

GUAM RENTAL CORPORATION

SINGLE AUDIT REPORTS

FOR THE YEAR ENDED SEPTEMBER 30, 2000

**INDEPENDENT AUDITORS' 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 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, 2000 and have issued our report thereon dated August 29, 2001. 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 items 00-01 through 00-05. 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 items 00-02, 00-03, 00-04, and 00-05.

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, pass-through entities, the cognizant audit and other federal agencies and is not intended to be, and should not be, used by anyone other than the specified parties.

Agana, Guam
January 19, 2001

GUAM RENTAL CORPORATION

**SCHEDULE OF FINDINGS AND
QUESTIONED COSTS**

FOR THE YEAR ENDED SEPTEMBER 30, 2000

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Schedule of Findings and Questioned Costs Year Ended September 30, 2000

PART I - SUMMARY OF AUDIT RESULTS

Financial Statements

We have audited the basic financial statements of Guam Rental Corporation and issued an unqualified opinion.

Internal control over financial reporting:

- Material weaknesses were identified? ____yes x no

- Reportable conditions identified that are not considered to be material weaknesses? x yes ____ none reported

- Noncompliance material to financial statements noted? ____yes x no

The Guam Rental Corporation did not receive or expend any federal awards for the fiscal year ending September 30, 2000. Therefore, the Corporation did not have any major federal programs.

PART II - FINDINGS - FINANCIAL STATEMENTS

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 items 00-01 through 00-05.

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
00-01	Property and Equipment	\$ -

PART III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
00-02	Eligibility/Special Tests and Provisions	\$ -
00-03	Eligibility/Special Tests and Provisions	-
00-04	Eligibility/Special Tests and Provisions	-
00-05	Eligibility/Special Tests and Provisions	-

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00-01 Criteria:

Pursuant to the Guam Rental Corporation's (GRC) Board resolution dated November 30, 1992, a Self Insurance Fund (the Fund) was created as the basis for the GRC self insurance program and to set aside self insurance funds for the Lada Gardens and Guma As-Atdas housing projects. The Fund shall include amounts of revenues retained to cover losses from insurance related perils and investment income resulting from investment of fund proceeds. Premiums shall be paid or encumbered utilizing a premium of 0.665% for reinforced concrete structures, 1.01% for concrete hollow block structures and 2.65% for all others. Premiums shall be calculated on the estimate replacement value of the units and shall be adjusted annually for inflation by the percentage increase of inflation or 5%, which ever is lower. Management shall conduct an appraisal every three (3) years on one of each type of unit in the subdivision or complex. Management may cease making payments to the Fund in the event that the Fund's assets accumulate to a level of 35% of the value of the homes insured.

Condition:

Based on review of GRC's self-insurance program, the Fund has not been adequately funded. GRC has not conducted an appraisal on each type of unit in the Gardens and Guma As-Atdas housing subdivisions since 1996. As of September 30, 2000, the Fund's balance was \$536,790; however, we were not able to determine if this amount is sufficient to replace or make major renovation in the unlikely event of a significant peril such as a fire, earthquake or typhoon.

The last appraisal conducted was based on the land's intended use and future development which consisted of building 96 rental units. Based on that appraisal, the Corporation recorded in its books the value of land at \$5,230,000. As of September 30, 2000, there were only twenty-four (24) rental units constructed. An appraisal of this property has not been conducted since June 1995.

Cause:

The management failed to conduct the tri-annual appraisal on each type of unit in the Lada Gardens and Guma As-Atdas housing.

Effect:

The Corporation's Self Insurance Fund may not be properly funded and hence, exposing the Corporation's assets to potential risks in the event of peril.

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Schedule of Findings and Questioned Costs Year Ended September 30, 2000

00-01 Recommendation:

We recommend that management comply with the Board Resolution and conduct the tri-annual appraisal to determine the appropriate level of funding necessary for the Corporation's self insurance program and to ensure that its assets are properly safeguarded and insured against perils.

Upon completion of the appraisal, we recommend that the accounting records be adjusted accordingly to reflect the most recent appraised value of the land based on its intended purpose and future development, if any.

Auditee Response/Corrective Action Plan:

GRC will be conducting an appraisal on the subject property. Appraisals, consistent with Board Policy should be conducted thereafter. The GHC's Housing Services Administrator is overseeing this process to provide for an appraisal of each type of unit at Lada Gardens (i.e. 3 units) and an appraisal of As Atdas that reflects the correct number of units on site.

00-02 Criteria:

Pursuant to the Chapter 5, Section 1, of the Handbook, GRC is required to recertify and adjust the Tenant's rent annually. Recertifications 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:

During our audit of the Corporation's tenant files, for five (5) or 20% of the twenty-five (25) files tested for recertification, we noted that the Certification/Recertification of Tenant Eligibility (Form 50059) was not in the tenant file nor was any other corroborating evidence to indicate that the following tenants were properly recertified:

Unit Number

120/238
136/231
199/264
115/236
227/270

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00-02 Cause:

It appears that the Senior Tenant Relations Advisor failed to adhere to established internal control policies and procedures to ensure that tenants are properly recertified on annual basis in accordance with Chapter 5, Section 1, of the Handbook.

Effect:

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

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 review of tenant files to ensure compliance with all Handbook regulations and other such compliance requirements. A tenant-tracking list should be developed and implemented to ensure all tenants are recertified on their respective anniversary date. Additionally, the above listed tenants should be immediately recertified to verify whether those tenants are still eligible for program participation or whether their rents should be adjusted.

Auditee Response/Corrective Action Plan:

Recertification of tenants continues to be conducted on an annual basis even if not on the month of the anniversary of occupancy. In view of the declining economic conditions of the island, and the information obtained in the recertification process, the GRC has lost no revenue as a result of this practice. The Senior Tenant Advisor, however, will conduct the recertification in accordance with Chapter 5 Section 1 of the GRC Handbook.

00-03 Criteria:

Family members' name and relationship should be stated on the Certification/Recertification of Tenant Eligibility (Form 50059) to document and determine household composition and whether the applicant is eligible for program participation in accordance with Chapter 2, Section 2, of the Handbook.

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Schedule of Findings and Questioned Costs Year Ended September 30, 2000

00-03 Condition:

During our audit of the Corporation's tenant files, for one (1) or 4% of the twenty-five (25) files tested for eligibility, we noted that the participant's household composition was not properly determined or verified. For the tenant residing in unit 120/227, Form 50059 indicated a household composition size of 8 individuals; however, the names, ages, and relationship were not listed or verified by birth certificates, social security numbers or any other such documentation.

Cause:

The Senior Tenant Relations Advisor failed to adhere to existing established written policies and procedures for verifying and documenting participant household composition prior to determining eligibility.

Effect:

The Corporation is in noncompliance with Chapter 2, Section 2, of the Handbook. The potential exist for the Corporation to make an incorrect determination of tenant eligibility, bedroom unit size, and tenant monthly rent.

Recommendation:

We recommend that the Corporation adhere to Chapter 2, Section 2, of the Handbook. Furthermore, we recommend Quality Assurance Officer perform periodic review of tenant files to ensure compliance with all Handbook regulations and other such compliance requirements. The participant's household composition should be properly verified by examination of income tax returns; social security records, birth certificates, child support records or some form of similar documentation. The information should be reflected on Form 50059 and properly maintained for independent review and verification.

Auditee Response/Corrective Action Plan:

On the only case in point the notation provided no material difference in the status of the residence occupation. Recertification should, however, incorporate such changes in the future, even if it does not result in a material change in the tenant's arrangements with the GRC. In this case, Form 50059 as submitted by tenant contained a complete listing of family members with their birth dates and social security numbers. Tenant was assigned unit based on family composition, which accorded then a 4-bedroom unit. However, after the move-in, the tenant's father came to Guam to reside with them, which still entitled them to a 4-bedroom unit or the largest unit GRC has available.

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00-04 Criteria:

In accordance with Chapter 4, Section 1 of the Handbook, the Corporation is required to execute the lease agreement upon tenant certification to participate in the housing program. The lease agreement should be signed and dated by both the head of household and spouse along with a duly authorized representative of the Corporation

Condition:

Of the 25 tenant files tested, 1 or 4% did not have a properly executed lease agreement. We noted that for the tenant residing in unit 120/227, the lease agreement was not signed and dated by an authorized representative of the Guam Rental Corporation.

Cause:

It appears that the Senior Tenant Relations Advisor failed to adhere to established internal control policies and procedures to ensure that lease agreements are properly executed on annual basis in accordance with Chapter 4, Section 1, of the Handbook.

Effect:

The Corporation does not have a valid lease agreement in effect for the above-mentioned tenant and is therefore in noncompliance with Handbook requirements.

Recommendation:

Management should sign lease agreement for proper execution. The Corporation should establish internal control policies and procedures to require independent review and verification of all of tenant eligibility determinations and to ensure that lease agreements are signed by the Resident Manager or its duly authorized representative.

Auditee Response/Corrective Action Plan:

This compliance issue is duly noted. It should also be stated that the GRC Tenant Relations Advisor did later have a lease instrument executed with inclusion of all required signatories.

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Schedule of Findings and Questioned Costs Year Ended September 30, 2000

00-05 Criteria:

Pursuant to Chapter 3, Section 6, § 3-18 of the Handbook, if an applicant is potentially eligible and acceptable but no units of the appropriate size are available at the time of initial application, the Corporation should place the family on a waiting list and inform the applicant that they will be notified upon availability of appropriately sized units. Anyone wishing to be placed on the waiting list or admitted to the project must complete application Form 50059 "Certification or Recertification of Tenant Eligibility."

Condition:

During our audit of the Corporation's tenant files, for 1 or 4% of the twenty-five files tested for eligibility, there was no initial application on-file for the tenant residing in unit #176/271. Additionally, the tenant was never entered on the Corporation's waiting list prior to be determined eligible for the program.

Cause:

It appears that the Senior Tenant Relations Advisor (TRA) failed to adhere to established internal control policies and procedures to ensure that each applicant complete an initial application and placed on the waiting list in the order in which they applied in accordance with the Handbook.

Effect:

The Corporation is in noncompliance with Chapter 3, Section 6, and § 3-18, of the Handbook. The potential exist for the Corporation to make an incorrect determination of tenant eligibility, bedroom unit size, and tenant monthly rent.

Recommendation:

We recommend that the TRA contact and have the abovementioned tenant complete the application Form 50059 to determine proper eligibility.

We also recommend that management establish and implement internal control policies and procedures to ensure that all applicants complete Form 50059 for proper eligibility determination and be placed on the waiting list in the order, date and preference in which they applied prior to being placed in a housing unit.

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Schedule of Findings and Questioned Costs Year Ended September 30, 2000

00-05 Auditee Response/Corrective Action Plan:

The compliance issue is noted but in the single case raised there was no material impact on eligible applicants being displaced from a rental opportunity. In the future, all requisite forms for certification should be completed to avoid similar concerns. It must be understood, however, that the Tenant Relation Advisor priority is keep all units occupied, filling the units first with persons from the waiting list, then accommodating other eligible persons.

It is necessary to understand that efforts to fill the unit in question had been unsuccessful with applicants from the waiting list. When the next-door neighbor, (the successful tenant's mother, with whom the applicant lived) asked if the unit was vacant it was acknowledged as so.