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March 11, 2014

To the Board of Commissioners  
Guam Housing and Urban Renewal Authority:

In planning and performing my audit of the financial statements of the Guam Housing and Urban Renewal Authority (the Authority) as of and for the year ended September 30, 2013, on which I have issued my report dated March 11, 2014, 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, I considered the Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, I do not express an opinion on the effectiveness of the Guam Housing and Urban Renewal Authority's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My 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. However, in connection with my audit, I identified, and included in the attached Appendix I, other matters as of September 30, 2013 that we wish to bring to your attention.

I have also issued a separate report to the Authority also dated March 11, 2014, on my consideration of the Authority's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

This report is intended solely for the information and use of the Board of Commissioners and management of the Guam Housing and Urban Renewal Authority, the Office of Public Accountability of Guam, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

I would 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 Guam Housing and Urban Renewal Authority for their cooperation and assistance during the course of this engagement.

Very truly yours,

## APPENDIX I

### **SECTION I – CONTROL DEFICIENCIES**

We noted certain matters related to control deficiencies involving the Authority's internal control over financial reporting as of September 30, 2013 that we wish to bring to your attention as follows:

#### **Segregation of Duties – Section 8 Housing Choice Voucher (HCV) Landlord and Tenant Payments**

During the review of the Authority's system of internal control over landlord and tenant payments for the Section 8 Housing Choice Voucher program, we noted a lack of segregation of duties whereby Housing Specialists had access to the WinTen software system to enter tenant and landlord HAP payments for prorated amounts, adjustments, abatements, hold on payments, release on held payments, reimbursements and portability payments. Due to a lack of staff in the Fiscal Division, access to the WinTen Occupancy program software module was allowed to enter such data and therefore compromised existing internal control over the input and/or adjustment of landlord and tenant payments.

We recommend that the Authority strengthen its internal control policies and procedures over the existing Section 8 payment policy and internal standard operating procedures to segregate the function of editing and adjusting landlord and tenant payments. This procedure should be performed by the Fiscal Division.

Subsequent to this observation, the Authority revised its existing policies and procedures to properly segregate this function. The Fiscal Division now responsible and has designated personnel to perform this function as described below.

Housing Specialist personnel prepare pre-numbered Inter-office Memorandum "Memo to Fiscal" for all new admissions, re-certifications, interim re-certifications, terminations, abatement, portables, hold and/or release of payments. This memorandum is submitted to the Fiscal Division for review and input in the Win Ten Occupancy program module to ensure proper segregation of duties.

Fiscal Division staff compares the data in the system against information provided on the memo and supporting documentation. Any prorated amounts, adjustments, abatements, hold on payments, release on held payments, reimbursements, FSS and portability payments are entered by Fiscal staff in the system. Notes are also entered in each tenant record, if required, on what action was taken by Fiscal personnel and a copy of the memo is returned to Section 8 personnel with action taken and discrepancies (if any).

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### **Section 8 Housing Choice Voucher Program – Landlord Business Licenses**

During the certification process of determining program eligibility, the Authority receives all required documents from tenants and landlords prior to signing the HAP contract. Accordingly, landlords are required to submit the following documents:

- Direct Deposit Authorization – New accounts or changes
- W-9 form
- Business License – New landlords
- DRT Master Record – New landlords

Housing Specialists review landlord documentation submitted to determine if they are able to do business with GHURA.

We noted that GHURA does not obtain business licenses for existing landlords during the recertification process. Although obtaining copies of business licenses for continuing/existing landlords is not a program requirement, in order to conduct business in the Territory of Guam, all landlords are required to renew their business license annually with the Guam Department of Revenue and Taxation.

We recommend that GHURA consider obtaining business licenses from its existing landlords during the recertification process or arrange to obtain such information from the Guam Department of Revenue and Taxation periodically throughout the year to ensure that the Authority enters into HAP contracts with landlords properly licensed to conduct business in the Territory of Guam.

### **Section 8 Housing Choice Voucher Program – Landlord Files**

During our compliance eligibility testing for the HCV Program, we noted that landlord files were disorganized. Numerous sensitive documents such as direct deposit authorizations, certificate of land title ownership, W-9 forms, notarized power of attorney documentation and other pertinent landlord information were loosely placed in folders and therefore subject to being lost, misplaced or damaged.

We recommend that the Authority create a checklist for landlord folders and ensure all information obtained from landlords is properly secured in the files.

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### **Utility Consumption – Supportive Housing for the Elderly**

During our audit of the Supportive Housing for the Elderly program, we toured the project on several occasions noting that tenants were running air conditioning units with the doors left open and outside lights remained on during the daylight hours. There appears to be no tenant incentive to conserve energy through proper power consumption. The Authority's utility cost is the largest operating costs totaling \$178,452 and \$180,028 for the fiscal years ending September 30, 2013 and 2012, respectively.

We recommend that the Authority develop an energy conservation plan and distribute such to its tenants residing in the units. Additionally, the Authority should consider establishing cost-sharing utility allowance schedule to be used during the certification process.

### **Inventory Unit of Measurement – Public Housing Asset Management Projects**

During our inventory price testing audit procedures, we noted that the unit of measure used for pricing/costing consumable inventory was not consistently applied. Inventory personnel incorrectly entered the wrong unit of measure resulting in an extrapolated potential overstatement of inventory approximating \$26,500. This potential misstatement was below materiality and did not result in an audit adjustment.

We made recommendations last year on the inventory pricing, unit of measure and updating the inventory module of the accounting system. We repeat those recommendations.

### **Fiscal Division and Accounting System**

The Fiscal Division continues to maintain two locations to process and account for the funds managed by the Authority. While the Fiscal Division at the Authority's main office maintains the official accounting records, a separate general ledger is maintained at the Research, Planning and Evaluation (RP&E) Division to account for the Community Development and related Federal grant programs. The accounting systems used are separate independent systems.

We made recommendation in prior years on the logistical structure of the Fiscal Division and the possibility of merging the two locations. We repeat those recommendations.