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May 26, 2015

To the Board of Commissioners  
Guam Housing and Urban Renewal Authority:

In planning and performing my audit of the financial statements of the Guam Housing and Urban Renewal Authority (the Authority) as of and for the year ended September 30, 2014, on which I have issued my report dated May 26, 2015, 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 (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. 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, 2014 that we wish to bring to your attention.

I have also issued a separate report to the Authority also dated May 26, 2015, 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, 2014 that we wish to bring to your attention as follows:

#### **Inventory Unit of Measurement – Public Housing Asset Management Projects**

During our inventory price testing audit procedures, we noted that the unit of measure used for pricing/costing consumable inventory was not consistently applied. Inventory personnel incorrectly entered the wrong unit of measure resulting in an extrapolated potential overstatement of inventory approximating \$4,157. This potential misstatement was below materiality and did not result in an audit adjustment.

We made recommendations last year on the inventory pricing, unit of measure and updating the inventory module of the accounting system. We repeat those recommendations.

#### **Fiscal Division – Accounting System**

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 Research, Planning and Evaluation (RP&E) Division to account for the Community Development and related Federal grant programs. The accounting systems used remain separate independent systems.

We made recommendation in prior years on the logistical structure of the Fiscal Division and the possibility of merging the two systems. We repeat those recommendations. Subsequent to September 30, 2014, the RPE Division was relocated to the Authority's central office.

We also recommend that management consider obtaining a new accountings 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.

#### **Fiscal Division – Comingling of Funds**

The accounts of GHURA are organized and operated on the basis of funds and grant programs. Fund financial statements report detailed information about the Authority. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, liabilities, net position, revenues, and expenses. 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 along with Central Office Cost Center (COCC); the Department of Interior Grant is comingled with the Revolving Fund; and the Multifamily Housing Service Coordinator grant is comingled with Supporting Housing for the Elderly Program.

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.

## APPENDIX I

### **Fiscal Division – Check Disbursement and Expense Allocation**

During our testing of purchase orders and cash disbursements, we noted that the payment for P.O. #140583 for \$320 was allocated among 5 different programs (including the four AMP's) and five different checks were written to cover the invoice. The sum total all of the checks amounting to \$256 did not agree the invoice price for difference of \$64. While the amount is immaterial, there is a weakness in internal control to ensure that P.O.'s and vendor invoices are matched to check amounts prior to disbursement. In addition, the current system of cost allocation is very inefficient and time consuming and time-consuming to write multiple checks for such immaterial amounts. We recommend that management explore developing a better cost allocation plan to better allocate costs and alleviate burdening the accounting personnel of tedious multi-distribution of cost among various funds.