

GUAM

P.O. BOX 12734 • TAMUNING, GUAM 96931
TEL: (671) 472-2680 • FAX: (671) 472-2686

SAIPAN

PMB 297 PPP BOX 10000 • SAIPAN, MP 96950
TEL: (670) 233-1837 • FAX: (670) 233-8214

February 21, 2011

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, 2010, on which I have issued my report dated February 21, 2011, 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, 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.

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 our audit, we identified, and included in the attached Appendix I, other matters as of September 30, 2010 that we wish to bring to your attention.

I have also issued a separate report to the Authority also dated February 21, 2011, on my 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 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,

J. Scott Magliari & Company

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, 2010 that we wish to bring to your attention as follows:

1) Rent and Housing Assistance Payment – Reasonableness Rent

We noted that though the Authority contracted third party to conduct a housing study in August 2009, it has not updated its evaluating an existing database for determining reasonable rents to ensure that it includes a representative number of affordable units in the local village. We noted continued instances whereby comparable units were in different geographic locations or villages.

There should be written guidance describing how the database will be maintained and how rent reasonableness determinations will be made and documented. Clear performance standards should be set and there should be monitoring and quality control throughout the year, with training and feedback regarding both good and inadequate performance.

The Authority must ensure that rents charged by owners to Housing Choice Voucher Program participants are reasonable and the database facilitates the determination process. This determination involves two comparisons: 1) compare the rent for the voucher unit to rents for similar unassisted units in the marketplace; and 2) compare the rent to rents for similar units on the premises.

Ensuring rent reasonableness is very important for effective program operations. If a PHA approves rents that are too high, government funds are wasted, limited housing subsidies are squandered, and speculators may exploit the program to outbid potential homeowners. If rents are approved at levels lower than comparable units in the private market, the better owners do not participate in the program, or they participate only with their lowest-cost and lowest-quality units. In addition, families may be inappropriately restricted in where they can live.

2) Account Reconciliation

We noted that the general ledger control account for certain accounts payable and accrued expenses were not properly reconcile in a timely manner. This resulted in an audit adjustment of approximately \$290,000 to write-off un-reconciled differences for liabilities either previously paid by the Revolving Fund or not properly reversed in the respective fund or representing canceled purchase orders and invoices. Due to staff turnover in accounting positions and transaction volume, the Fiscal Division close its books in a timely manner which we believe contributes to its inability to analyze and reconcile accounts and produce accurate monthly financial statements on timely basis.

The accounts payable and receivable general ledger control accounts should be reconciled against aging reports to ensure that the modules and general ledger are in balance. Common discrepancies in this area are journal entries made in the general ledger only, and un-posted transactions "stuck" in the modules, not changing general ledger amounts. Prior year carry forward balances should be properly substantiated and documented in a manner to provide sufficient detail on individual transaction amounts. The accounting process used by the Fiscal Division should be evaluated to streamline and improve the efficiency of the recording, reconciliation and reporting of the Authority's financial transactions.

SECTION I – CONTROL DEFICIENCIES, Continued

3) Maintenance of Subsidiary Ledgers

We noted that subsidiary ledger for accounts payable are not maintained in sufficient detail to itemize all individual amounts by vendor and are properly documented and reconciled to the general ledger in a timely manner. As noted in the control deficiency #2 above, an adjustment was made to reconcile the accounts payable general ledger control account.

All subsidiary ledgers should be properly maintained reconciled to the general ledger on a monthly basis. Standard operating policies and procedures should be development and implemented along with establishing related internal control monitoring to ensure that all accounting transactions are recorded in the respective subsidiary ledgers, facilitate the reconciliation process, and ease month-end and year-end closing procedures and preparation of financial statements in a timely manner.