



BURGER · COMER · MAGLIARI
CERTIFIED PUBLIC ACCOUNTANTS

June 1, 2016

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

In planning and performing our audit of the financial statements of the Guam Housing and Urban Renewal Authority (the Authority) as of and for the year ended September 30, 2015, on which we have issued our report dated June 1, 2016, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered the 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 our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix I, other matters as of September 30, 2015 that we wish to bring to your attention.

We have also issued a separate report to the Authority also dated June 1, 2016, on our consideration of the Authority's internal control over financial reporting and on our 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 – 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.

Very truly yours,

A handwritten signature in black ink that reads "Burger Comer Magliari".

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, 2015 that we wish to bring to your attention as follows:

Monthly Accounts Payable Aging Reports

Comment: The Authority was not able to produce monthly accounts payable aging reports due to system limitations. Although the Fiscal Division tracks the Authority's accounts payable via the payables journal, Accounts Payable Aging reports can only be produced at year-end closing. Consequently, the Authority is unable to properly monitor the aging of its accounts payable and effectively manage cash flows.

Recommendation: We recommend that the Authority consult with its software vendor and obtain a software patch or modification to generate monthly accounts payable aging reports.

Admission and Continued Occupancy Policies (ACOP)

Comment: During our Public Housing eligibility testing and review of the Authority's ACOP, we noted that chapter 7 page 4 of the ACOP, does not specifically state that UIV should be conducted for applicants. It does however state that *"income reports will be obtained for annual reexaminations on a monthly basis and the reports will be generated as part of the regular reexamination process as well as interim reexaminations."* It further states that income reports will be "compared to family-provided information as part of the annual reexamination process. Income reports may be used in the calculation of annual income, and to meet regulatory requirement for third party verification." In addition, "income reports will be used to identify and resolve discrepancies between reported income and income shown in the EIV system. If necessary EIV will be used to verify and calculate earned income, unemployment benefits, social security and/or SSI benefits."

Recommendation: We recommend that the Authority review its ACOP and update its policies and procedures. Effective January 31, 2010, HUD required Public Housing Authorities (PHAs) to use HUD's centralized Enterprise Income Verification (EIV) which replaced the Upfront Income Verification system, to validate tenant reported income (as well as unreported or underreported income) and inform tenants of the PHA's capability and intent to compare tenant-reported information with EIV data. PHAs are required to review the EIV Income Report of each family before or during mandatory annual and interim reexaminations of family income and/or composition to reduce tenant under reporting of income and improper subsidy payments.

Work Orders – Public Housing

Comment: We noted work orders are not completed in a timely manner. During the initial move-in inspection on 9/30/14, the Inspector noted that a window was missing and needed to be installed and generated WO #32150479 which was not completed until 1/27/15 or approximately 4 months after tenant move-in. The tenant was allowed to move in and the emergency repair was temporarily fixed by placing a wooden panel over the exposed area; however, the repair was untimely.

Recommendation: We recommend that management review its work order policies and procedures to ensure that all emergency repairs and work orders are completed in a timely manner. Work order reports should be independently reviewed and monitored to ensure compliance with HUD regulations.

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Asset Management Project – Property Site Manager File Review

Comment: Tenant interviews and eligibility certification should be performed by Housing Specialist and reviewed and certified by the Property Site Managers (PSA). PSAs are not properly documenting their review and certification nor are the file checklist being properly signed and dated to evidence independent review.

Recommendation: To ensure proper segregation of duties, we recommend that all PSMs review all tenant files for completeness and proper certification of program eligibility and sign and date the checklist to evidence tenant file review.

Local Funds

Comment: GHURA reports on a “fund basis” and accounts for approximately eighty-five (85) different funds, of which, twenty (20) are local funds. Many of the local funds have nominal to no activity each year.

Recommendation: We recommend that management consider reviewing the mandate of each of its local funds to determine whether those mandates have been fulfilled and whether such funds can be closed out or consolidated under one separate fund.

Landlord Payment Processing

Comment: A landlord was overpaid \$3,616 on 1/1/15 due to holdover payment of tenant's subsidy via direct deposit on 12/1/14. The overpayment was corrected the following month.

Recommendation: Although overpayment was corrected the following month, the MIS Department and the Housing Manager should establish procedures to properly flag and identify all holdover payments be reviewed and approved prior to initialization and payment to prevent overpayments.

Information Technology System Implementation

Comment: The Authority upgraded its program and accounting software to WinTen 2 and chose not to run parallel systems for major system conversion.

Recommendation: The Authority consider running parallel systems during major system upgrades or migration to new software platforms to ensure that the new software generates the same outputs using the same input data for both systems. We further recommend that the MIS Department meet with the various departments are performing additional work or procedures to augment any system shortcomings or inconsistencies in data outputs as compared to the old system.

Employee Performance Evaluation

Comment: We noted that personnel performance evaluations are not conducted annually in a timely manner.

Recommendation: We recommend that management coordinate with the Human Resources Department to schedule and conduct employee performance evaluations in a timely manner.

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REPEAT COMMENTS

Fiscal Division – Accounting System

Comment: 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 remain separate independent systems.

Recommendation: We made recommendation in prior years on the logistical structure of the Fiscal Division and the possibility of merging the two systems. We repeat those recommendations. Subsequent to September 30, 2014, the RPE Division was relocated to the Authority's central office.

We also recommend that management consider obtaining a new accountings system that reports on a fund basis, as the current accounting software platform is specifically program driven and not necessarily for financial reporting. Consequently, numerous manual journal entries must be made each month to record accounting transactions which too is cumbersome and requires numerous month-end reconciliations.

Fiscal Division – Comingling of Funds

Comment: The accounts of GHURA are organized and operated on the basis of funds and grant programs. Fund financial statements report detailed information about the Authority. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, liabilities, net position, revenues, and expenses. We continue to note that the Fiscal Division comingle various funds due to reporting requirements to HUD's Real Estate Assessment Center (REAC) for FDS reporting purposes.

Specifically, the Capital Fund Project funds are comingled with the four Asset Management Projects of the Public Housing program along with Central Office Cost Center (COCC); the Department of Interior Grant is comingled with the Revolving Fund; and the Multifamily Housing Service Coordinator grant is comingled with Supporting Housing for the Elderly Program.

Recommendation: While we understand the need to combine certain funds for HUD periodic reporting, we recommend these funds be separately reported within the general ledger in order to produce individual trial balances and financial statements in a timely manner rather than relying on pivot tables and supplemental spreadsheets.