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May 29, 2013

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, 2012, on which I have issued my report dated May 29, 2013, 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, 2012 that we wish to bring to your attention.

I have also issued a separate report to the Authority also dated May 29, 2013, 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,

J. Scott Magliari & Company

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, 2012 that we wish to bring to your attention as follows:

1) Inventory – Unit of Measurement

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 inputted the unit of measure based on boxes instead of individual pieces causing the inventory to be overstated by approximately \$98,000. This misstatement was corrected by the Fiscal Division and did not result in an audit adjustment. We scanned additional items of similar units of measurement and it appears this was an isolated occurrence.

We recommend that management review and update its policies and procedures establish base units of measure for which stocks of a material are managed. Once determined, the units of measure for parts materials and supplies should be entered in the Inventory module of the accounting system.

Individual Divisions may have their own units of measure for tracking inventory. For example, Procurement may use a different unit than Warehouse Division. If a material is normally managed using pieces as the base unit of measure, but several thousand pieces are contained in a box, it may be more appropriate to define a warehouse unit that is more manageable for warehouse management purposes. The unit of measure in which the material is issued from the warehouse should be considered. It allows consumption, stock transfers, transfer postings, and physical inventories to be recorded in a unit differing from the base unit of measure and from the stock-keeping unit.

2) Accounting Policies and Procedures

We noted that the Fiscal Division's operations policies and procedures manuals has not been properly updated to reflect current practices, policies, procedures and federal rules and regulations.

We recommend that the Fiscal Division review and update its existing standard policies and procedures manual to reflect current practices for new changes in federal program reporting requirements. Standard operating policies and procedures should be developed, documented and implemented to facilitate day-to-day operations, cross-training and ease month-end and year-end closing. This will also ensure that all transactions are processed, recorded and reporting in a consistent and timely manner.

3) Fiscal Division and Accounting System

The Fiscal Division continues to maintain two locations to process 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 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 are independent systems. The 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. 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 performs fund accounting that can interface with its accounting system.