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March 30, 2021

Mr. Ray Topasna
Executive Director
Guam Housing and Urban Renewal Authority
117 Bien Venida Avenue
Sinajana, GU 96910

Dear Mr. Topasna:

In planning and performing our audit of the financial statements of the Guam Housing and Urban Renewal Authority (GHURA) as of and for the year ended September 30, 2020 (on which we have issued our report dated March 30, 2021), 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 GHURA's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of GHURA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of GHURA's internal control over financial reporting.

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 that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to GHURA's internal control over financial reporting and other matters as of September 30, 2020 that we wish to bring to your attention.

We have also issued a separate report to the Board of Commissioners, also dated March 30, 2021, on our consideration of GHURA's compliance with requirements applicable to each major program and on internal control over compliance in accordance with the Title 2 U.S. *Code of Federal Regulation*s Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). It also includes our consideration of GHURA'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.

The definition of a deficiency is also set forth in Section III of the attached Appendix I.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of the Board of Commissioners, management, the Office of Public Accountability of Guam and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

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We will 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 GHURA for their cooperation and assistance during the course of this engagement.

Very truly yours,

Deloitte + Touche LLP

SECTION I - DEFICIENCIES

We identified the following deficiencies involving GHURA's internal control over financial reporting as of September 30, 2020 that we wish to bring to your attention:

(1) Long Outstanding Accounts

Comment: As of September 30, 2020, the following general ledger account balances represent long outstanding amounts that may no longer be valid:

Account	Amount
Prepayments – payroll clearing	$ 73,108
Prepayments – deferred credits	15,903
Accounts receivable – HUD	379,307
Accrued liabilities	(161,090)
Accounts payable	(240,500)
Deferred revenue	(365,760)
Net impact	$ (299,032)

As the above amounts were not considered material to the financial statements, no audit adjustments were proposed.

Recommendation: We recommend that management review the above items and consider corrective action.

(2) Allowance for Doubtful Accounts

Comment: As of September 30, 2020, collectability of receivables in the amount of $472,000 were considered doubtful yet an allowance for doubtful accounts was not considered. The under-allowance resulted from the current provision methodology wherein only notes and tenant receivable accounts over 90 days are provided with a full allowance. This provisioning methodology excludes tenant-fraud receivables and housing assistance payment recoverable amounts, which have been substantially outstanding for more than a year. As this amount was not considered material to the financial statements, no audit adjustment was proposed.

Recommendation: We recommend that management revisit the provisioning methodology and consider a periodic analysis of all past due accounts.

SECTION II - OTHER MATTERS

Other matters related to our observations concerning operations, compliance with laws and regulations, and best practices involving internal control over financial reporting that we wish to bring to your attention at this time are as follows:

(1) Fixed Assets

Comment: The following were noted from the fixed asset register:

a. A leasehold improvement was depreciated over five years while 12 furniture and fixture items were depreciated over 15 years. These useful lives exceeded established policy and such items have net book value of $50,104 as of September 30, 2020. Additionally, 76 furniture and fixture items were previously fully depreciated over 15 years as of September 30, 2020.

b. 17 items were previously capitalized that were below the $5,000 capitalization threshold.

Recommendation: We recommend management to revisit the appropriateness of capitalized costs, assigned useful lives and depreciation of its fixed assets.

SECTION III - DEFINITION

The definition of a deficiency is as follows:

A *deficiency in internal control over financial reporting* 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 deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

GHURA's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.