

GUAM HOUSING AND URBAN RENEWAL AUTHORITY
FY 2005 Financial Statement Highlights

August 3, 2006

The Guam Housing and Urban Renewal Authority (GHURA), a component unit of the government of Guam, is responsible for safe, decent and sanitary low-income public housing, Section 8 housing choice vouchers, elderly housing, and provides assistance to low-income families through various community development block grants and community housing programs.

In the FY 2005 financial audit conducted by J. Scott Magliari & Company, GHURA had a negative change in net assets (loss) of \$3.7 million compared to FY 2004's positive change in net assets of \$137,540. GHURA's total revenues were \$39.7 million, a decrease of \$4.2 million or 9.5% from revenues of \$43.9 million reported in FY 2004. The reduction was attributed to the following factors:

- ❑ A reduction in this year's Section 8 housing choice voucher (HCV) program lease activity. GHURA has only been able to lease 2,315 or 92% of the 2,515 HCV Program vouchers available.
- ❑ Guam's rental market is substantially lower than stateside rental markets. Subsequently, GHURA may have to return the unused portion of the fund to Housing and Urban Development (HUD).
- ❑ A decline in capital project activity in its Capital Fund, Community Development Block Grant (CDBG) and HOME programs because of timing issues. Various capital projects are at the design and/or planning stages and are not in the construction phase, and as a result, GHURA has not completely drawn-down on the funds.

GHURA had a decrease of 4.9% in total expenditures to \$41.6 million compared to \$43.8 million in FY 2004. GHURA spent \$2.6 million less in housing assistance payments or \$27.7 million compared to last year's \$30.3 million. The decline in spending was offset by:

- ❑ A \$2.1 million prior adjustment (\$591k for FY 2005 and \$1.5 million for FY 2004) due to overpayments of Housing Assistance Payments (HAP) to landlords.
- ❑ A \$1.8 million transfer of real estate property, furniture, and equipment to a nonprofit organization under the HOME and CDBG program.

- A \$1.3 million increase in other expenses from \$1.1 million in FY 2004 to \$2.4 million in FY 2005. The bulk of the increase was due to sub-recipient and administrative costs related to the CDBG, HOME, and Supportive Housing grant programs and costs related to the Astumbo affordable home project (approximately \$1.0 million); the Public Housing tenant services (\$264k); and disposition costs related to local real estate programs (approximately \$13k).

GHURA's total assets were \$52.6 million compared to \$114 million in prior year, a \$61.5 million reduction. The biggest adjustment came from the offset of \$60.6 million in due to and due from accounts. In prior years, amounts owed to and amounts owed from internal funds were recorded gross, thus, artificially inflating GHURA's total assets and liabilities.

Investments of \$2.7 million were down by \$2.7 million from the \$5.4 million reported in FY 2004. A reclassification resulted in a category for other real estate of \$4.9 million, which is property held for resale previously classified as a component of prepaid and other current assets in FY 2005.

In Guam's Annual Community Assessment Report for Program Year 2005, HUD was satisfied with Guam's implementation of its CDBG, HOME, and other projects and that Guam has met the CDBG timeliness standard for the fourth consecutive year. However, HUD's Community Planning and Development (CPD) Division remains concerned about Guam's overall fiscal control of its CPD programs.

There were a total of 56 findings, 23 from the current year and 33 from prior years. Of the 33 prior years findings, 15 were resolved this year but 18 remain unresolved. Of the 23 findings identified this year, all were reportable conditions, of which 12 were material weaknesses or instances of non-compliance. This raises significant concerns as to GHURA's ability to monitor and administer HUD programs and to resolve the 17 repeated deficiencies or 74% previously identified in past audits. The reoccurrence of these problems indicates that GHURA continues to struggle with fiscal control and compliance issues. This has been a continued concern of HUD.

The 23 current findings identified include:

- Seven findings related to Low Income Public Housing to include missing or incomplete documentation; no documentation to support re-certification period; discrepancies between family report and third party verification; miscalculation of tenant's annual income; (and tenant rent) noncompliance with occupancy standards; and late re-certification or lease periods over 1-year. This continues to be an on-going quality control issue as GHURA processes over 2,515 applicants a year.
- Five findings related to Section 8 HCV Program to include missing documentation; discrepancies between family report and third party verification; miscalculation of tenant's annual income; application of

different payment standards of HAP; and no updated utility allowance schedule. Again, this continues to be a quality control system problem.

- One finding related to the lack of existing written Automated Clearing House (ACH) policies and procedures for handling electronic bill-paying and direct deposit processes to timely prevent and detect the possible theft of cash or the establishment of fictitious tenants and/or landlords.

- Two findings related to the lack of a fully integrated information system of its program information, accounting, and general ledger systems. Accounting personnel spent an enormous amount of time and effort to properly record and report operating results and an undetermined amount of personnel costs due to system deficiencies when GHURA upgraded its financial management information system with its existing software vendor. GHURA did not run parallel systems and experienced numerous problems generating financial data and the desired financial reports, delaying the audit process. The parallel system was not done based on the guidance from the software vendor and the lack of manpower to enter duplicate data entries into two systems that is required on a parallel system run.

For a more detailed commentary of GHURA's operations, refer to the Management's Discussion and Analysis in the audit report.