



BURGER · COMER · MAGLIARI
CERTIFIED PUBLIC ACCOUNTANTS

May 28, 2018

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, 2017, on which we have issued our report dated May 28, 2018, 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, 2017 that we wish to bring to your attention.

We have also issued a separate report to the Authority also dated May 28, 2018, 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' in a cursive script.

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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, 2017 and other matters that remain uncorrected that we wish to bring to your attention as follows:

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.

Supportive Housing for the Elderly (Guma Trankilidat) – Tenant File Quality Control Review

Comment: During our eligibility compliance testing, we noted the Authority does not conduct periodic quality control testing to identify deficiencies and/or missing documentation for completeness. The current Property Site Manager performs all functions relating tenant eligibility certification and annual recertification. There is no independent review performed periodically. We noted various items cited by reviewers; however, there was no evidence to indicate that the deficiencies were corrected and approved by the reviewer.

Recommendation: To enhance the Authority’s quality control and internal control monitoring procedures, Guma Trankilidat tenant files should be periodically reviewed and certified for completeness. The quality control review should document discrepancies, provide evidence that such discrepancies were cleared for third-party independent review and verification, and be signed and dated by the reviewer.

REPEAT COMMENTS

Public Housing – Tenant File Quality Control Review

Comment: During our eligibility compliance testing, we noted that the Authority does not conduct periodic quality control testing on a consistent basis to identify deficiencies and/or missing documentation for completeness. For those files reviewed, we noted that certain Property Site Managers (PSMs), were signing off on the review and completeness of the files; however, we found numerous errors and missing and incomplete documentation that remained uncorrected. The lack of a thorough review raises doubt regarding the PSM’s ability to review the Housing Specialist’s work and to properly certify tenant eligibility.

Recommendation: PSMs need to exercise better care 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.

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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.

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 (PSM). PSMs are not properly documenting their reviews and certifications nor is 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.

Section 8 Housing Choice Voucher - Landlord File Maintenance

Comment: Certain tenant landlord files selected in conjunction with our sample were found to be in total disarray. Required documentation was being inserted in the landlord files in our presence. Numerous files lacked complete documentation as required (certificate of title, warranty deed, business license, direct deposit authorization forms, etc.); and documents were loosely placed in files and unorganized. Staff stated insufficient time was available to properly maintain the files.

Recommendation: The Authority should establish internal control policies and procedures over the maintenance and content to be included in landlord files. An individual should be assigned to maintain tenant landlord files. The current landlord file checklist should be reviewed and revised to ensure that it encompasses all required documentation needed from landlords. Management should consider removing the landlord file maintenance function from the Housing Inspector or providing guidance over the maintenance of such files and monitor landlord file maintenance on a periodic basis. The updating of landlord files should be coordinated with Housing Specialist during initial and recertification of tenant eligibility to ensure that information is shared and required documentation is filed in a systematic and timely manner.

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Section 8 Housing Choice Voucher – Tenant File Quality Control Review

Comment: During our eligibility compliance testing, we noted the Authority conducts periodic quality control testing to identify deficiencies and/or missing documentation for completeness and that Flaps were not consistently signed and dated by the Housing Specialist.

Recommendation: To enhance the Authority's quality control and internal control monitoring procedures, when Section 8 HCV files are internally reviewed and certified for completeness, the reviewer should document discrepancies, provide evidence that such discrepancies were cleared for third-party independent review and verification, and be signed and dated by the reviewer.

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.

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.

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 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 this recommendation in prior years on the logistical structure of the Fiscal Division and the possibility of merging the two systems. We repeat those recommendations.

We also recommend that management consider obtaining a new accounting 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.

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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 consults with its software vendor and obtain a software patch or modification to generate monthly accounts payable aging reports.

Local Funds

Comment: The Authority reports on a "fund basis" and accounts for approximately 85 different funds, of which, 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.