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March 28, 2012

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, 2011, on which I have issued my report dated March 28, 2012, 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, I considered the Authority'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 the Authority's internal control over financial reporting. Accordingly, I 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.

My 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 my audit, I identified, and included in the attached Appendix I, other matters as of September 30, 2011 that we wish to bring to your attention.

I have also issued a separate report to the Authority also dated March 28, 2011, on my consideration of the Authority's internal control over financial reporting and on my 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 of 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.

I 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,

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, 2011 that we wish to bring to your attention as follows:

1) Program Administration Policy Manual Update

We noted that the operations manuals for the Admissions and Continued Occupancy Policy manual for the Public Housing Asset Management Program and the Supportive Housing for the Elderly Program (Guma Trankilidat) have not been properly updated to reflect current practices, policies, procedures and federal rules and regulations. We recommend that management review and update these program policy manuals to reflect current practices, eligibility requirement and current Federal rules and regulations.

2) Fiscal Division and Accounting System

The Fiscal Division is unable to consistently produce the current and complete financial statements in a timely manner. Though the Authority has made strides improving its financial reporting, there was a 2-to 3 month delay in closing books at fiscal year-end. In addition, various accounts were not reconciled in a timely manner.

The Fiscal Division is split between two locations for processing and accounting for the funds managed by the Authority. While the Fiscal Division at the Authority's main office maintains the official accounting records for the Authority, a separate set general ledger is also 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 are two independent systems. This separation and lack of system integration requires additional time to perform monthly account reconciliation with the general ledger maintained at the main office and impedes the month-end closing process and preparation of financial statements. In addition, the Authority maintains its programs on fund basis and produces its financial statements based on the Financial Data Schedule format required by HUD. In doing so, the Authority combines and extracts certain financial data for financial statement reporting purposes. Consequently, subsystems are used to account for various programs and related program accounts must be extracted to produce financial statements on a fund basis.

We recommend that the Authority review its existing logistical structure of the Fiscal Division and explore the possibility of merging the two locations. The Authority should investigate accounting software that perform fund accounting that can interface with the existing WinTen system currently used at the main office by the Fiscal Division for its primary HUD programs. Effort should be made to streamline the accounting process of account reconciliation and financial statement preparation to enhance efficiency and timely reporting. Standard operating policies and procedures should be developed, documented and implemented to facilitate and ease month-end and year-end closing. The Authority should consider hiring additional qualified accountants knowledgeable in governmental accounting to alleviate the continued strain on existing personnel and to ensure all transactions are recorded and reported in a timely manner.