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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 (GHURA) as of and for the year ended September 30, 2007, in accordance with auditing standards generally accepted in the United States of America, I considered GHURA's internal control over financial reporting (internal control) as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of GHURA's internal control. Accordingly, I do not express an opinion on the effectiveness of GHURA's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control that I consider to be significant deficiencies *and other deficiencies that we consider to be material weaknesses*.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. I believe that the following deficiencies constitute material weaknesses:

The Authority lacks effective internal controls to monitor and ensure that all Public Housing units are inspected annually and that all Uniform Physical Condition Standards (UPCS) deficiencies noted are corrected in a timely manner. The Authority is not in compliance with the PHAS regulations as well as its policies set forth in the Admission & Continued Occupancy Policies. For eight or 32% of the twenty-five (25) Public Housing 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 evidence that the deficiencies were corrected in a timely manner. This was also cited in the prior year as a deficiency.

The Authority is not in compliance of their policies and procedures as set forth in the Administrative Plan for the Section 8 HCV program. For five (5) or 13% of the forty (40) vouchers tested, the tenant folders had missing or incomplete documentation. The potential exists for incorrect amounts or rent to be paid and not be detected in a timely manner, as well as documentation being lost due to poor case file management. This was also cited in the prior year as deficiency.

Based on my review of the 40 Section 8 HCV files tested, I noted the Rent Reasonableness Determination Report continues to document comparable units exceeding the maximum subsidy allowed based on the Payment Standard and comparable units are not always in the same location. Consequently, GHURA is not in compliance with 24 CFR 985.3 (b)(3)(B) for quality control sampling.

I noted that Housing Quality Standards (HQS) inspection reports were not on-file for independent verification. For certain vouchers, the units failed the HQS inspection due to electrical hazards and defective smoke alarm and was not corrected or re-inspected within 24 hours or 30 days. This resulted in GHURA being in noncompliance with HUD regulations and its Administrative Plan. This was also cited in the prior year as a deficiency.

This communication is intended solely for the information and use of the Board of Commissioners, management of GHURA, the Office of the Public Auditor, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

J. Scott Magliani & Company
May 19, 2008