



OFFICE OF THE PUBLIC AUDITOR
Doris Flores Brooks, CPA, CGFM
Public Auditor

2009 JUN 29 AM 10:07

June 24, 2009

Honorable Judith T. Won Pat
Speaker
Mina Trenta Na Liheslaturan Guahan
253 West O'Brien Drive
Hagatna, Guam 96910


30-09-075
Office of the Speaker
Judith T. Won Pat, Ed. D.
Date 6/25/09
Time
Received by

Dear Speaker Won Pat:

Transmitted herewith is the Guam Housing and Urban Renewal Authority's FY 2008 audited Financial Statements, Report on Compliance and Internal Controls, and the Letter to those Charged with Governance. Attached are our highlights of the audit report.

For your convenience, you may also view and download the report in its entirety at www.guamopa.org.

Senseramente,

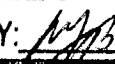
for 
Doris Flores Brooks, CPA, CGFM
Public Auditor

RECEIPT ACKNOWLEDGED:

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OFFICE OF THE PUBLIC AUDITOR

**Guam Housing and Urban Renewal Authority
FY 2008 Financial Highlights**

June 19, 2009

For the second year in a row, the Guam Housing and Urban Renewal Authority (GHURA) issued its financial audit before the June 30 deadline. Independent auditors J. Scott Magliari and Company rendered an unqualified “clean” opinion on GHURA’s financial statements. However, the accompanying reports on compliance and internal controls were qualified for the seventh time since FY 2002 due to material weaknesses in certain major federal programs.

Decrease in Net Assets, Increased Revenues and Expenses

GHURA had a negative change in net assets of \$3.1M; down from \$1.3M increase in net assets in the prior year. Without the management and bookkeeping fees charged for the administration of the Asset Management Properties of \$1.6M, operating revenues decreased \$6.4M from \$45.2M to \$38.8M. Similarly, operating expenditures increased slightly by \$367K from \$46.1M to \$46.5M. The \$46.5M in operating expenditures was primarily from housing assistance payments of \$29.7M, which increased \$1.3M from \$28.4M in FY 2007.

The \$6.4M decrease in operating revenues were primarily due to the \$3.5M decrease in United States Housing and Urban Development’s Public Housing Assistance (HUD PHA) Operating Grants from \$42M to \$38.5M and a \$1.5M decrease in the receipt of other federal grants. The HUD PHA Operating Grant is GHURA’s main source of revenue, representing 95% of total operating revenues. One program funded by the HUD PHA is the Housing Choice Vouchers Program, which enables lower income families to reside in existing privately owned housing. In 2008, 2,402 or 96% of the 2,515 authorized housing vouchers were leased.

In addition, GHURA’s total assets decreased by \$5.3M from \$57.5M to \$52.2M. Of the \$52.2M in total assets, \$4.7M or 9% represents cash and \$31M or 59% represents net capital assets. While many government of Guam entities’ investments were adversely affected by the global economic recession, GHURA managed to increase investments by \$6.3M from \$2.9M to \$9.2M and earn \$339,000 in interest income compared to FY 2007’s \$282,000 in interest income.

Qualified Reports on Compliance and Internal Controls

For the seventh consecutive year, the accompanying reports on internal control and compliance were again qualified due to material weaknesses. Audit findings increased from six in FY 2007 to 10 in FY 2008. Four of the 10 findings were repeats from the prior year and include:

- **Financial Accounting System** - The Fiscal Division is unable to produce the current and complete financial statements on a monthly and annual basis. There is a consistent two to three month delay in closing books each month and at year-end. In addition, numerous accounts were not properly reconciled during the year in a timely manner.

- **Annual Inspections** – For 44% of tenant files tested, there was either no inspection report on file prior to lease renewal or inspection report indicated a failed inspection and there were no work orders or re-inspections to show that the deficiencies were corrected in a timely manner.
- **Eligibility** – Six findings were on different areas of eligibility, both for the Section 8 Housing Choice Vouchers and Lowing Income Housing Assistance programs. The auditors found that pertinent documentation were not on file; such as police clearances, tenant and Housing Asset Project Manager signatures on HUD forms, lease agreements, proof of citizenship, and birth certificates.
- **Rent Reasonableness** – The Rent Reasonableness Determination Reports continue to document comparable units that are not always in the same location. For example, a proposed unit located in Dededo was compared to a unit in Agat and there was no documentation to justify the comparison.

A separate document to the Board was issued by the auditors outlining strategies, emphasis, required communication, and accounting estimates.

For a more detailed commentary of GHURA's operations, refer to the Management's Discussion and Analysis in the audit report or our website at www.guamopa.org.

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

June 3, 2009

To The Board of Commissioners
Guam Housing and Urban Renewal Authority

I have audited the financial statements of Guam Housing and Urban Renewal Authority (the Authority) as of and for the year ended September 30, 2008 in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued my report thereon dated June 3, 2009.

I have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the Authority is responsible.

My Responsibility under Generally Accepted Auditing Standards and Generally Accepted Government Auditing Standards

My responsibility under auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, have been described in our engagement letter dated September 28, 2008. As described in that letter, the objective of a financial statement audit conducted in accordance with the aforementioned standards is:

- To express an opinion on the fairness of the Authority's financial statements and the accompanying supplementary information, and to disclaim an opinion on the required supplementary information for the year ended September 30, 2008 in conformity with "generally accepted accounting principles"), in all material respects;
- To express an opinion on whether the supplementary information that accompanies the basic financial statements is presented fairly, in all material respects, in relation to the basic financial statements taken as a whole;
- To report on the Authority's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended September 30, 2008 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*; and
- To report on the Authority's compliance with requirements applicable to each major federal program and on internal control over compliance in accordance with the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* (OMB A-133).

My responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements have been prepared by management with the oversight of the Board of Commissioners are fairly presented, in all material respects, in conformity with generally accepted accounting principles. The audit of financial statements does not relieve management or the Board of Commissioners of their responsibilities.

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 entity's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Authority's internal control over financial reporting. My consideration of internal control over financial reporting would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

Planned Scope and Timing of the Audit

I conducted my audit consistent with and according to the planned scope and timing previously communicated to you in my meeting about planning matters in December 2008 and January 2009.

Qualitative Aspects of the Authority's Significant Accounting Practices

Significant Accounting Policies

Management of the Authority has the responsibility for selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. The Authority implemented the HUD "Project-Based Accounting" based on their "Asset Management Model" which resulted in major changes to the management and financial structures of the Authority; however, these changes had little effect on the basic financial statements presentation. Accordingly, the financial statements do not report this as a change in accounting principle. We noted no transactions entered into by the Authority during year which there is a lack of authoritative guidance or consensus. There were no significant transactions that have been recognized in the financial statements in a different period that when the transaction occurred.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimated reflected in the Authority's financial statements include management's estimate of the allowance for doubtful accounts, management's estimate of depreciation expense which is based on estimated useful lives of the respective capital assets. During the year ended September 30, 2008, I am not aware of any estimated of any significant changes in accounting estimates or in management's judgments relating to such estimates.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting GHURA's financial statements relate to Risk Management and a HUD settlement discussed in the Notes 14 and 18, respectively, of the Authority's financial statements.

Significant Difficulties Encountered During the Audit

I encountered no significant difficulties in dealing with management in performing my audit. All Authority personnel cooperated with me fully during the conduct of my audit.

Uncorrected and Corrected Misstatements

Professional standards require me to accumulate all known and likely misstatements identified during the audit, other than those that are inconsequential, and communicate them to the appropriate level of management. We noted no misstatements that are material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to my satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to Authority's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Management Representations

I have requested certain written representations from management, which are included in the attached letter dated June 3, 2009.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on matters. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that be expressed on those financial statements, my professional standards require the consulting accountant to check with me to determine the consultation has the relevant facts. Management informed me that, and to my knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Findings or Issues

In the normal course of my professional association with Guam Housing and Urban Renewal Authority, I generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditor. However, none of the matters discussed resulted in a condition to my retention as GHURA's auditors.

* * * * *

I thank the Guam Housing and Urban Renewal Authority staff and management for their cooperation and assistance during the course of my audit. I will be pleased to discuss these matters or any other matters deemed appropriate at your convenience.

This information is intended solely for the information and use of the Board of Commissioners, management of the Guam Housing and Urban Renewal Authority and the Office of the Public Auditor of Guam and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

J. Scott Magliari & Company



GHURA

Guam Housing and Urban Renewal Authority
Aturidat Ginima' Yan Rinueban Suidat Guahan
117 Bien Venida Avenue, Sinajana, Guam 96910
Phones: (671) 477-9851 · Fax: (671) 472-7565 · TTY: (671) 472-3701



June 3, 2009

FELIX P. CAMACHO
Governor of Guam

MICHAEL W. CRUZ, M.D.
Lt. Governor of Guam

BENNY A. PINAULA
Executive Director

RAYMOND F.Y. BLAS
Deputy Director

BOARD OF COMMISSIONERS

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JOSE R. GUEVARA, JR.
Member

CECILE B. SUDA
Member

LOLITA C. MENO
Resident Member

J. Scott Magliari & Company
P.O. Box 12734
Tamuning, Guam 96931

We are providing this letter in connection with your audit of the statements of financial statements of the Guam Housing and Urban Renewal Authority as of September 30, 2008, which collectively comprise the basic financial statements for the purpose of expressing an opinion as to whether the basic financial statements present fairly, in all material respects, the financial position, results operations or changes in net assets, and cash flows of the Authority in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation in the accounting principles. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control, and preventing and detecting fraud. In addition, we are also responsible for:

- A. The fair presentation in the basic financial statements of financial position, results of operations or changes in net assets, and cash flows of the Authority in conformity with accounting principles generally accepted in the United States of America.
- B. The fair presentation of the required supplementary information, including Management's Discussion and Analysis, and additional supplemental schedules accompanying the basic financial statements that are presented for the purpose of additional analysis of the basic financial statements.
- C. The review and approval of the financial statements and related notes and acknowledge your role in the preparation of this information. Specifically, we acknowledge that your role in the preparation of the financial statements was a matter of convenience to us rather than one of necessity. We have reviewed the financial statement preparation assistance provided by you and acknowledge that the financial statements are in accordance with accounting principles generally accepted in the United States of America.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would



be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief as of September 30, 2008, the following representations made to you during your audit.

1. We are responsible for the supplementary information accompanying the basic financial statements required by HUD's *Uniform Financial Reporting Standards for HUD Housing Programs* and the information submitted to HUD through the FASS submission templates is supported by the financial statements and underlying accounting records.
2. We have made available to you all-
 - a. Financial records and related data and all audit or relevant monitoring reports, if any, received from funding sources.
 - b. Minutes of meetings of Board of Commissioners, or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. There have been no communications from HUD or other regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices except for what has been reported to you.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements or the Schedule of Expenditures of Federal Awards.
5. We believe the effects of the uncorrected financial statement misstatements, if any, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.
6. All costs to federal awards have been charged in accordance with applicable cost principles.
7. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
8. We have no knowledge of any fraud or suspected fraud affecting the entity involving
 - a. Management
 - b. Employees who have significant roles in internal control, or



- c. Others where the fraud could have a material effect on the financial statements.
9. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, grantors, regulators, or others.
10. The entity has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity balances. We further assert that the new building design plan costs incurred totaling \$225,936 reported as Other Assets in the financial statements is not impaired and will be utilized in the near term.
11. Receivables recorded in the financial statements represent valid claims against tenants or other parties arising on or before the balance sheet date and have been appropriately reduced to their estimated net realizable value.
12. The following have been properly recorded or disclosed in the financial statements:
 - a. Related party transactions and related accounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees. All inter-fund activity has been properly identified and eliminated in the financial statements.
 - b. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements.
 - c. Arrangements to repurchase assets previously sold.
 - d. Guarantees, whether written or oral, under which, the Authority is contingently liable.
13. There are no estimates that may be subject to a material change in the near term that have not been properly disclosed in the financial statements. We understand that *near term* means the period within one year of the date of the financial statements. In addition, we have no knowledge of concentrations existing at the date of the financial statements that make the Authority vulnerable to the risk of severe impact that have not been properly disclosed in the financial statements.
14. The Authority has not performed a formal risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has made available to



you its understanding about risks of fraud in the Authority does not believe that the financial statements are materially misstated as result of fraud.

15. We are responsible for-
 - a. Compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts.
 - b. Establishing and maintaining effective internal control over financial reporting.
16. There are no-
 - a. Violations or possible violations of laws or regulations and provisions of contracts and grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies*.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies*.
 - d. Designations of net assets disclosed to you that were not properly authorized and approved, or reclassifications of net assets that have not been properly reflected in the financial statements.
17. The Authority has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged.
18. We are responsible for the Authority's compliance with laws and regulations and the provisions of contracts and grant agreements applicable to it and the requirements of each HUD program; and we have identified, and disclosed to you, all laws and regulations and the provisions of contracts and grant agreements that have a direct and material effect on the determination of financial statement amounts and requirements of each HUD program. We have complied with (a) all aspects of laws, regulations, and the provisions of contracts and grant agreements that would have a material effect on the financial statements in the event of noncompliance and (b) the requirements



of each HUD program except as disclosed in the Schedule of Findings and Questioned Costs accompanying the 2008 audited financial statements.

19. We have complied with all restrictions on resources and all aspects of contractual and grant agreements that would have a material effect on the financial statements in the event of noncompliance. This includes complying with donor requirements to maintain a specific asset composition necessary to satisfy their restrictions.
20. With respect to federal award programs:
 - a. We are responsible for complying and have complied with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.
 - b. We have, in accordance with OMB Circular A-133, identified in the Schedule of Expenditures of Federal Awards, expenditures made during the audit period for all awards provided by federal agencies in the form of grants, rent subsidies, federal cost-reimbursements contracts, loans, loan guarantees, capital advances, property, cooperative agreements, interest subsidies, insurance, direct appropriations, and other assistance.
 - c. We are responsible for complying with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal program.
 - d. We are responsible for establishing and maintaining effective internal control over compliance requirements applicable to federal programs that provide reasonable assurance that we are managing our federal awards in compliance with laws, regulations and the provisions of contracts and grant agreements that could have a material effect on our federal programs. We believe that internal control system is adequate and is functioning as intended. Also, no changes have been made in the internal control system to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to reportable conditions reported in the schedule of findings and questioned costs.
 - e. We have made available to you all contracts and grant agreements and any other correspondence with federal agencies or pass-through entities relating to each major federal program.

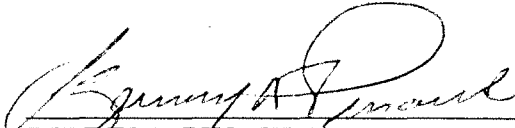


- f. We have received no requests from a federal agency to audit one or more specific programs as a major program.
- g. We have complied, in all material respects, with the compliance requirements, including when applicable, those set forth in the *OMB Circular A-133 Compliance Supplement*, relating to federal awards and have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of federal awards, including the results of other audits or program reviews.
- h. We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
- i. We have made available to you all documentation relating to the compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- j. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared, and are prepared on a basis consistent with the Schedule of Expenditures of Federal Awards.
- k. The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
- l. We have monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of OMB Circular A-133.
- m. We have taken appropriate action on a timely basis after receipt of subrecipients' auditor's reports that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements to ensure that subrecipients have taken the appropriate and timely corrective action on findings.
- n. We have considered the results of subrecipient audits and have made any necessary adjustments to our books and records.
- o. We are responsible for and have accurately prepared the Summary Schedule of Prior Audit Findings and Plan of Corrective Action to include all findings required to be included by OMB Circular A-133 and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.



- p. We are responsible for and have accurately prepared the audit section of the Data Collection Form as required by OMB Circular A-133 and we are responsible for preparing and implementing a corrective action plan for each audit finding.
 - q. We have disclosed to you all contracts or other agreements with our service organizations and we have disclosed to you all communications from the service organizations relating to noncompliance at the service organizations.
 - r. Management has disclosed any known noncompliance occurring subsequent to the period for which compliance is audited.
21. No events have occurred subsequent to the balance sheet date that would require adjustments to, or disclosure in, the financial statements.

To the best of our knowledge and belief, no events, including instances of noncompliance, have occurred subsequent to the statement of financial position date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements, supplementary information, or schedules.


BENNY A. PINAULA
Executive Director


LUCELE D. LEON GUERRERO
Controller