



Guam Housing and Urban Renewal Authority FY 2016 Financial Highlights

May 9, 2017

The Guam Housing and Urban Renewal Authority (GHURA) ended fiscal year (FY) 2016 with a net income of \$228 thousand (K) compared to a \$72K net income in the prior year. The net income was primarily due to the increase in federal grants and subsidies by \$1.6 million (M). For FY 2016, GHURA received a total of \$44.9M in federal grants and subsidies of which \$43.3M (96%) was from the US Department of Housing and Urban Development (HUD). We commend GHURA for its second time to issue financial reports early in five years.

Independent auditors, Burger • Comer • Magliari, rendered an unmodified opinion on GHURA's FY 2016 financial statements. However, for the report on compliance, GHURA again received a modified opinion over certain major federal programs. This is the fifth consecutive year since FY 2012 that GHURA has had modified opinions on compliance. The modified opinions were due to material weaknesses on Public Indian Housing program for three years, Section 8 Housing Choice Voucher (HCV) program for two years, and Supportive Housing for the Elderly for three years. The FY 2016 compliance report cited six material weaknesses and six significant deficiencies, which is a major setback from FY 2015 with only one material weakness and three significant deficiencies. GHURA management responded that it will be reviewing and updating its programs and policies.

A Management Letter identified nine new areas for improvement and five repeat findings. From FY 2012 to 2016, the Management Letters have been issued with 3 to 10 comments.

Revenues and Expenditures

GHURA operates a number of housing and grant programs including 5 major programs, 12 non-major enterprise funds, and 3 other enterprise funds. The five major programs encompass \$41.8M or 92% of GHURA's total operating revenues of \$45.3M. The Section 8 HCV Program at \$33.3M accounts for the 74%. The other four major programs are the Low Income Housing Program, Community Development Block Grant, Supportive Housing for the Elderly, and Public Housing Capital Fund.

Operating expenditures of \$46.2M continue to outweigh the operating revenues of \$45.3M despite revenues' increase of \$1.6M due to HUD grant increase of \$2.8M. The increase of \$1.5M in operating expenditures were mainly due to the increases in depreciation expense by \$1.2M (59%) and employee benefits of \$870K (160%) resulting from the increase in the agency's \$11.2M pro-rata share of the Government of Guam's pension liability of \$1.4 Billion.

Section 8 Housing Choice Voucher Program (HCV)

GHURA's HCV Program ended FY 2016 with an increase in net position of \$1.1M, a major improvement from FY 2015's loss of \$270K. HUD Public Housing Agency operating grants for this program increased by \$1.5M in FY 2016 to \$33.3M from \$31.8M in FY 2015.

Of the 2,560 payment contracts authorized by HUD, GHURA assisted 2,436 families, which is 22 more families than FY 2015. Under the Section 8 Project-Based Assistance Program, GHURA fully

leased all 112 units of the new Summer Town Estates, which is a public-private partnership to provide affordable rental units.

Low Income Housing Program-Asset Management Projects (AMP)

GHURA owns 750 Public Housing units consisting of four AMPs, which are rented to low-income households. At the end of FY 2016, 712 units, or 95%, were occupied and 7 units were under modernization. In FY 2016, the AMP program had a \$1.4M net loss, an increase of \$1.2M from the prior year's net loss of \$180K. This was primarily due to the increase in depreciation expense, employee benefits, and management fees for a total of \$1.4M. Operating revenues slightly increased by \$79K to \$4.6M in FY 2016 while operating expenses significantly increased by \$1.3M.

Contingencies and Subsequent Events

In FY 2015, HUD recommended that GHURA repay \$578K for conflict of interest instances involving its former legal counsel. In March 2017, the United States Attorney indicted GHURA's former legal counsel with multiple counts of wire fraud, money laundering, and related charges. Additionally, HUD may require GHURA to repay \$1.4M in funds that were not used for construction of a new building for GHURA.

Modified Opinion for Five Consecutive Years on Reports on Compliance and Internal Controls

Compliance continues to be a significant issue for GHURA as it has consistently received modified opinions since FY 2012 due to material weaknesses on some major federal programs. For FY 2016, the auditors cited six material weaknesses, six significant deficiencies and one significant deficiency in internal control relative to the Schedule of Expenditures and Federal Awards. There were seven findings for the Public and Indian Housing, four for Section 8 Housing Choice Voucher, and one for Housing for Elderly programs.

The material weaknesses cited were: 1) annual inspection reports not signed, 2) improper documentation, 3) failure to use the Enterprise Income Verification system, 4) use of incorrect payment standard for one voucher, 5) missing documentation for recertification of tenant's eligibility, and 6) failure to conduct annual inspections.

The significant deficiencies are relative to: 1) no wage compliance review of contractor's employees, 2) no documentation for repairs during move-in inspection, 3) no evidence of eligible citizenship status, 4) erroneous use of flat rent in the calculations, 5) did not use nor complete Real Estate Imputed Income form for calculations, and 6) failure to document Community Service Compliance Certification or Exemption.

Nine new control deficiencies and five repeat findings were also noted in a separate management letter. The new deficiencies were: 1) no consistent periodic quality control testing of tenant files, 2) significant inconsistencies in checklist, file maintenance and forms processed, 3) work orders not tracked and not completed timely, 4) landlord's business license not consistently obtained, 5) incomplete required documentation 6) no evidence that deficiencies noted in the periodic control testing were corrected, 7) not maintaining an updated data base for rent and other relevant data, 8) funds for federal and non-federal programs are maintained in the revolving fund, and 9) insufficient staff to perform accounting functions. A separate management letter on information technology outlined one deficiency.

For a more detailed discussion of GHURA's operations, see Management Discussion and Analysis as well as the reports in their entirety at www.ghura.org or www.opaguam.org.