



**BURGER · COMER · MAGLIARI**  
**CERTIFIED PUBLIC ACCOUNTANTS**

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, 2018 on which we have issued our report dated May 9, 2019, 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, 2018 that we wish to bring to your attention.

We have also issued a separate report to the Authority also dated May 9, 2019, 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.

We 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,

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

## 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, 2018 and other matters that remain uncorrected that we wish to bring to your attention as follows:

### Accounting System

#### **Observation:**

The Fiscal Division maintains the official general ledger and a separate stand-alone general ledger is maintained by the Community Planning and Development (CPD) Division to account for community development and other related Federal grant programs. The Fiscal Division's accounting system geared towards accounting for the Authority's Section 8 Housing Choice Voucher, Low Income Housing and Elderly Housing programs and HUD reporting, while the CPD accounting system is more project related. Maintaining two separate accounting systems requires additional account reconciliation procedures to be performed and numerous manual journal entries must be prepared to record CPD transactions in the Fiscal Division's general ledger. As a result, this slows down month-end closing which on average is always two months behind, and gives rise to unreconciled differences. For example, there still remains an unreconciled difference of \$48,669.56 between the Fiscal Division general ledger and CPD general ledger for the Public Housing Capital Fund. This unreconciled difference was cited in the 2017 audit report and remains unresolved as of September 30, 2018.

Additionally, the Fiscal Division is understaffed due to early retirements and employee turnover. The lack of accounting personnel and maintenance of two accounting systems continues to adversely impact the Fiscal Division's ability to stay current and updated on its posting of transactions, account reconciliation, month-end closing and preparation of financial statements in a timely manner. Furthermore, the under-staffing creates the potential for the lack of segregation of duties, as we noted that procurement personnel were recruited to assist in the preparation of payroll and other accounting functions.

#### **Recommendation:**

The current accounting software platform is specifically program driven and not necessarily for financial reporting nor capable of handling all of the Authority's programs. Management should investigate and consider the following:

1. Acquisition of new accounting system;
2. Merge CPD general ledger in to the Fiscal Division general ledger;
3. Reconcile CPF outstanding difference of \$48, 669.56; and
4. Hire additional accounting personnel.

We are cognizant that an accountant was recently hired. However, given the volume of transactions activity and the number of funds maintained by the Authority, additional personnel may still be needed to alleviate the backlog in posting transactions, reconciling account balances, preparing financials statement and related HUD and management reports and to enhance the system of internal control.

**Comingling of Funds**

**Observation:**

We continue to note that the Fiscal Division comingling 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. The Multifamily Housing Service Coordinator grant is comingled with Supporting Housing for the Elderly Program and various other funds are comingled with the Revolving Fund.

**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.

**Local Funds**

**Observation:**

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 and may have fulfilled their initial legislative mandate.

**Recommendation:**

Management should 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 and consolidated into one fund.

**Public Housing – Tenant Security Deposits**

**Comment:**

In accordance with 24 CFR 966.4(b)(5) – GHURA collects tenant security deposits in the amount of \$150 and is kept for the duration of the tenant lease and subsequent renewals. The security deposit (plus interest earned less any charges for unpaid rent, damages) must returned within 30-days of move-out. There is no tracking and allocation of interest earned by tenant.

**Recommendation:**

Management should document its policy and procedures for tracking, allocating and returning interest earned on tenant security deposits held by the Authority

## **Tenant File Review**

### **Comment:**

We noted that numerous files were only signed-off on by the Interview Clerk/Housing Specialist and no signature and date by the Reviewer for certification to determine if the tenant file is complete and all documents are on-file or if the tenant file is incomplete and corrective action must be taken and completed within a specified time. These discrepancies were noted for the Supportive Housing for the Elderly (Guma Trankilidat), Low Income Public Housing and the Section 8 Housing Choice Voucher programs.

In certain instances, Property Site Managers (PSMs) and Housing Specialist Supervisors (HSS) were signing off on the review and completeness of the files; however, we found numerous errors, and missing or incomplete documentation. In several instances, tenants were certified eligible using prior year data. There were certain instances whereby the tenant's annual recertification documentation was reviewed and cited discrepancies but there was not follow-up to ensure the changes were made or documentation was obtained and placed on-file. Consequently, there is a lack of the internal control monitoring procedures related to the untimely review procedures performed by the PSMs and HSSs for these programs. The lack of a thorough review raises doubt regarding the HSS and PSM's ability to review the Housing Specialists work and to properly certify tenant eligibility.

During fiscal year 2018, the PSM responsible for the Supportive Housing for the Elderly was relatively new and lacked sufficient training about the program. The PSM performed all aspects of interviewing and certifying tenant eligibility with no independent review. Numerous errors were made and missing documents were identified that had remained undetected/corrected due to lack of oversight and proper independent review and monitoring.

### **Recommendation:**

Better care should be exercised when conducting internal control review and certification for completeness, the reviewer should document discrepancies and provide evidence that such discrepancies were cleared for third-party independent review and verification, and the quality control review form should be signed and dated by the reviewer.

Property Site Managers and Housing Specialist Supervisors should review tenant files in a timely manner for accuracy and completeness and proper certification of program eligibility and sign and date the checklist to evidence tenant file review. Any discrepancies noted should be documented within the tenant file, monitored and verified when corrected.

The annual certification for tenant eligibility performed by the PSM for Supportive Housing for the Elderly should be independently reviewed in a timely manner and properly documented on the appropriate Flap Checklist. Staff training should be provided to the PSM to enhance the program's performance and compliance regulations.

**Use of Consistent and Standardized Forms**

**Comment:**

We've noted that during the course of time, each AMP and each Housing Specialist have created, revised and adopted certain practices unique to their respective preference providing no consistency with various forms used to process and document tenant eligibility. This particularly noted at each of the four AMP locations. As a result, we noted significant inconsistencies in the checklist used, file maintenance, and forms used, processed, and documented.

**Recommendation:**

We recommend that the Authority consider adopting consistent policies, practices and forms to be used to process and determine participant eligibility. We believe this would facilitate and enhance Program integrity and the Authority's quality control and internal control monitoring procedures and personnel to transfer other AMP locations and Section 8 HCV groups to able to conduct and document annual certifications with uniformity of documentation. In addition, the checklist and forms used at each AMP should be identical for each and those used by each Housing Specialist Supervisor for the Section 8 HCV program should likewise be identical.

**Valuation of Real Estate Property - Chamorro Land Trust**

**Comment:**

The process in determining value of real estate property is determined by Property Market Value. The Property Value is taken directly from the Real Property Tax Statement from Department of Revenue and Taxation.

In regards to the CLT property, 21 GCA Real Property, Chapter 75 – Chamorro Land Trust §75108 (g) states, *“The lessee shall perform such other conditions, not in conflict with any provision of this Chapter, as the Commission may stipulate in the lease; provided, however, that an original lessee shall be exempt from all taxes for the first seven (7) years from the date of the lease.”* Afterwards, the value of the real property will be determined and apply accordingly.

Management was unable to provide a written policy or other authoritative HUD documentation stating the Chamorro Land Trust property held by HCV participants is excluded from determining the value of such real estate.

**Recommendation:**

The Section 8 HCV Administrative Plan should be amended to provide specific guidelines or a policy statement for how and when Chamorro Land Trust property is valued when determining tenant assets owned.

**Section 8 Housing Choice Voucher Administrative Plan**

**Family Unification Program**

**Comment:**

Based on our review of the HCV Administrative Plan, the policy and procedures for administering the Family Unification Program (FUP) is not well-defined.

**Recommendation:**

Since GHURA is processing and accepting more participants under the FUP program, it should consider providing more specific guidance and procedures in its Administrative Plan.

**REPEAT COMMENTS**

**Public Housing – Oversight of Property Site Managers**

**Comment:**

GHURA has four Asset Management Projects (AMPs) managed by Property Site Managers (PSM). Oversight functions reside with GHURA's Deputy Director, which facilitates internal control monitoring; however, Administrations change periodically and therefore, there is no consistent knowledgeable oversight over the Program within the Authority. We've noted that during the course of time, each AMP has created, revised and adopted certain practices unique to each PSM's preference providing no consistency with various forms used to process and document tenant eligibility. As a result, we noted significant inconsistencies in the checklist used, file maintenance, and forms used, processed, and documented.

**Recommendation:**

We recommend that the Authority consider appointing or hiring an individual with knowledge and skill to manage and oversee all four AMPs and PSMs. This individual can maintain and update the Admission and Continued Occupancy Policies (ACOP), provide training for cross-training; conduct quality control review, develop consistent policies, practices and forms to be used; monitor lease-up, occupancy, and related unit vacancies; and perform other delegated duties and report to the Deputy Director. We believe this would facilitate and enhance Program integrity and the Authority's quality control and internal control monitoring procedures.

**Section 8 HCV – Reasonable Rent Determination – Approval and Certification**

**Comment:**

The Authority is required to make a determination of rent reasonableness charged by a landlord. The rent for a unit proposed for HCV assistance will be compared to the rent charged for comparable units in the same market area. GHURA will develop a range of prices for comparable units by bedroom size within defined market areas. We noted that the review of comparable rents and approval of the landlord contract rents are approved and certified by the same person.

**Recommendation:**

To ensure proper segregation of duties, we recommend that the approval and certification of the reasonable rent determination of landlord contract rent be separated performed by different individuals.

**Section 8 Housing Choice Voucher – Maintaining Database for Unassisted Units**

**Comment:**

Before entering into a HAP contract, a Public Housing Authority (PHA) must not execute a HAP contract until it has documented that the charged rent is reasonable. Before the PHA may approve any rent increase to the owner, the PHA must determine and document whether the proposed rent is reasonable compared to similar units in the marketplace and not higher than those paid by unassisted tenants. The key for rent reasonableness is to be able to compare the rents for proposed program units to the rents for units currently or very recently placed on the market. To include rents for units occupied for several years is likely, in most markets, to understate the rents new tenants will have to pay. On the other hand, in some communities the asking rent is frequently higher than the actual rent owners are willing to accept. In those communities, the PHA should also obtain information on the actual rents for recently rented units to determine the actual market rent for the comparable units.

**Section 8 Housing Choice Voucher – Maintaining Database for Unassisted Units, continued**

**Recommendation:**

Management should consider updating its database on more periodic basis by either conducting surveys, reviewing newspaper listings with real estate companies that handle rental properties, internet listing, current landlord that have unassisted rental properties, etc. The frequency in which the database is updated depends upon changes in market conditions. In some communities on Guam, it may be adequate to update the information every two years. For rapidly changing markets, however, it may be appropriate to update the database quarterly or semi-annually.