

J. Scott Magliari
& COMPANY

CERTIFIED PUBLIC ACCOUNTANT

GUAM RENTAL CORPORATION
(A PUBLIC CORPORATION)

REPORT ON COMPLIANCE AND INTERNAL CONTROL

FOR THE YEAR ENDED SEPTEMBER 30, 2001

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Guam Rental Corporation:

We have audited the financial statements of Guam Rental Corporation (the Corporation), a component unit of the Government of Guam, as of and for the year ended September 30, 2001 and have issued our report thereon dated January 4, 2002. We conducted our audit 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.

Compliance

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings and Questioned Costs as item 01-02. We also noted certain immaterial instances of noncompliance that we have reported to management of the Corporation which are included in the accompanying Schedule of Findings and Questioned Costs.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Corporation's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as item 01-01.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in the amount that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended for the information of the management, and Board of Directors of the Guam Rental Corporation, federal awarding agencies and the cognizant audit and other federal awarding agencies and is not intended to be, and should not be, used by anyone other than the specified users.

Agana, Guam
January 4, 2002

J. Scott Magliari
 **COMPANY**

CERTIFIED PUBLIC ACCOUNTANT

GUAM RENTAL CORPORATION
(A PUBLIC CORPORATION)

SINGLE AUDIT REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2001

**GUAM RENTAL CORPORATION
(A PUBLIC CORPORATION)**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2001

PART III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION

We noted certain reportable conditions and instances of noncompliance be reported in accordance with Government Auditing Standards that are presented in the following pages as item 01-02.

<u>Reference Number</u>	<u>Finding</u>	<u>Questioned Costs</u>
01-02	Eligibility/ Special Tests and Provisions	\$ _____ - _____
		<u>\$ _____ - _____</u>

**GUAM RENTAL CORPORATION
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Schedule of Findings and Questioned Costs
Year Ended September 30, 2001

Part II – Financial Statement Findings Section

Receivables

01-01 Criteria:

An allowance for doubtful accounts should be maintained at a level, which, in management's opinion, is adequate to absorb losses inherent in the receivables. The amount of the allowance should be based on an evaluation of the collectibility of receivables, credit concentrations, trends in historical loss experience, economic conditions, and other risks inherent to the receivables.

Condition:

An adjustment of \$40,516 was made to increase the Corporation's allowance for doubtful accounts for potential uncollectible tenant receivables, resulting in a total allowance of \$67,670 or 41% of the Corporation's tenant receivables outstanding as of September 31, 2001. Based on our review of the tenant receivables, this amount may not be sufficient for the potential uncollectible accounts as of September 30, 2001.

Cause:

The Resident Manager has not established a collection policy and formal written internal control policies and procedures to evaluate tenant receivables for potential loss for past due accounts.

Effect:

The effect of the above condition is the possibility of an ineffective method for determining the allowance for doubtful accounts and consequently the Corporation may have some level of risk in its tenant receivables.

**GUAM RENTAL CORPORATION
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Schedule of Findings and Questioned Costs
Year Ended September 30, 2001

01-01 Recommendation:

The Resident Manager should establish internal control policies and procedures for determining doubtful accounts and ensure that an adequate allowance is maintained and establish a formal collection policy.

The Senior Tenant Relations Advisor (“TRA”) should enforce the terms and conditions of the Tenant Lease Agreement for delinquent accounts.

Auditee Response/Corrective Action Plan:

We agree with the finding. Aggressive attempts have been on-going to collect past rents due. Past due accounts that we have been unable to locate or collect, have been forwarded to a collection agency. Additionally, eviction notices have been issued when warranted.

**GUAM RENTAL CORPORATION
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Schedule of Findings and Questioned Costs
Year Ended September 30, 2001

PART III – Federal Award Findings and Questioned Costs Section

Eligibility/ Special Tests and Provisions

01-02 Criteria:

Pursuant to the Chapter 5, Section 1, of the Occupancy Requirements of Guam Rental Corporation Multifamily Housing Programs Handbook (“the Handbook”), the Corporation is required to recertify and adjust the tenant’s rent annually. Recertification of tenants must be implemented as of the first day of the month (the anniversary date) in which the tenant moved in the project.

Condition:

For five (5) or 20% of the twenty-five (25) tenant files tested for recertification, we noted that the Certification/Recertification of Tenant Eligibility (Form 50059) was not on-file, nor was there any other corroborating evidence to indicate that the tenants were properly recertified who reside in the following units:

<u>Unit Number</u>
170
282
268
253
B-205

Cause:

It appears that the Senior TRA failed to adhere to internal control policies and procedures to ensure that tenants are properly recertified on an annual basis in accordance with Chapter 5, Section 1, of the Handbook. Additionally, there is no segregation of duties, as the Senior TRA is responsible for all aspects of monitoring and enforcing program compliance.

Effect:

The Corporation is in noncompliance with Chapter 5, Section 1, of the Handbook. The potential exists for the Corporation to make an incorrect determination of tenant eligibility, bedroom unit size, and tenant monthly rent.

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2001

01-02 Recommendation:

We recommend that the Corporation adhere to Chapter 5, Section 1, of the Handbook. Furthermore, we recommend that the Quality Assurance Officer perform periodic reviews of tenant files to ensure program compliance and establish an appropriate level of segregation of duties relative to program policies and procedures.

A tenant-tracking list should be developed and implemented to ensure all tenants are recertified on their respective anniversary dates. The above listed tenants should be re-certified to determine program eligibility and whether their monthly rent should be adjusted.

Auditee Response/Corrective Action Plan:

The units as listed above did have certification forms in their respective files; however, they were not certified on their anniversary dates as required.

Prior Year Status:

Failure to re-certify tenants on their anniversary dates was reported as a finding in the audit of the Corporation for fiscal year 2000.