



OFFICE OF THE PUBLIC AUDITOR

**Guam Housing and Urban Renewal Authority
FY 2006 Financial Highlights**

September 12, 2007

Independent auditing firm J. Scott Magliari and Company expressed an unqualified or “clean” opinion on the fiscal year (FY) 2006 financial statements of the Guam Housing and Urban Renewal Authority (GHURA). However, the Auditor’s accompanying reports on internal control and compliance were qualified due to 10 material weaknesses in the Section 8 Housing Choice Voucher Program and the Low Income Housing Assistance Programs, as well as the lack of account reconciliations. This audit is the last FY 2006 financial audit to be issued and is more than two months past its June 30 deadline.

Initial Audit Rejected

Five weeks after GHURA submitted its initial audit report on June 29, 2007, the U.S. Housing and Urban Development (HUD) rejected the report. The primary reason for the rejection was a HUD notice (PIH Notice 2006-03), regarding a change in the treatment of Housing Choice Voucher program year-end settlements. This resulted in a prior period adjustment of \$1.8M for a prior year settlement of a recorded liability due to HUD. The Federal Data Schedule and the audit reports were adjusted to reflect the transaction and resubmitted on August 16, 2007.

Material Weaknesses found in Compliance and Internal Control

There were 17 findings, down from 23 in the prior year, and five were repeat findings. Of the 17 findings, 10 or 59% were considered material weaknesses. The findings included the following.

- **Account Reconciliation:** In 06-16*, the accounting system is unable to produce reports that are reconciled. Specifically, general ledger account and balances of about \$1.1M had not been properly reconciled and adjusted; material discrepancies were noted between amounts recorded in the general ledger as compared to records maintained and accounted for by the Program Managers in the Research, Planning, and Evaluation Division; and various accounts and/or project grants were not reconciled throughout the fiscal year in a timely manner. In addition, there is a consistent two- or three-month delay in closing the accounting books each fiscal year and it appears that additional qualified accountants may be needed.
- **Missing/Incomplete Documentation:** In 06-03*, five of 25 tenant files either were unsigned by GHURA officials or lacked documentation (i.e., birth certificates, community service compliance certificate of exemption, or fraud affidavit). Similarly, in 06-10*, 8 of 30 vouchers were unsigned or had missing documentation (i.e., rent reasonableness form, birth certificates, termination letter, etc.).
- **Eligibility:** In 06-13, 14 of 30 vouchers did not have the required police/court clearances related to criminal activity.
- **Annual Inspections:** In 06-06*, 15 of 25 files either (1) had no inspection report on file prior to lease renewal or (2) the inspection report indicated a failed inspection and there were no work orders or re-inspections to indicate that deficiencies were corrected in a timely manner.
- **Risk Management:** In 06-07*, GHURA continued with its typhoon insurance coverage until it lapsed in 2005 after HUD approved GHURA’s waiver to be self-insured. The approved waiver

stipulated that GHURA establish and maintain a separate typhoon escrow account in which it will deposit \$200,000 annually until the account has a minimum balance of \$1M. As of FY 2006, the account should have had \$400,000, but was not established until FY 2007.

- **Waiting List:** In 06-14*, quality control and sampling methodologies and procedures were not clearly documented and there were no documented independent quality control procedures when selecting samples of applicants and admissions from the waiting list under the Section 8 program.

\$3.2 Million (M) Positive Change in Net Assets

In FY 2006, GHURA had a positive change in net assets of \$3.2M, compared to FY 2005's negative change in net assets (loss) of \$3.7M. The positive change in net assets is primarily attributed to an increase of \$1.8M in total revenues and a corresponding decrease in total expenditures of \$3.3M.

Total Revenues Increased \$1.8M

The primary sources of revenues come from federal grants: the Housing Assistance Payments (also known as the Section 8) of \$30.1M, Low Income Housing of \$3.1M, and the Community Development Block Grant (CDBG) of \$2.1M. In 2006, GHURA's total revenues were \$41.5M, an increase of \$1.8M or 4.5% from total revenues of \$39.7M reported in FY 2005. The increase was attributed to an increase in non-operating revenues of \$1.3M to \$2.1M in FY 2006 and an increase in property sales to \$184,000.

GHURA was authorized by HUD to approve Section 8 contracts for 2,515 dwelling units, of which 2,315 or 92% were leased as of September 30, 2006. In addition, of the 750 low-income housing units, 38 units were under scheduled modernization and 678 or 95% of the available units were leased as of September 30, 2006.

The CDBG funds of \$2.1M are used for revitalizing neighborhoods, providing affordable housing, expanding economic opportunities, and improving community facilities and services. The most recent projects funded by the CDBG are the Agana Heights Senior Citizens Center and the Dededo Police and Fire Stations.

Total Expenditures Decreased \$3.3M

GHURA's total expenditures decreased 8% or \$3.3M from \$41.6M to \$38.3M. GHURA spent \$3M less in housing assistance payments or \$24.6M compared to last year's \$27.7M. Repairs and maintenance expense decreased \$1.9M from \$4.4M in FY 2005 to \$2.5M.

Total Assets Increased \$3.6M

GHURA's total assets were \$56.2M compared to \$52.6M in the prior year, an increase of \$3.6M. Of the \$56.2M in total assets, \$13.2M or 23.6% represents cash. Receivables increased \$273,000 from \$1.1M to \$1.4M. Allowance for doubtful accounts increased 131.6% or \$37,000 from \$28,000 to \$64,000. Investments of \$2.8M increased slightly from \$2.7M, while other real estate decreased \$693,000 from \$4.9M in FY 2005 to \$4.2M in FY 2006.

For a more detailed commentary of GHURA's operations, refer to the Management Discussion and Analysis in the audit report.

* Considered a material weakness.