2004

Federal CFDA #	Federal Grantor/Program Title	Audited Balance at September 30, 2003	Revised Accrued Balance at September 30, 2003	Expenditures	Cash Receipts	Accrued (Deferred) Balance at September 30, 2004
Direct from U.S. Department of Defense:						
12.431	Basic Scientific Research	\$ (88,034)	\$ (88,034)	\$ 164,901	\$ 76,867	\$ -
	U.S. Department of Defense Total	\$ (88,034)	\$ (88,034)	\$ 164,901	\$ 76,867	\$ -

Note: Basis of Accounting - The Supplementary Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.

**UNIVERSITY OF GUAM**

Supplementary Schedule of Expenditures of Federal Awards, Continued  
Year Ended September 30, 2004

Federal CFDA #	Federal Grantor/Program Title	Audited Balance at September 30, 2003	Revised Accrued Balance at September 30, 2003	Expenditures	Cash Receipts	Accrued (Deferred) Balance at September 30, 2004
Direct from U.S. Department of the Interior:						
15.805	Assistance to State Water Resources Research Institutes	\$ 156,031	\$ 156,031	\$ 249,102	\$ 306,467	\$ 98,666
15.875	Economic, Social and Political Development of the Territories and the Freely Associated States	<u>8,981</u>	<u>8,981</u>	<u>10,862</u>	<u>14,286</u>	<u>5,557</u>
	U.S. Department of the Interior Total	\$ <u>165,012</u>	\$ <u>165,012</u>	\$ <u>259,964</u>	\$ <u>320,753</u>	\$ <u>104,223</u>

Note: Basis of Accounting - The Supplementary Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.

**UNIVERSITY OF GUAM**

Supplementary Schedule of Expenditures of Federal Awards, Continued  
Year Ended September 30, 2004

Federal CFDA #	Federal Grantor/Program Title	Audited Balance at September 30, 2003	Revised Accrued Balance at September 30, 2003	Expenditures	Cash Receipts	Accrued (Deferred) Balance at September 30, 2004
Direct from National Science Foundation:						
47.050	Geosciences	\$ 10,823	\$ 10,823	\$ 13,000	\$ 18,590	\$ 5,233
47.074	Biological Sciences	65,045	65,045	147,475	191,812	20,708
47.076	Education and Human Resources	<u>(6,322)</u>	<u>(6,322)</u>	<u>12,038</u>	<u>15,245</u>	<u>(9,529)</u>
	National Science Foundation Total	\$ <u>69,546</u>	\$ <u>69,546</u>	\$ <u>172,513</u>	\$ <u>225,647</u>	\$ <u>16,412</u>

Note: Basis of Accounting - The Supplementary Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.

**UNIVERSITY OF GUAM**

Supplementary Schedule of Expenditures of Federal Awards, Continued  
Year Ended September 30, 2004

Federal CFDA #	Federal Grantor/Program Title	Audited Balance at September 30, 2003	Revised Accrued Balance at September 30, 2003	Expenditures	Cash Receipts	Accrued (Deferred) Balance at September 30, 2004
Direct from Small Business Administration:						
59.037	Small Business Development Center	\$ 96,067	\$ 96,067	\$ 479,573 *	\$ 467,925	\$ 107,715
	Small Business Administration Total	\$ 96,067	\$ 96,067	\$ 479,573	\$ 467,925	\$ 107,715

\*Denotes a major program as defined by OMB Circular A-133.

Note: Basis of Accounting - The Supplementary Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.

**UNIVERSITY OF GUAM**

Supplementary Schedule of Expenditures of Federal Awards, Continued  
Year Ended September 30, 2004

Federal CFDA #	Federal Grantor/Program Title	Audited Balance at September 30, 2003	Revised Accrued Balance at September 30, 2003	Expenditures	Cash Receipts	Accrued (Deferred) Balance at September 30, 2004
	Direct from U.S. Environmental Protection Agency:					
66.500	Environmental Protection: Consolidated Research	\$ 132,254	\$ 132,254	\$ 96,436	\$ 171,360	\$ 57,330
66.951	Environmental Education Grants	-	-	2,287	6,400	(4,113)
	U.S. Environmental Protection Agency Total	\$ 132,254	\$ 132,254	\$ 98,723	\$ 177,760	\$ 53,217

Note: Basis of Accounting - The Supplementary Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.

**UNIVERSITY OF GUAM**

Supplementary Schedule of Expenditures of Federal Awards, Continued  
Year Ended September 30, 2004

Federal CFDA #	Federal Grantor/Program Title	Audited Balance at September 30, 2003	Revised Accrued Balance at September 30, 2003	Expenditures	Cash Receipts	Accrued (Deferred) Balance at September 30, 2004
Direct from U.S. Department of Education:						
84.007	Federal Supplemental Educational Opportunity Grants	\$ 11,145	\$ 5,437	\$ 156,165 *	\$ 151,087	\$ 10,515
84.032	Federal Family Education Loans	(67,417)	(67,417)	3,420,874 *	3,427,704	(74,247)
84.033	Federal Work-Study Program	61,282	66,990	419,588 *	447,400	39,178
84.042	TRIO: Student Support Services	63,383	63,383	245,774	287,259	21,898
84.044	TRIO: Talent Search	43,168	43,168	348,467	353,345	38,290
84.047	TRIO: Upward Bound	70,534	70,534	395,290	414,266	51,558
84.063	Federal Pell Grant Program	(333,482)	(333,482)	3,447,261 *	3,012,943	100,836
84.195	Bilingual Education: Professional Development	113,115	113,115	284,475 *	336,972	60,618
84.224	Assistive Technology	12,849	12,849	136,646	506,435	(356,940)
84.235	Rehabilitation Services Demonstration and Training Programs	-	-	61,596	806,831	(745,235)
84.268	Federal Direct Student Loans	223,043	223,043	1,500,200 *	1,538,384	184,859
84.288	Bilingual Education Program Development and Implementation Grants	35,542	35,542	184,122	217,577	2,087
84.325	Special Education: Personnel Preparation to Improve Services and Results for Children with Disabilities	13,883	13,883	56,710	57,825	12,768
84.326	Special Education: Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	3,346	3,346	152,101	120,327	35,120
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	26,426	26,426	546,278	498,149	74,555
	U.S. Department of Education Total	\$ <u>276,817</u>	\$ <u>276,817</u>	\$ <u>11,355,547</u>	\$ <u>12,176,504</u>	\$ <u>(544,140)</u>

\* Denotes a major program as defined by OMB Circular A-133.

Note: Basis of Accounting - The Supplementary Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.

**UNIVERSITY OF GUAM**

Supplementary Schedule of Expenditures of Federal Awards, Continued  
Year Ended September 30, 2004

Federal CFDA #	Federal Grantor/Program Title	Audited Balance at September 30, 2003	Revised Accrued Balance at September 30, 2003	Expenditures	Cash Receipts	Accrued (Deferred) Balance at September 30, 2004
	Direct from U.S. Department of Health and Human Services:					
93.230	Consolidated Knowledge Development and Application (KD&A) Program	\$ -	\$ -	\$ 4,468	\$ 4,468	\$ -
93.251	Universal Newborn Hearing Screening	3,777	3,777	141,834	139,098	6,513
93.283	Centers for Disease Control and Prevention: Investigations and Technical Assistance	-	-	107,609	76,693	30,916
93.375	Minority Biomedical Research Support	408,404	408,404	986,527	1,256,111	138,820
93.397	Cancer Centers Support Grants	-	-	268,064 *	180,202	87,862
93.632	University Centers for Excellence in Developmental Disabilities Education, Research and Service	15,827	15,827	391,245	368,876	38,196
93.864	Population Research	-	-	30,767	30,053	714
	Pass through from Department of Public Health and Social Services:					
93.052	Government of Guam Division of Senior Citizens: National Family Caregiver Support	(19,850)	(19,850)	430,999	470,504	(59,355)
93.866	University of California, San Diego: Aging Research	149,926	149,926	623,632 *	703,122	70,436
93.982	Government of Guam Department of Mental Health and Substance Abuse: Mental Health Disaster Assistance and Emergency Mental Health	<u>(356,433)</u>	<u>(356,433)</u>	<u>810,741</u> *	<u>454,208</u>	<u>100</u>
	U.S. Department of Health and Human Services Total	<u>201,651</u>	<u>201,651</u>	<u>3,795,886</u>	<u>3,683,335</u>	<u>314,202</u>
	Grand Total	<u>\$ 1,170,078</u>	<u>\$ 1,170,078</u>	<u>\$ 19,875,499</u>	<u>\$ 20,484,283</u>	<u>\$ 561,294</u>

\* Denotes a major program as defined by OMB Circular A-133.

Note: Basis of Accounting - The Supplementary Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.

**UNIVERSITY OF GUAM**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**Part I - Summary of Auditors' Results**

1. The Independent Auditors' Report on the financial statements expressed an unqualified opinion.
2. Reportable conditions in internal control over financial reporting were identified, none of which were considered to be material weaknesses.
3. No instance of noncompliance considered material to the financial statements was disclosed by the audit.
4. Reportable conditions in internal control over compliance with requirements applicable to major federal award programs were identified, none of which were considered to be material weaknesses.
5. The Independent Auditors' Report on compliance with requirements applicable to major federal award programs expressed a qualified opinion.
6. The audit disclosed findings required to be reported by OMB Circular A-133.
7. The University's major programs were as follows:

<u>CFDA Number</u>	<u>Grant Title</u>	<u>Expenditures</u>
10.200	Grants for Agricultural Research, Special Research Grants	\$ 677,955
11.478	Center for Sponsored Coastal Ocean Research – Coastal Ocean Program	394,342
<u>Student Financial Aid Cluster</u>		
84.007	Federal Supplemental Educational Opportunity Grants	\$ 156,165
84.063	Federal Pell Grant Program	3,447,261
84.033	Federal Work-Study Program	419,588
84.268	Federal Direct Loan	1,500,200
84.032	Federal Family Educational Loans	3,420,874
59.037	Small Business Development Center	479,573
84.195	Bilingual Education – Professional Development	284,475
93.397	Cancer Centers Support Grants	268,064
93.866	Aging Research	623,632
93.982	Mental Health Disaster Assistance and Emergency Mental Health	810,741

8. A threshold of \$596,265 was used to distinguish between Type A and Type B programs.
9. The University did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

UNIVERSITY OF GUAM

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**Part II - Financial Statement Findings Section**

<u>Reference Number</u>	<u>Finding</u>	<u>Questioned Costs</u>
2004-1	Advances Outstanding Over a Year	\$ -
2004-2	Employee Pay Rate Modifications	\$ -

**Part III - Federal Award Findings and Questioned Cost Section**

<u>Reference Number</u>	<u>CFDA #</u>	<u>Finding</u>	<u>Questioned Costs</u>
2004-3	84.268, 84.032	Special Tests and Provisions	\$ -
2004-4	84.063	Eligibility	\$ 506
2004-5	93.397, 11.478 & 93.866	Allowable Costs/Cost Principles	\$ -
2004-6	93.982	Reporting	\$ -
2004-7	84.195	Activities Allowed or Unallowed	\$ 429

UNIVERSITY OF GUAM

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

Finding No.: 2004-1  
Area: Advances Outstanding Over a Year

Criteria:

Advances should be cleared in a timely manner.

Condition:

The following advances have been outstanding for longer than one year:

Fund 24	\$ 4,880
Fund 51	2,000
Fund 59	<u>52,547</u>
Total	\$ <u>59,427</u>

Cause:

Documentation substantiating the reasons for the condition was not on file and therefore, we could not determine the cause of the condition. However, it appears that inadequate documentation relative to follow-up on these items contributed to the condition.

Effect:

No material effect on the financial statements occurs as a result of this condition.

Prior Year Status:

The above condition is reiterative of conditions identified in the prior year audit of the University of Guam.

Recommendation:

Advances should be followed up and cleared in a timely manner.

Auditee Response and Corrective Action Plan:

We concur. The update for advances listed in the report is as follows:

Fund 24	\$ -
Fund 51	-
Fund 59	<u>11,984</u>
Total	\$ <u>11,984</u>

**UNIVERSITY OF GUAM**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

Finding No.: 2004-1, Continued  
Area: Advances Outstanding Over a Year

Auditee Response and Corrective Action Plan, Continued:

By comparison, this year's amount showed a decrease by 83% from last year. The University is committed to minimizing the use of advances to vendors. Advances are minimized and used for off-island vendors who would not provide supplies unless they receive an advanced payment. The Business Office has been continually monitoring such advances on a monthly basis and providing a follow-up list to the affected department heads. Additionally, because this is a continuing finding, the Comptroller will personally monitor clearance of advances with the General Accounting Supervisor and respective accountants within the Business Office.

# UNIVERSITY OF GUAM

## Schedule of Findings and Questioned Costs Year Ended September 30, 2004

Finding No.: 2004-2  
Area: Employee Pay Rate Modifications

### Criteria:

The ability to change employee pay rates should be restricted to Human Resource Department personnel.

### Condition:

Personnel in the payroll processing department have the ability to modify employee pay rates.

### Cause:

The payroll processing module allows payroll personnel access to modify pay rates during the time period that time sheets are input. It is only during this window of opportunity that unauthorized pay rate modifications may be made.

### Effect:

This condition creates the possibility of unauthorized pay rate modifications.

### Recommendation:

The ability to modify employee data, including pay rates, should be restricted to the Human Resource Department.

### Auditee Response and Corrective Action Plan:

We concur. The Colleague Financial Management System, Payroll Module Release 17, came with the deficiency to allow the Payroll unit to be able to modify pay rates during payroll processing. A compensating control has been implemented that requires generation of an exceptions report (report for which pay rates were modified during payroll processing) to be reviewed and approved by the Comptroller. Additionally, the Computer Center has been engaged to help resolve the issue of restricting modification of pay rates to the Human Resources Department.

# UNIVERSITY OF GUAM

## Schedule of Findings and Questioned Costs Year Ended September 30, 2004

Finding No.: 2004-3  
Grantor Agency: U.S. Department of Education  
Grant No.: P268K030441  
CFDA No.: 84.268 – Federal Direct Student Loan  
84.032 – Federal Family Education Loan  
Area: Special Tests and Provisions  
Questioned Cost: \$0

### Criteria:

According to the Financial Aid Handbook, students applying for federal loans must accept or decline the award by submitting their award letter to the Financial Aid Office signed.

### Condition:

Federal Stafford Loan recipients for the academic year 2003-2004 did not sign their Award Letters to accept or decline the award. While this is not a federally imposed requirement, it is a requirement established by the University of Guam.

### Cause:

There appears to be weak internal controls over ensuring that the rules and regulations of financial aid programs are properly executed.

### Effect:

The impact of this condition is an inconsistency in the regulation of rules applicable to financial aid programs.

### Recommendation:

It is important to update the financial aid handbook to reflect any changes and to ensure that procedures are followed on a consistent basis. Although this requirement is not imposed by federal regulations, the University of Guam Student Financial Aid Handbook included this condition as a requirement.

### Auditee Response and Corrective Action Plan:

The current Financial Aid Award Letter has been updated and effective Academic Year 2004-2005 the student's signature is no longer required when accepting the award. A signed award letter from the student is required upon declination of the awards offered.

The Financial Aid Office has indicated this corrective change in its Program Policies and Procedures for Academic Year 2004-2005. It will also make this correction in the Award Letter information in the Financial Aid Handbook.

# UNIVERSITY OF GUAM

## Schedule of Findings and Questioned Costs Year Ended September 30, 2004

Finding No.: 2004-4  
Grantor Agency: U.S. Department of Education  
Grant No.: P063P030441  
CFDA No.: 84.063 Federal Pell Grant Program  
Area: Eligibility  
Questioned Cost: \$506

### Criteria:

Awards to students should be based on enrollment status.

### Cause:

One of thirty-six students awarded Pell Grant was awarded as a full-time status, while the underlying transcript reflected part-time status. The student was over awarded \$506.

### Condition:

It appears there is weak internal control over ensuring that the disbursements are properly monitored according to student enrollment status.

### Effect:

The overpayment of \$506 awarded to the Pell grant recipient, extrapolated over the population, exceeds the threshold and therefore, this amount is a questioned cost.

### Recommendation:

Internal controls should be strengthened to ensure that Pell grant disbursements are awarded according to a student's enrollment status.

### Auditee Response and Corrective Action Plan:

The Financial Aid Office System person will print a list of all Pell recipients the following day after the designated add/drop date requiring Counselors to re-verify their students' award prior to submittal to the Business Office. This process will commence Summer 2005.

The Financial Aid Office System staff is currently consulting with the Financial Aid IT support staff at Computer Center to upload the Pell Award Table in Colleague. This measure would ensure that when the Counselor is awarding a Pell award to a student, the award amount correlates with the student's enrollment. A mismatch will not allow the Counselor to enter the award until all criteria is met or resolved.

In addition, please note that the Business Office collected the overpayment of \$506 on April 29, 2005.

# UNIVERSITY OF GUAM

## Schedule of Findings and Questioned Costs Year Ended September 30, 2004

Finding No.: 2004-5  
Grantor Agency: U.S. Department of Health and Human Services  
Grant No.: 1U56CA096278  
CFDA No.: 93.397 Cancer Center Support Grants

Grantor Agency: U.S. Department of Commerce  
Grant No.: NA160P2920  
CFDA No.: 11.478 Center for Sponsored Coastal Ocean Research-Coastal Ocean Program

Grantor Agency: U.S. Department of Health and Human Services  
Grant No.: AG14328-08  
CFDA No.: 93.866 Aging Research

Area: Allowable Costs/Cost Principles  
Questioned Cost: \$0

### Criteria:

Indirect costs charged to federal programs should be calculated through use of correct rates and the appropriate expenditure base.

### Condition:

The indirect cost rate applied was based on the approved budget, rather than the approved rate for fiscal year 2004. In addition, for one of the major programs tested, indirect costs charged are calculated using total salaries and certain contract amounts, which do not appear includable in the base.

### Cause:

The cause of this condition appears to be an incorrect understanding of the indirect cost rate application.

### Effect:

Federal programs may have been charged for incorrect indirect costs. No questioned costs result from this finding as the amount overcharged to the federal programs were, subsequent to September 30, 2004, charged to unrestricted funds and reimbursement to the federal programs occurred.

### Recommendation:

The approved indirect costs rate should be used in charging indirect costs to federal programs. Salaries expense should be used as a base in the calculation and should not include contract costs, unless consent is obtained from the appropriate federal agency.

### Auditee Response and Corrective Action Plan:

We concur. Business Office now utilizes the rates approved for the respective fiscal year to calculate the indirect cost of all federally funded programs.

# UNIVERSITY OF GUAM

## Schedule of Findings and Questioned Costs Year Ended September 30, 2004

Finding No.: 2004-6  
Grantor Agency: U.S. Department of Health and Human Services  
Grant No.: 6H07SM00177-01  
CFDA No.: 93.982 Mental Health Disaster Assistance  
Area: Reporting  
Questioned Cost: \$0

### Criteria:

Financial reports submitted to the grantor agency should be supported by expenditures incurred.

### Condition:

CFDA 93.982, Mental Health Disaster Assistance Financial report indicated total transactions for budget period May 16, 2003 through April 15, 2004 of \$1,204,208. Expenses reported were based on total advances disbursed to subrecipients and were not based on actual expenses incurred.

### Cause:

There appears to be weak internal controls over ensuring that financial reports are properly supported by incurred expenditures. In this case, the grant funds are passed through to subrecipients and the University has reported amounts paid to the subrecipients as expenditures, rather than the amount expended by the subrecipients.

### Effect:

A material misstatement in reported expenses could result from this condition.

### Recommendation:

Financial reports should be reconciled with underlying subrecipient records.

### Auditee Response and Corrective Action Plan:

We concur. These amounts were sub-granted to two local non-profit organizations. Effective immediately, we will include language in the grant award document indicating that sub-grantees are required to report actual expenditures to the University of Guam on a quarterly basis and upon project completion.

**UNIVERSITY OF GUAM**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

Finding No.: 2004-7  
Grantor Agency: U.S. Department of Education  
Grant No.: T195N020203-03  
CFDA No.: 84.195 – Bilingual Education, Professional Development  
Area: Activities Allowed or Unallowed  
Questioned Cost: \$429

Criteria:

Payroll disbursements should be supported by hours reported on timesheets.

Condition:

One of three employees tested reported no hours on the underlying timesheet for the pay period ending August 7, 2004. Employee number 715 received payroll compensation for this pay period. The University of Guam’s internal procedures require the submission of a timesheet prior to payment being processed. Total gross pay from this fund was \$429.

Cause:

There appears to be weak internal controls over ensuring that payroll is paid based on hours reported on timesheets.

Effect:

Payroll expense may be misstated. Insufficient support of payroll disbursements may increase the risk of not identifying potential problems or abuse in a timely manner.

Although the condition represents an immaterial amount, extrapolated over the population, the balance exceeds the threshold and therefore, this amount is a questioned cost.

Recommendation:

Internal controls should be strengthened to ensure that payroll is calculated based on hours reported on timesheets.

Auditee Response and Corrective Action Plan:

We concur. We will implement a process to ensure that professors performing services for additional compensation or fees will be clearly classified either as contractors or employees according to IRS guidelines for independent contractors. It is our practice that contractors are not withheld for taxes and are required to submit their business license. They are issued 1099’s. For employees, it is our practice to withhold taxes and monitor timesheets (i.e., submit hours worked in a timesheet).

**UNIVERSITY OF GUAM**

Summary Schedule of Prior Audit Findings  
Year Ended September 30, 2004

Finding Number 2003-01:

This finding is considered resolved. The Bursar position was segregated and became independent from the financial aid office.

Finding Number 2003-02:

This finding is considered resolved. Passwords were changed in FY04 and a new policy is in place requiring periodic change of passwords.

Finding Number 2003-03:

This finding is not considered resolved. Long outstanding advances over a year old have been cited in FY04 at finding number 2004-1.

Finding Number 2003-04:

This finding is considered resolved. Travel advances have been reconciled in a timely manner.