

**GUAM HOUSING AND
URBAN RENEWAL AUTHORITY**

SINGLE AUDIT REPORTS

FOR THE YEAR ENDED SEPTEMBER 30, 1998

**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 Commissioners
Guam Housing and Urban Renewal Authority:

We have audited the financial statements of Guam Housing and Urban Renewal Authority (GHURA), a component unit of the Government of Guam, as of and for the year ended September 30, 1998 and have issued our report thereon dated December 29, 1999. We conducted our audit in accordance with generally accepted auditing standards 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 GHURA'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 items 98-1, 98-3, 98-14, 98-16, 98-17, 98-19, 98-20 and 98-21. We also noted certain immaterial instances of noncompliance that we have reported to management of GHURA, 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 GHURA'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 GHURA'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 items 98-16, 98-17, 98-22, 98-20 and 98-21.

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, of the reportable conditions described above, we consider 98-19 and 98-20 to be material weaknesses. We also noted other matters involving the internal control over financial reporting that we have reported to management of GHURA, which are included in the accompanying Schedule of Findings and Questioned Costs.

This report is intended for the information of the management, the Board of Commissioners of the Guam Housing and Urban Renewal Authority, and other federal awarding agencies. However, this report is a matter of public record and its distribution is not limited.

December 29, 1999
Agana, Guam

GUAM HOUSING AND URBAN RENEWAL AUTHORITY
Summary of Unresolved Questioned Costs
September 30, 1998

	<u>Beginning Questioned Costs</u>	<u>Costs Allowed</u>	<u>Costs Disallowed</u>	<u>Unresolved Questioned Costs</u>
Total unresolved questioned costs for fiscal year 1991	\$ 8,970	\$ -	\$ -	\$ 8,970
Total unresolved questioned costs for fiscal year 1992	12,121	-	-	12,121
Total unresolved questioned costs for fiscal year 1993	5,238	-	-	5,238
Total unresolved questioned costs for fiscal year 1994	34,201	-	-	34,201
Total unresolved questioned costs for fiscal year 1995	1,670,236	-	-	1,670,236
Total unresolved questioned costs for fiscal year 1996	421,982	-	-	421,982
Total unresolved questioned costs for fiscal year 1997	<u>728,945</u>	<u>-</u>	<u>-</u>	<u>728,945</u>
Total Prior Year questioned costs at September 30, 1997	2,881,693	-	-	2,881,693
Questioned costs for fiscal year ending 1998	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total unresolved questioned costs at September 30, 1998	<u>\$ 2,881,693</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,881,693</u>

GUAM HOUSING AND URBAN RENEWAL AUTHORITY
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 1998

<u>CFDA#</u>	<u>AGENCY/PROGRAM</u>	<u>1998</u> <u>Fiscal Year</u>
<u>Expenditures</u>		
	<u>U. S. Department of Housing and Urban Development</u>	
14.219	Community Development Block Grant	\$ 2,043,515
14.182	Low Income Housing Assistance Program	4,056,263
	Section 8 Cluster - Housing Assistance Payments Programs (HAP):	
14.857	Section 8 Existing/Certificate	10,191,219
14.855	Voucher Program	1,077,090
14.856	Moderate Rehabilitation	1,435
14.857	Elderly Housing	<u>428,498</u>
	TOTAL HAP	<u>11,698,242</u>
	Total Expenditures of Federal Financial Awards	<u>\$ 17,798,020</u>
	Percentage of Federal Awards Tested	<u>100%</u>

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the grant activity of GHURA and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of State and Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

Note 2. Subrecipients

Of the federal expenditures presented in this schedule, GHURA provided federal awards from the CDBG program (CFDA#14.219) to subrecipients totaling \$813,165, as of September 30, 1998.

Note 3. Major Programs

All of the above programs are classified as major programs and, accordingly, were subjected to applicable audit procedures as required by OMB Circular A-133.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH SPECIFIC
REQUIREMENTS APPLICABLE TO AFFIRMATIVE FAIR HOUSING
AND NON-DISCRIMINATION**

To the Board of Commissioners
Guam Housing and Urban Renewal Authority:

We have audited the financial statements of Guam Housing and Urban Renewal Authority (GHURA), a component unit of the Government of Guam, as of and for the year ended September 30, 1998 and have issued our report thereon dated December 29, 1999.

We have applied procedures to test GHURA's compliance with the Affirmative Fair Housing and Non-Discrimination requirements applicable to its HUD assisted programs, for the year ended September 30, 1998.

Our procedures were limited to the applicable compliance requirements described in the Consolidated Audit Guide for Audits of HUD Programs issued by the U.S. Department of Housing and Urban Development, Office of Inspector General. Our procedures were substantially less in scope than an audit, the objective of which would be the expression of an opinion on GHURA's compliance with the Affirmative Fair Housing and Non-Discrimination requirements. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance with the Affirmative Fair Housing and Non-Discrimination requirements.

This report is intended for the information of the Board of Commissioners, management, and the Department of Housing and Urban Renewal Development. However, this report is a matter of public record and its distribution is not limited.

December 29, 1999
Agana, Guam

**GUAM HOUSING AND
URBAN RENEWAL AUTHORITY**

**SCHEDULE OF FINDINGS AND
QUESTIONED COSTS**

FOR THE YEAR ENDED SEPTEMBER 30, 1998

GUAM HOUSING AND URBAN DEVELOPMENT AUTHORITY
Schedule of Findings and Questioned Costs
Year Ended September 30, 1998

SUMMARY OF AUDIT RESULTS

Financial Statements

We have audited the basic financial statements of GHURA and issued an unqualified opinion.

Internal control over financial reporting:

- Material weaknesses were identified? ☒ yes ☐ no
- Reportable conditions identified that are not considered to be material weaknesses? ☒ yes ☐ none reported
- Noncompliance material to financial statements noted? ☐ yes ☒ no

Federal Awards

Internal control over financial reporting:

- Material weaknesses were identified? ☒ yes ☐ no
- Reportable conditions identified that are not considered to be material weaknesses? ☒ yes ☐ none reported

The auditor's report on major program compliance for GHURA having three major programs included an unqualified opinion for the Community Development Block Grant and Section 8 Housing Assistance Programs and expresses a qualified opinion on Low Income Public Housing program based on identified reportable conditions, which, in our opinion, are not considered to be material weaknesses.

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? ☒ yes ☐ no

GUAM HOUSING AND URBAN DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs

Year Ended September 30, 1998

SUMMARY OF AUDIT RESULTS, continued

Identification of major programs:

<u>CFDA#</u>	<u>PROGRAM</u>
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14.219	Community Development Block Grant
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14.182	Low Income Housing Assistance Program
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Section 8 Cluster - Housing Assistance Payments Programs:

14.857	Section 8 Existing/Certificate
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14.855	Voucher Program
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14.856	Moderate Rehabilitation
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14.857	Elderly Housing
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Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk audit? _____ yes x no

FINDINGS - FINANCIAL STATEMENTS

There were no instances of noncompliance noted that should be reported in accordance with Government Auditing Standards.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

We noted certain reportable conditions, material weaknesses, and instances of noncompliance, including questioned costs which are presented in the following pages as items 98-1 through 98-21.

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Schedule of Findings and Questioned Costs

Year Ended September 30, 1998

<u>Program</u>	<u>Item No.</u>	<u>CFDA No.</u>	<u>Questioned Costs</u>
LIPH	98-01	14.182 <u>Criteria:</u>	\$ -

In accordance with 24 CFR 880.612, Housing Quality Standards (HQS) inspections must be conducted before a HAP contract can be signed; 1) at least annually for each assisted unit (within ninety days prior to lease renewal); and 2) upon termination and vacation of the unit.

Condition:

In five (5) out of the 25 tested, the units were not inspected in a timely manner.

<u>Tenant:</u>	<u>Date of last inspection:</u>
Bernadit Cruz	04/24/97
John Q. Reyes	01/21/97
Jacqueline M. Apuron	08/08/97
Rudy S. Bass	05/13/97
Bernadit Cruz	03/03/98

Cause:

There is a lack of internal controls to ensure that housing inspections are adequately planned and performed in a timely manner.

Effect:

No effect on the financial statements results from this condition.

Recommendation:

Procedures should be adhered to ensure that housing inspections are conducted in accordance with 24 CFR 882.109, Housing Quality Standards (HQS) and at appropriate times.

Questioned

GUAM HOUSING AND URBAN RENEWAL AUTHORITY

Schedule of Findings and Questioned Costs

Year Ended September 30, 1998

<u>Program</u>	<u>Item No.</u>	<u>CFDA No.</u>		<u>Costs</u>
LIPH	98-01	14.182	<u>Auditee Response/Corrective Action Plan:</u>	\$ -

We disagree with the findings. Inspections were made for each tenant within the calendar year of the anniversary date as required by 7420.7, "PHA Administrative Practices Handbook," Section 5-8, "Unit Inspections," b (1). A scheduled plan for the annual review of all units has been in place, and the progress of units scheduled for inspection is monitored on a monthly basis. The progress of our inspections is also reported to the Agency's Board Commissioners on a monthly basis.

Auditors' Response:

The above units were not inspected within the calendar year of the anniversary date as required by 7420.7, "PHA Administrative Practices Handbook," Section 5-8, "Unit Inspections," b (1).

<u>Program</u>	<u>Item No.</u>	<u>CFDA No.</u>		<u>Questioned Costs</u>
LIPH	98-02	14.182	<u>Criteria:</u>	\$ -

GUAM HOUSING AND URBAN RENEWAL AUTHORITY

Schedule of Findings and Questioned Costs

Year Ended September 30, 1998

The stock cards should be updated for inventory movements to ensure that an accurate inventory is maintained and properly accounted for.

Condition:

The stock cards have not been used to account for inventory since Fiscal Year 1997. The Maintenance Division uses the computer system to record inventory, a periodic physical inventory is conducted at year-end. Monthly inventory reports are not produced and independently reviewed for variances and adequate investigation. Based on our review of the year-end inventory report, it appeared that inventory was updated at the close of the fiscal year.

Cause:

There is a lack of established internal control policies and procedures to properly account for inventory.

Effect:

The potential exists for the misappropriation of assets.

Recommendation:

We recommend that monthly inventory reports be printed in a timely manner, which should be periodically reconciled to physical counts and independently reviewed. Furthermore, the monthly printouts should be used as a backup in the event of a system failure.

<u>Program</u>	<u>Item No.</u>	<u>CFDA No.</u>	<u>Questioned Costs</u>
LIPH	98-02	14.182	
<u>Auditee Response/Corrective Action Plan:</u>			\$ -

GUAM HOUSING AND URBAN RENEWAL AUTHORITY

Schedule of Findings and Questioned Costs

Year Ended September 30, 1998

We disagree with the finding regarding the maintenance of inventory items on stock cards. We realize that printouts of stockroom inventory reports should be done on a periodic basis, on a monthly basis at a minimum. Prior to fiscal year (FY) 1998, the stockroom at the Maintenance Division was under the control of the Fiscal Division. According to the Inventory Management Officer, the usage of stock cards as a means for tracking and compiling the physical inventory was discontinued in FY 1996. Since then stockroom inventory has been tracked, maintained and monitored using Tenmast Consumables Inventory software module on the Agency's computer system.

According to the MIS Division, backups of all system modules are done periodically, normally on a weekly basis. The system is capable of tracking purchase history and use of each stock item. Monthly consumable inventory reports will be printed as the Agency will be maintaining a consumables inventory control account in the Public Housing program general ledger.

<u>Program</u>	<u>Item No.</u>	<u>CFDA No.</u>	<u>Questioned Costs</u>
LIPH	98-03	14.182 <u>Criteria:</u>	\$ -

In Authority owned housing, the Authority enters into a dwelling lease with the family. The dwelling lease is a contract which confers certain property rights to the tenant and imposes certain obligations on both the Authority (the landlord) and the tenant.

GUAM HOUSING AND URBAN RENEWAL AUTHORITY

Schedule of Findings and Questioned Costs

Year Ended September 30, 1998

Condition:

In two (2) of the 25 items tested, the "Dwelling Lease Agreement" had expired prior to its amendment.

<u>Tenant:</u>	<u>Expiration Date:</u>	<u>Amended:</u>
Lillian Farrand	10/31/97	07/02/98
Thelfelia B. Calvo	12/13/97	02/04/98

Cause:

There is poor internal control to ensure that contracts are renewed annually.

Effect:

The potential exist for tenant rents to be misstated and ineligible families to be dwelling in public housing units.

Recommendation:

Internal control policies to ensure adherence to existing procedures as promulgated by "*Statement on Policies Governing Admission to and Continued Occupancy of Public Housing.*" Tenants should be evicted should they fail to appear for re-examination or failure to adhere to GHURA's *Statement on Policies Governing Admission to and Continued Occupancy of Public Housing.*

<u>Program</u>	<u>Item No.</u>	<u>CFDA No.</u>	<u>Questioned Costs</u>
LIPH	98-03	14.182	
<u>Auditee Response/Corrective Action Plan:</u>			\$ -

We agree with this finding. The expiration date of the Dwelling Lease Agreement for Lillian Farrand was December 31, 1997 and not October 31, 1997. The dwelling lease agreement exceeded twelve months due to a decision made by the previous Public Housing Manager.

Renewal of both dwelling leases were late as staff did not send the annual re-certification letters out to the tenants in a timely manner. In conjunction with the

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Schedule of Findings and Questioned Costs

Year Ended September 30, 1998

Agency's management information systems division, a report has been created which identifies tenants whose lease agreements are expiring within 20 days for re-certification purposes. This report will be printed, reviewed, and monitored periodically to ensure that similar errors are prevented.

<u>Program</u>	<u>Item No.</u>	<u>CFDA No.</u>	<u>Questioned Costs</u>
LIPH	98-04	14.182	\$ -

Outstanding balances and promissory notes should be collected on a timely basis.

Condition:

In one (1) of the 25 items tested, the tenant Mary Solang (Unit # ZP0047M) moved out of the unit on October 1994. As of September 1998, she still has an outstanding balance of \$336.82.

Cause:

The cause of this condition is unknown.

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Schedule of Findings and Questioned Costs

Year Ended September 30, 1998

Effect:

Receivables may be immaterially overstated as a result of this condition.

Recommendation:

We recommend that the Authority adhere to its collection policies and procedures to reduce potential collection losses and ensure that receivables are collected in a timely manner.

Auditee Response/Corrective Action Plan:

We agree with this finding. Efforts were made by our staff collection agent to collect the outstanding balance of \$336.82, but we could not locate her. The account has been referred to our outside collection agent for final disposition. In addition, her name has been submitted to the Department of Revenue and Taxation for garnishment of possible tax refunds otherwise owing to the former tenant.

<u>Program</u>	<u>Item No.</u>	<u>CFDA No.</u>	<u>Questioned Costs</u>
LIPH	98-05	14.182 <u>Criteria:</u>	\$ -

The tenant sub-ledger should be maintained and traced to the cash receipts.

Condition:

In one (1) of the 25 or 4% of the items tested, the date on the tenant sub-ledger of Bernadit Cruz stated cash was received on 11/05/97, while the date on the cash receipt was 11/04/97.

Cause:

The cause of this condition is unknown.

Effect:

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Schedule of Findings and Questioned Costs

Year Ended September 30, 1998

There is no effect on the financial statements as a result of this condition.

Recommendation:

We recommend that the Authority exercise care when entering data into accounting records.

<u>Program</u>	<u>Item No.</u>	<u>CFDA No.</u>	<u>Questioned Costs</u>
LIPH	98-05	14.182	
		<u>Auditee Response/Corrective Action Plan:</u>	\$ -

We agree with this finding. The date reflected on the system receivables module is correct. The date entered on the tenant sub-ledger was incorrect and appears to be an isolated incident. The date is normally properly referenced on the tenant ledger card. In addition, numerous receivable reports, which include receipt reports, are printed and maintained both weekly and monthly so this information is available. The actual Public Housing accounts receivable sub-ledger for accounting purposes is the Tenmast Tenant Accounts Summary. The tenant ledger cards serve as a backup for cashiers in the event the computer system is down.

GUAM HOUSING AND URBAN RENEWAL AUTHORITY
Schedule of Findings and Questioned Costs
Year Ended September 30, 1998

<u>Program</u>	<u>Item No.</u>	<u>CFDA No.</u>	<u>Questioned Costs</u>
LIPH	98-06	14.182	\$ -

Criteria:

The tenant sub-ledger should be maintained and traced to the cash receipts.

Condition:

In one (1) of the 25 or 4% of the items tested, the receipt number 50641 for Hermogenes S. Guanga was not recorded on the tenant sub-ledger.

Cause:

The cause of this finding is unknown.

Effect:

There is no effect on the financial statements as a result of this condition.

Recommendation:

We recommend that the Authority exercise care when entering data into accounting records.

GUAM HOUSING AND URBAN RENEWAL AUTHORITY

Schedule of Findings and Questioned Costs

Year Ended September 30, 1998

<u>Program</u>	<u>Item No.</u>	<u>CFDA No.</u>	<u>Questioned Costs</u>
LIPH	98-06	14.182	

Auditee Response/Corrective Action Plan:

\$ -

We agree with the finding. This incident mentioned was an oversight. The receipt number is normally referenced on the tenant ledger card. In addition, numerous receivable reports, which include receipt reports, are printed and maintained both weekly and monthly so the information is available. The actual Public Housing accounts receivable sub-ledger for accounting purposes is the Tenmast Tenant Accounts Summary. The tenant ledger cards serve as a backup for cashiers in the event the computer system is down.

GUAM HOUSING AND URBAN RENEWAL AUTHORITY

Schedule of Findings and Questioned Costs

Year Ended September 30, 1998

<u>Program</u>	<u>Item No.</u>	<u>CFDA No.</u>	<u>Questioned Costs</u>
LIPH	98-07	14.182 <u>Criteria:</u>	\$ -

Refunds should be processed on a timely basis.

Condition:

The tenant, Ana Quichocho, vacated the unit on May 5, 1986 but the refund of security deposit was not processed on a timely basis.

Cause:

There was an employee turnaround and resulted in a backlog. There was a time when the department wanted to clear the accounts which resulted in the processing of this check.

Effect:

There is no effect on the financial statements as a result of this condition.

Recommendation:

We recommend that the Authority establish internal control policies and procedures to ensure that tenants are properly out-processed upon termination or eviction and any monies due to or payable by the tenant are remitted in a timely manner.

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Schedule of Findings and Questioned Costs

Year Ended September 30, 1998

<u>Program</u>	<u>Item No.</u>	<u>CFDA No.</u>		<u>Questioned Costs</u>
LIPH	98-07	14.182	<u>Auditee Response/Corrective Action Plan:</u>	\$ -

We agree with the finding. A listing of all outstanding security deposits will be obtained periodically from the Agency's management information systems and fiscal divisions. This listing will be reviewed for any former tenants. The files of those former tenants will then be reviewed to determine the necessary documentation required for final disposition of the security deposit.

GUAM HOUSING AND URBAN RENEWAL AUTHORITY

Schedule of Findings and Questioned Costs

Year Ended September 30, 1998

<u>Program</u> <u>Costs</u>	<u>Item No.</u>	<u>CFDA No.</u>		<u>Questioned</u>
Sec 8 E	98-8	14.857	<u>Criteria:</u>	\$ -

Payments to landlords should be made on a timely basis.

Condition:

A landlord was not paid within the month due because of a prorated rent calculation. The pro-rated rent was manually calculated and keyed into the system. This transaction did not meet the cutoff date therefore the payment was not made in the appropriate month.

HAP#:	6266
Landlord:	Gozum Painting Co.
CK# 578251	\$986.00

Cause:

The transaction was not keyed into the system before the initialization process (monthly closing), therefore the check was not printed until the following month.

Effect:

There is no effect on the financial statements as a result of this condition.

Recommendation:

All HAP adjustments should be made and entered into the system in a timely manner.

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Schedule of Findings and Questioned Costs

Year Ended September 30, 1998

<u>Program</u>	<u>Item No.</u>	<u>CFDA No.</u>		<u>Questioned Costs</u>
Sec 8 E	98-8	14.857	<u>Auditee Response/Corrective Action Plan:</u>	\$

We agree with the finding. The pro-ration was the balance owed to the Landlord due to an interim adjustment not being canceled from the system, which resulted in the difference and delay in payment to the landlord. All HAPs and CCAs have been notified to follow up with the execution of all adjustments and to ensure that the adjustments have been entered into the system. A CCA has been designated to monitor quality assurance in this area.

Questioned

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Schedule of Findings and Questioned Costs

Year Ended September 30, 1998

<u>Program</u>	<u>Item No.</u>	<u>CFDA No.</u>		<u>Costs</u>
Sec 8 E	98-9	14.857	<u>Criteria:</u>	\$ -

Interim adjustments made for Total Tenant Payments (TTP's) should be independently reviewed and approved.

Condition:

An interim adjustment for HAP #6266 was made in January 1998, but was cancelled and not corrected within the Tenmast software system. The error was not detected and refunded until April 1998.

Cause:

Internal control policies and procedures have not been established and implemented to ensure at all adjustments to TTP's are independently reviewed and approved prior to being keyed-in the Tenmast software system.

Effect:

There is no effect on the financial statements as a result of this condition.

Recommendation:

Internal control policies and procedures should be established and implemented to ensure all adjustments to TTP's are independently reviewed and approved prior to being keyed-in the Tenmast software system.

<u>Program</u>	<u>Item No.</u>	<u>CFDA No.</u>		<u>Questioned Costs</u>
Sec 8 E	98-9	14.857	<u>Auditee Response/Corrective Action Plan:</u>	\$ -

GUAM HOUSING AND URBAN RENEWAL AUTHORITY

Schedule of Findings and Questioned Costs

Year Ended September 30, 1998

We agree with this finding. The tenant did not sign forms for the adjustment when it was canceled, and the data was not adjusted on the system. All HAPs and CCA's have been notified to follow up with the execution of all adjustments and to ensure that the adjustments have been entered into the system. A CCA has been designated to monitor quality assurance in this area.

<u>Program</u>	<u>Item No.</u>	<u>CFDA No.</u>	<u>Questioned Costs</u>
Sec 8 E	98-10	14.857	\$ -

Complete information should be obtained when receiving payments from clients.

Condition:

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Schedule of Findings and Questioned Costs

Year Ended September 30, 1998

Cash receipt #11325 dated 10/15/97 from Taitano Rental in the amount of \$1,236 could not be tested due to lack of information for the HAP number. The tenant cannot be traced based on the information noted.

Cause:

The payment is made without documents or the client does not have the information needed. The Auditee contacted the Landlord when inquired of this finding. Unfortunately, the landlord has no records because they were destroyed by Typhoon Paka.

Effect:

There is no effect on the financial statements as a result of this condition.

Recommendation:

Cashier policies and procedures should be established to ensure that sufficient information is obtained at the time payment is received from or on behalf of tenants for adequate posting.

<u>Program</u>	<u>Item No.</u>	<u>CFDA No.</u>	<u>Questioned Costs</u>
Sec 8 E	98-10	14.857	
		<u>Auditee Response/Corrective Action Plan:</u>	\$ -

Effective immediately, the Auditee will implement the following steps to ensure that this finding will not recur:

1. Fiscal Division staff will forward to the Housing Services Manager a copy of the GHURA Weekly Program Report. Section 8 staff will verify the Landlord(s) transactions against our files/computer screen. After verification, the copy will be returned to the Controller before

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Schedule of Findings and Questioned Costs

Year Ended September 30, 1998

the next initialization period. This will double check the amounts, HAP numbers, and tenants involved in the transaction (s).

2. The information requested on the attached form will be filled out by the Landlords and will be submitted with their payments. This will ensure that the names of tenants and their HAP numbers are listed so that Section 8 staff can verify accuracy against files/computer screen information.

<u>Program</u>	<u>Item No.</u>	<u>CFDA No.</u>	<u>Questioned Costs</u>
Sec 8 E	98-11	14.857 <u>Criteria:</u>	\$ -

Promissory notes should be collected on a timely basis.

Condition:

Five (5) out of the 25 or 20% of the cash receipts tested, we noted the following promissory notes were not accounted for within the accounting records.

<u>Name</u>	<u>Receipt No.</u>	<u>Amount</u>
1.Theodora Ngiramolay	11986	\$ 341.00

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Schedule of Findings and Questioned Costs

Year Ended September 30, 1998

2. Ireneo Pascual	12566	\$ 127.00
3. Teresita San Nicolas	13103	\$ 66.00
4. Maria M. Muna	11509	\$ 100.00
5. Annie P. Jackson aka Peredo	12678	\$ 273.00

Prior to 1993, there was a tracking mechanism for the promissory notes. Upon implementation of the Tenmast system in 1994, it was thought the system is capable of keeping track of promissory notes. The Fiscal Division concluded that it was a tedious process to input the information; therefore the responsibility was given to the HAP specialist. Therefore, each HAP specialist keeps track of his or her own promissory notes. Consequently, the promissory notes were not inputted in the accounting records. We were not able to ascertain the number and amount of promissory notes outstanding and not recorded in the accounting records.

Cause:

The Authority has not established internal policies and procedures to ensure that promissory notes are properly accounted for.

<u>Program</u>	<u>Item No.</u>	<u>CFDA No.</u>	<u>Questioned Costs</u>
Sec 8 E	98-11	14.857	
		<u>Effect:</u>	\$ -

Receivables are immaterially understated as a result of this condition.

Recommendation:

We recommend that the Authority identify all outstanding promissory notes due from tenants and recognize a receivable for such amounts due from tenants and landlords. Internal control policies and procedures should be established to ensure promissory notes are properly accounted for.

Auditee Response/Corrective Action Plan:

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Year Ended September 30, 1998

We agree with this finding. Prior to 1993, the Fiscal Division entered promissory notes into a ledger. Since the conversion to computer data entries, these manual ledgers were discontinued. There were no set procedures to track these promissory notes on a monthly basis. A new procedure has been established. Photocopies of promissory notes entered into with tenants and landlords must be placed in a designated folder. These promissory notes will be tracked by the Contract Control Analyst in charge of quality assurance for the Section 8 program.

<u>Program</u>	<u>Item No.</u>	<u>CFDA No.</u>	<u>Questioned Costs</u>
Sec 8 V	98-12	14.855 <u>Criteria:</u>	\$ -

All checking accounts should be reconciled on a monthly basis.

Condition:

The Bank of Guam account #0601-011267 was not properly reconciled to the attendant general ledger account at September 30, 1998. This was not properly reconciled until May 1999.

Cause:

The difference is due to some checks being voided in the system but it is not reflected in the bank reconciliation.

Effect:

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Schedule of Findings and Questioned Costs

Year Ended September 30, 1998

There is no material effect on the financial statements as a result of this condition.

Recommendation:

We recommend that the Authority establish internal control policies and procedures to ensure that all checking accounts are properly reconciled and independently reviewed and approved in a timely manner.

<u>Program</u>	<u>Item No.</u>	<u>CFDA No.</u>	<u>Questioned Costs</u>
Sec 8 V	98-12	14.855	<u>Auditee Response/Corrective Action Plan: continued</u> \$ -

We are aware of and agree that general ledger control accounts, especially cash, should be reconciled to supporting subsidiary detail (bank reconciliation) on a monthly basis. A monthly review checklist, which incorporates this procedure, has been in place and is completed for each general ledger program by the designated accountant. The timely review and monitoring of the checklists and general ledgers was implemented effective during the beginning of fiscal year (FY) 1999. Responsibility for this task has been permanently assigned to the Accountant II, a position which was filled in FY 1999. This will help to prevent similar future incidents from recurring.

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Schedule of Findings and Questioned Costs

Year Ended September 30, 1998

<u>Program</u>	<u>Item No.</u>	<u>CFDA No.</u>	<u>Questioned Costs</u>
Sec 8 Mod Rehab	98-13	14.856	

Criteria:

\$ -

Refunds to tenants and/or landlords should be processed and made on a timely basis.

Condition:

Check #2684 in the amount of \$635 paid to Mr. Benigno P. Palomo is processed one year after the claim was made. The payment was remitted eleven (11) months subsequent to the tenant's termination.

Cause:

The cause of this condition is unknown.

Effect:

There is no effect on the financial statements as a result of this condition.

Recommendation:

We recommend that the Authority should establish and implement policies and procedures to ensure that all refunds to tenants and/or landlords are processed and made in a timely manner.

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Year Ended September 30, 1998

Auditee Response/Corrective Action Plan:

We agree with this finding. The damage claim was processed by staff eleven (11) months after the termination date. The delay in processing was due to staff turnover and the landlord not following up on the claim.

<u>Program</u>	<u>Item No.</u>	<u>CFDA No.</u>	<u>Questioned</u>
<u>Costs</u>			
CDBG	98-14	14.219	
Sec 8 E		14.857	
Sec 8 V		14.855	
Mod Rehab		14.856	
LIPH		14.182	
		<u>Criteria:</u>	\$ -

All travel expenses should be submitted and recorded on a voucher and should be documented in accordance with OMB Circular A-87.

Condition:

In one (1) of the 15 items selected, there are no supporting documents attached to the travel expense report. The Fiscal Department could not locate the travel expense report with the supporting documents when it was requested. The travel expense report was prepared when the auditors requested the documents.

Employee: Evangeline M. Cepeda
Destination: Saipan
Date: February 16 – 20, 1998
APV# 98-02-50, Feb. 13, 1998

Cause:

The Authority did not adhere to its existing policies and procedures to ensure all travel documentation is obtained, reviewed and approved prior to disbursement.

Effect:

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Schedule of Findings and Questioned Costs

Year Ended September 30, 1998

There is no effect on the financial statements as a result of this condition.

<u>Program</u>	<u>Item No.</u>	<u>CFDA No.</u>	<u>Costs</u>	<u>Questioned</u>
CDBG	98-14	14.219		
Sec 8 E		14.857		
Sec 8 V		14.855		
Mod Rehab		14.856		
LIPH		14.182		
<u>Recommendation:</u>				\$ -

We recommend the Authority adhere to its existing policies and procedures to ensure that all disbursements are documented in accordance with OMB Circular A-87 and that all travel documentation is obtained, reviewed and approved prior to disbursement.

Auditee Response/Corrective Action Plan:

We disagree with the finding. The trip expense documents for the individual may have been misplaced during the year or during the course of the audit engagement. The trip expense report for the traveler has been completed. Effective FY 1999, to minimize the probability of similar future incidents from recurring, all travelers will be reminded to submit the documents directly to the Accounting Technicians Supervisor, who will be the staff person permanently in charge of clearing all Agency travels.

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Year Ended September 30, 1998

<u>Program</u>	<u>Item No.</u>	<u>CFDA No.</u>		<u>Questioned</u>
<u>Costs</u>				
Other	98-15	N/A	<u>Criteria:</u>	\$
	-			

Bank accounts should be reconciled to the general ledger balances on a monthly basis. The bank interest earned should be recognized and recorded in a timely manner.

Condition:

Interest income earned during October 1997 through August 1998, which totaled \$5,822.25, was not recorded in a timely for the following bank accounts:

<u>Bank Account No.</u>	<u>Amount</u>
601005804	\$ 5,703.34
38-010107	81.40
38-046853	<u>37.51</u>
Total	<u>\$ 5,822.25</u>

Cause:

The interest was not posted on a monthly basis for the months of December 1997 to August 1998. This was corrected by the Auditee on May 1999.

Effect:

There is no effect on financial statements as of September 30, 1998 as a result of this condition.

Recommendation:

Bank accounts should be reconciled monthly and interest income earned should be recognized on a monthly basis.

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Schedule of Findings and Questioned Costs

Year Ended September 30, 1998

<u>Program</u>	<u>Item No.</u>	<u>CFDA No.</u>	<u>Questioned Costs</u>
Other	98-15	N/A	<u>Auditee Response/Corrective Action Plan: continued</u> \$ -

We are aware of and agree that general ledger control accounts, especially cash, should be reconciled to supporting subsidiary detail (bank reconciliation) on a monthly basis. A monthly review checklist, which incorporates this procedure, has been in place and is completed for each general ledger program by the designated accountant. The timely review and monitoring of the checklists and general ledgers was implemented effective during the beginning of fiscal year (FY) 1999. Responsibility for this task has been permanently assigned to the Accountant II, a position which was filled in FY 1999. This will help prevent similar future incidents from recurring.

<u>Program</u>	<u>Item No.</u>	<u>CFDA No.</u>	<u>Questioned Costs</u>
LIPH	98-16	14.182	
CDBG		14.219	

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Schedule of Findings and Questioned Costs

Year Ended September 30, 1998

SEC 8 V	14.855		
SEC 8 E	14.857		
Mod Rehab	14.856	<u>Criteria:</u>	\$ -

The Authority is required to maintain a Financial Management System to support its budget, accounting and financial management reporting process to support budget, accounting, programmatic and financial management reporting processes.

Condition:

We noted that the Authority was not recording transactions to the general ledgers in a timely manner. Program expenditures were not being reconciled between the fiscal and program divisions and financial statements were not being prepared on a timely basis.

Furthermore, we noted that the Authority has developed and maintains various electronic and manual financial databases and sub-systems to augment its existing accounting software. These databases and subsystems have become cumbersome and appear to create redundancy resulting in an inefficient and ineffective financial management reporting system.

Cause:

The Authority has not developed a financial management system to summarize, classify and produce timely reliable financial information.

Effect:

The Authority is not able to produce timely financial information to account for and report federal program expenditures.

<u>Program</u>	<u>Item No.</u>	<u>CFDA No.</u>	<u>Questioned Costs</u>
LIPH	98-16	14.182	
CDBG		14.219	
SEC 8 V		14.855	

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Schedule of Findings and Questioned Costs

Year Ended September 30, 1998

SEC 8 E	14.857		
Mod Rehab	14.856	<u>Recommendation</u>	\$ -

We recommend that the Authority establish and implement a financial management system (FMS) to reflect a financial information classification structure which provides for tracking of specific program expenditures and covers financial and financially related information. This structure should minimize data redundancy, ensure that consistent information is collected for similar transactions throughout the Authority, encourage consistent formats for entering data directly into the FMS, and ensure that consistent information is readily available and provided to program managers with the organization. The FMS's design should support the Authority's budget, accounting, and financial management reporting processes by providing consistent information for budget formulation, budget execution, programmatic and financial management, performance measurement and financial statement preparation. Further, we recommend that existing accounting and financial processes be examined to reduce redundancies and duplication of efforts performed in order to streamline workflow to enhance financial operations and employee performance.

Auditee Response/Corrective Action Plan:

We agree with the finding in that the Agency needs to assess its current processes and philosophies regarding its financial management system. Maintaining duplicate systems through the use of databases are not only burdensome, but represent an inefficient use of staff resources. Due to the maintenance of such duplicate systems, the priority placed on the Agency's general ledger was rendered subordinate in order to carry out reconciliation projects and other priorities.

<u>Program</u>	<u>Item No.</u>	<u>CFDA No.</u>	<u>Questioned Costs</u>
LIPH	98-16	14.182	
CDBG		14.219	
SEC 8 V		14.855	
SEC 8 E		14.857	
Mod Rehab		14.856	<u>Auditee Response/Corrective Action Plan: continued</u> \$ -

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However, the general ledger has now been established as a top priority by management and a concerted effort to complete the Agency's general ledgers is now being emphasized. Once the general ledger is kept and maintained on a current basis, information, including reports, will be available to the Agency's managers so that better and more informed decisions can be made on a timely basis.

In addition, the Troubled Agency Recovery Center (TARC) has contracted a firm to provide technical assistance in selecting a financial management system. A new financial management system is expected to be in place by June 2000.

<u>Program</u>	<u>Item No.</u>	<u>CFDA No.</u>	<u>Questioned Costs</u>
LIPH	98-17	14.182	
CDBG		14.219	
SEC 8 V		14.855	
SEC 8 E		14.857	
Mod Rehab		14.856 <u>Criteria:</u>	\$ -

All Journal vouchers should be reviewed and properly approved by a level of management above the preparer of the journal voucher. Further, all journal

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vouchers should have adequate supporting documentation to substantiate transactions.

Condition:

During our review of nonrecurring journal vouchers posted to the general ledger throughout the year, we noted that numerous journal entries were prepared and approved by the initiator of the journal voucher. In many instances, staff accountants were preparing, approving and posting journal entries to the general ledger. Various journal vouchers lacked supporting documentation to substantiate transactions. Upon further inquiry, we were able to obtain such supporting documentation; however, there is no assurance that all journal vouchers are independently reviewed, approved and properly supported by underlying documentation.

Cause:

The Authority has not established and implemented internal controls to ensure that all journal vouchers are adequately documented, independently reviewed and approved prior to being recorded in the general ledger.

<u>Program</u>	<u>Item No.</u>	<u>CFDA No.</u>	<u>Questioned Costs</u>
LIPH	98-17	14.182	
CDBG		14.219	
SEC 8 V		14.855	
SEC 8 E		14.857	
Mod Rehab		14.856 <u>Effect:</u>	\$ -

There is a potential for transactions to be initiated without proper approval. Additionally, a potential risk exists for fraudulent financial reporting and misappropriation of assets.

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Year Ended September 30, 1998

Recommendation:

We recommend that the Authority establish and implement internal control policies and procedures to ensure that all journal vouchers are independently reviewed and approved by persons other than the preparer prior to posting in the general ledger. This review and approval should be documented on the journal voucher. Additionally, all journal vouchers should be supported by sufficient documentation to substantiate the transaction, which should be attached to the journal voucher.

Auditee Response/Corrective Action Plan:

We agree with the recommendation. Staff accountants will continue to prepare and post journal entries to the general ledger. They will be required to attach a journal posting report to ensure entries were entered appropriately. All future Manual Journal Vouchers (MJVs) will be reviewed and approved by either one of the following supervisors: Accountant II, General Accounting Supervisor or Controller. Appropriate changes will be made in the Authority's Accounting Manual. In addition, our accounting manual will be updated to reflect this change in policy.

<u>Program</u>	<u>Item No.</u>	<u>CFDA No.</u>		<u>Questioned</u> <u>Costs</u>
Astumbo	98-18	N/A	<u>Criteria:</u>	\$ -

Accounts receivable should be reconciled to subsidiary ledgers on a periodic basis.

Condition:

The Astumbo Project does not maintain any cash or accounts receivable general ledger accounts. All cash received from property sales are deposited in the Revolving Fund and amounts due to and due from the revolving fund flow through accordingly. While testing the Astumbo Project, we obtained the account receivable subsidiary ledgers and accumulated the

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customer outstanding balances, which totaled \$73,756.85 as of September 30, 1998. However, we were not able to agree this amount to the general ledger for the same period since a control account is not maintained. The Fiscal division merely tracks the cash receipts while the Community Planning Division tracks the property sales and customer balances. Consequently, there appears to be no control over the accounts receivable resulting from property sales of the Astumbo Project.

We also noted that all of the individual account balances were outstanding in excess of 120 days and numerous account balances have been outstanding in excess of 365 days. Therefore, it appears that the existing Astumbo Project receivable is very doubtful and may not be collectible.

Cause:

The Authority has not established an internal control procedure to properly account for receivables resulting from Astumbo property sales in the general ledger.

<u>Program</u>	<u>Item No.</u>	<u>CFDA No.</u>		<u>Questioned</u> <u>Costs</u>
Astumbo	98-18	N/A	<u>Effect:</u>	\$ -

The Authority is not able to monitor, control and financially report on its Astumbo accounts receivable as a result of this condition.

Recommendation:

We recommend that the Fiscal Division perform all accounting functions relating to Astumbo receivables. A control account should be established in the general ledger to account for receivables due from property sales. A detailed reconciliation should be performed on total property sales and cash receipts, comparing such to subsidiary ledgers account balances to ascertain the amount to be recorded in the general ledger.

The property sales are supported by promissory notes, which have enforceable clauses for non-payment of any amounts due. Existing delinquent

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accounts should be assessed interest on the outstanding balances in excess of 30 days until such account balances are brought back into a current status. Outstanding receivables should be reviewed for proper valuation, as certain receivables may not be collectible.

Auditee Response/Corrective Action Plan:

The Astumbo program is and has been accounted for under the cash basis of accounting since its inception several years ago. Once the promissory note balances or payments are received, related sales and interest income are recognized for accounting purposes. Receivables were not recognized by either the Agency or its independent auditors in prior years, presumably due to the uncertain nature of collection on real estate transactions.

<u>Program</u>	<u>Item No.</u>	<u>CFDA No.</u>	<u>Questioned Costs</u>
Astumbo	98-18	N/A	<u>Auditee Response/Corrective Action Plan: continued</u> \$ -

Since the Agency has not enforced the terms of the promissory note agreement for the real estate transactions, the enforceability of the agreement itself is also in doubt. Form over substance itself does not predicate the recognition of receivables on real estate transactions, which may never be consummated.

Since the Agency has converted to a GAAP basis of accounting, effective for the fiscal year ending September 30, 1999, this area has been already addressed.

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<u>Program</u>	<u>Item No.</u>	<u>CFDA No.</u>	<u>Questioned Costs</u>
LIPH	98-19	14.182 <u>Criteria:</u>	\$ -

The Authority is required to establish and maintain an internal control system over federal programs to provide reasonable assurance regarding the achievement of objectives for federal programs to ensure that transactions are properly recorded and accounted for, to permit the preparation of reliable financial statements and federal reports, to maintain accountability over assets and to demonstrate compliance with laws, regulations and other compliance requirements.

Condition:

In our attempt to perform the closeout audits of various modernizations, we noted that numerous discrepancies in the amounts reported on the Performance and Evaluation Reports (PER) with amounts recorded in the general ledger. The aggregate difference approximated \$500,000 among the various modernization projects. The Authority was not able to reconcile the Comprehensive Grant Program (CGP) and the Comprehensive Improvement Assistance Program (CIAP) projects between the Fiscal and Modernization Divisions. Consequently, it appears that the PER's do not

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accurately report program expenditures and available balances. The PER's are mainly prepared by the Modernization Coordinator based on information contained in an electronic file database. There is no apparent attempt to coordinate the reconciliation and reporting of CIAP and CGP program expenditures between the Modernization and Fiscal Divisions. As a result of this condition, the various projects are misstated and will have to be reconciled. However, the aggregate account balance for the CGP and CIAP programs is not misstated, as misstatements are at the project level.

<u>Program</u>	<u>Item No.</u>	<u>CFDA No.</u>		<u>Questioned Costs</u>
LIPH	98-19	14.182	<u>Cause:</u>	\$
-				

Amounts were incorrectly coded and classified by the Fiscal Division. The Modernization Division moved expenditures from one project to another without properly notifying the Fiscal Division in a timely manner. The Authority has not established internal control procedures to coordinate the performance of monthly reconciliation of expenditures reported on the PER to the general ledger accounts and to LOCCS.

Effect:

Transactions are not being properly accounted for and reported for federal programs, therefore, the Authority is in noncompliance with federal requirements as a result of this condition.

Recommendation:

We recommend that the Authority establish and implement internal controls to ensure that CGP and CIAP expenditures are reconciled on a monthly basis. This reconciliation process should also include reconciling expenditures to draw downs made in LOCCS. Prior to modernization projects being approved for funding, the specific funding source

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should be identified and the Fiscal Division should be duly notified in order to establish the account for recording related expenditures and to ensure that reimbursements are drawn down from the appropriate LOCCS accounts. Amounts reprogrammed, moved and charged to other projects by the Modernization Coordinator should be provided to the Fiscal Division, in writing, upon transfer. Additionally, the PER's should be prepared from amounts recorded in the general ledger.

<u>Program</u>	<u>Item No.</u>	<u>CFDA No.</u>		<u>Questioned Costs</u>
LIPH	98-19	N/A	<u>Recommendation: continued</u>	\$ -

If the Modernization Coordinator continues to prepare the PER, amounts reported therein should be agreed to the general ledger account balances prior to report submission to ensure expenditures are accurately reported and supported by general ledger account balances for the reporting period. Furthermore, we recommend that the Authority reconcile the existing \$500,000 discrepancy in order to close-out completed CIAP and CGP projects.

Auditee Response/Corrective Action Plan:

We agree with the finding's recommendations. Over the years, there has been a lack of communication and coordination between the Fiscal Division and the Modernization Coordinator, which has contributed to the aforementioned condition. An extensive effort is now being made by the Fiscal Division and the Modernization Program Coordinator to work together in ensuring that coding and all other aspects of the financial management system are as accurate as possible. Also, regular periodic reports will be the basis for preparation of the periodic Modernization reports that are submitted to HUD for each CGP grant year.

Further, these periodic reports will be matched with LOCCS/VRS reports to ensure that all expenditures and drawdowns are reconciled on a monthly basis.

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Year Ended September 30, 1998

As for current and prior grant years, these are in the process of being reconciled and necessary reclassifications will be posted to reflect the expenditures in the appropriate grant year. The reclassifications should be posted within the current month.

<u>Program</u>	<u>Item No.</u>	<u>CFDA No.</u>	<u>Questioned Costs</u>
LIPH	98-20	14.182 <u>Criteria:</u>	\$ -

The objective of the Comprehensive Grant Program (CGP) is to improve the physical quality of housing provided to low-income households through modernization and development. Specifically, capital improvements, major repairs, management improvements, and related planning costs are funded through CGP. The PHA draws down funds as needed to pay for accepted work through the Line of Credit Control System, Voice Response System (LOCCS/VRS). CGP funds drawn down should be charged to the appropriate grant year and recorded in the applicable general ledger account.

Condition:

Based on review of modernization expenditures and related payment vouchers, we noted that certain allowable expenditures recorded in general ledger project/grant accounts that differed from the accounts drawn down from under LOCCS. Specifically, for voucher number 028-171839 totaling \$286,536.47, dated April 30, 1998, we noted the following:

<u>Acct Charged Per LOCCS</u>	<u>Amt Per LOCCS</u>	<u>Amt Per G/L</u>	<u>G/L Acct Charged</u>
GQ08P00170797	\$178,816.72	\$178,816.72	1460.001701~6
GQ08P00170797	68,129.87	68,129.87	1410.19001705
GQ08P00170797	38,218.00	38,218.00	1450.003702~6
GQ08P00170797	<u>1,371.88</u>	<u>1,371.88</u>	1410.19001705
Total	<u>\$286,536.47</u>	<u>\$286,536.47</u>	

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<u>Program</u>	<u>Item No.</u>	<u>CFDA No.</u>	<u>Questioned Costs</u>
LIPH	98-20	14.182 <u>Condition: continued</u>	\$ -

As a result of the above, it appears that the grantee improperly drew down federal funds from the wrong grant year and project, as the amounts should have been drawn from GQ08P00170595 rather than GQ08P00170797. This is not allowable under 24 CFR Part 85 and the Common Rule federal regulations. Consequently, the grantee is in noncompliance with federal program regulations requiring allowable expenditures to be charged to and drawn down from eligible grant awards.

Cause:

The Authority has established internal control policies and procedures to adhere to the requirements for grant accounting and reporting.

Effect:

The grantee is in noncompliance with federal requirements as a result of this condition.

Recommendation:

Reimbursements for eligible expenditures should be charged to and drawn down from the appropriate general ledger accounts and LOCCS grant project. Modernization program funds received on a project/grant basis should not be used to reimburse other federal grant projects for expenditures incurred. Program expenditures incurred should be specifically identified and requested for reimbursement from the Federal government on an individual project basis.

We recommend that management develop internal control policies and procedures to ensure that the Fiscal Division is capable to demonstrate the ability of the

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<u>Program</u>	<u>Item No.</u>	<u>CFDA No.</u>	<u>Questioned Costs</u>
LIPH	98-20	14.182 <u>Recommendation: continued</u>	\$ -

Authority to show that amounts claimed for reimbursement on payment vouchers accurately reflects the accounting books and records from which they were prepared. We recommend that the Authority prepare a detailed analysis and reconciliation of itemized program expenditures incurred and related federal funds drawn down for each reimbursement. This reconciliation process should reconcile the applicable general ledger accounts balances to those reimbursed from and reflected in the associated LOCCS balances. This will also facilitate GHURA's CGP grant close-out process.

Auditee Response/Corrective Action Plan:

The Agency is now tracking all current disbursements and is attempting to draw down payment requests for the federal grant programs on a timelier basis. Since the above draw down was made, both the modernization and the Fiscal Divisions have been coordinating efforts to ensure that sound Federal financial management procedures are followed. This includes that all payment requests for grant draw downs have been identified and reviewed by the modernization coordinator. This system has been in place for the last several months.

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Schedule of Findings and Questioned Costs

Year Ended September 30, 1998

<u>Program</u>	<u>Item No.</u>	<u>CFDA No.</u>	<u>Questioned</u> <u>Costs</u>
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All programs	98-21	<u>Criteria:</u>	\$ -
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Housing Authorities are permitted to pool funds from various sources to enhance efficiency and facilitate program operations. Pooling of funds is accomplished by the use of either a revolving fund or master account. The use of a revolving fund or master account results in "due to/due from" transactions between the books of account for the revolving fund of the master account and the books of account for contributing program or business activity. The "due to/due from" accounts in the respective general ledgers of the revolving fund account and the contributing programs or business activities must be reconciled at the end of each reporting period to ensure that they are in balance.

Condition:

Based on review of the Revolving Fund's general ledger, we noted amounts due from other programs totaled \$62,765,204.73 and amounts due to other programs totaled \$63,340,103.27 resulting in a difference of \$574,898.54 due to other programs. Correspondingly, we examined each program account's due to/due from revolving fund account balance and compared such to that of the Revolving Fund. With the exception of two (2) programs (CIAP 907 and 908), all program account balances did not agree to corresponding amounts recorded in the Revolving Fund. The aggregate net total of all programs amounts due to the Revolving Fund totaled \$5,260,824.21, which results in an un-reconciled balance of \$5,835,606.70 between the Revolving Fund and all programs. This amount represents cash due to other programs. We were not able to reconcile or determine the validity of the account balances beyond the current fiscal year, as historical documentation was not available for such purposes.

<u>Program</u>	<u>Item No.</u>	<u>CFDA No.</u>	<u>Questioned</u> <u>Costs</u>
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All programs	98-21	<u>Cause:</u>	\$ -
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Year Ended September 30, 1998

The Authority has established internal control policies and procedures to reconcile and properly account for amounts due to/due from the Revolving Fund.

Effect:

The grantee is in noncompliance with federal requirements for maintaining an adequate financial management system as a result of this condition.

Recommendation:

We recommend that the Authority establish and implement internal control procedures to reconcile the Revolving Fund due to/due from accounts on a periodic basis. Certain account balances at the program level are old and dormant accounts and consequently, the amounts reported as "due to" or "due from" the Revolving Fund may not be valid payables or receivables. With the subsequent mandated change from HUD accounting to generally accepted accounting principles (GAAP), it would be appropriate to analyze, reconcile, and write-off, if necessary, all unreconciled or unlocated differences between the Revolving Fund and Program "due to" and "due from" account balances.

After this procedure is performed, the "due to/due from" accounts in the respective general ledgers of the revolving fund account and the contributing programs or business activities should be reconciled at the end of each monthly reporting period or on a periodic basis throughout the fiscal year to ensure that they are in balance.

<u>Program</u>	<u>Item No.</u>	<u>CFDA No.</u>	<u>Questioned</u>
			<u>Cost</u>
All programs	98-21	<u>Auditee Response/Corrective Action Plan:</u>	\$ -

We agree with the finding. We are currently in the process of identifying variances between the inter-

GUAM HOUSING AND URBAN RENEWAL AUTHORITY

Schedule of Findings and Questioned Costs

Year Ended September 30, 1998

program balances due to and from the Agency's Revolving Fund. Since the Revolving Fund has been in existence for over twenty-five years, these differences represent the cumulative differences over the same period of time.

Our plan is to review the aforementioned transactions from the point at which the function of the Revolving Fund was automated. Data from the accounting software module should be accessible to identify all inter-program transactions occurring since that time. Once the transactions for this period have been reconciled, any remaining differences would be attributable to prior periods. However, due to the lack of detailed records maintained by the Agency for prior periods, the task of identifying let alone reconciling these remaining variances would be extremely difficult if not impossible.

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Total Questioned Costs

\$
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GUAM HOUSING AND URBAN RENEWAL AUTHORITY
Auditors' Comments on Audit Resolution Matters
Relating to the HUD Programs

GHURA has not taken corrective action on findings from the fiscal year 1997 audit report, as follows:

<u>Page</u>	<u>Finding Number</u>	<u>Status</u>
154	97-7	GHURA agreed with the finding for not having an approved indirect cost rate proposal or cost allocation plan. GHURA is working with a consultant to develop and submit such for HUD review and approval.
156	97-8	GHURA agreed with the finding. This finding relates to a high concentration of credit risk in excess of the FDIC insurance for cash deposits on hand at local banks and other financial institutions. This finding is considered unresolved as such existed as of September 30, 1998.
178	97-17	GHURA responded that corrective measures will be taken to conduct HQS inspections on all housing units. This finding relates to HQS not being performed in a timely manner. This finding is considered unresolved, as several instances of similar were noted during the 1998 audit.
198	97-27	This finding relates to proper accountability of inventory. GHURA agreed with this finding and indicated that physical observation of inventory would be conducted annually. This finding is considered unresolved, as the Maintenance Policies and Procedures Manual had not been updated and inventory records had not reconciled in a timely manner during the fiscal year ending September 30, 1998.

GUAM HOUSING AND URBAN RENEWAL AUTHORITY
Auditors' Comments on Audit Resolution Matters
Relating to the HUD Programs

GHURA has not taken corrective action on findings from fiscal year 1996 audit report, as follows:

<u>Page</u>	<u>Finding Number</u>	<u>Status</u>
145	96-9	GHURA disagreed with this finding, which dealt with a change order relating to architectural/engineering services for Asan 3B-1A and 3B2. The auditor stated that the additional work should have been sent out for bid. This finding is considered unresolved, as the cognizant agency has not made a determination on the resolution of this matter.
148	96-10	GHURA agreed with this finding. The auditor indicated that an architect/engineering firm was awarded a contract amendment for \$114,300 and that such had been previously performed. In a memorandum to the Board of Commissioners, it stated that a proposal had been submitted and never acted upon in the previous year. Although the work was never approved, the architect/engineering firm completed the proposed work. This finding is considered unresolved, as no corrective action has taken place as of September 30, 1998.
150	96-13	GHURA agreed with this finding. This finding relates to the discrepancy between the PHMAP Indicator #3 calculation and accounts receivable reconciliation. This finding is considered unresolved, as discrepancies still remain. GHURA is consulting with its housing software vendor to identify and resolve the on-going problem.
153	96-15	GHURA agreed with this finding. The auditor stated that the TAR generated from the TENMAST system did not appear to be reconciled with the Fiscal Division's accounts receivable balance. This finding is considered unresolved as GHURA is coordinating with TENMAST consultants and in-house MIS personnel to rectify the system error.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133

To the Board of Commissioners
Guam Housing and Urban Renewal Authority:

Compliance

We have audited the financial statements of Guam Housing and Urban Renewal Authority (GHURA), a component unit of the Government of Guam, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 1998. GHURA's major federal programs are identified in the Summary of Auditor's Results section on page 142 of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of GHURA's management. Our responsibility is to express an opinion on GHURA's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about GHURA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of GHURA's compliance with those requirements.

As described in items 98-16 and 98-20 in the accompanying Schedule of Findings and Questioned Costs, GHURA did not comply with requirements regarding reporting and cash management that are applicable to its Low Income Housing federal program. Compliance with such requirements is necessary, in our opinion, for GHURA to comply with requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, GHURA complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 1998. The results of our auditing procedures also disclosed other immaterial instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs.

Internal Control Over Compliance

The management of GHURA is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered GHURA's internal control over compliance with requirements that could have a direct and material effect on a major program in order to determine our auditing procedures for the purpose of expressing an opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance 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 compliance that, in our judgment, could adversely affect GHURA's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 98-16, 98-17, 98-19, 98-20 and 98-21.

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 of risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program 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 compliance 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, of the reportable conditions described above, we consider items 98-19 and 98-20 to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Guam Housing and Urban Renewal Authority as of and for the year ended September 30, 1998, and have issued our report thereon dated December 29, 1999. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards on page 139 is presented for additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended for the information of the management, the Board of Commissioners of the Guam Housing and Urban Renewal Authority, and federal awarding agencies. However, this report is a matter of public record and its distribution is not limited.

December 29, 1999
Agana, Guam