



Management Letter

Guam Housing Corporation
(A Component Unit of the Government of Guam)

September 30, 2012

Ernst & Young LLP



February 7, 2013

Management and the Board of Directors
Guam Housing Corporation

In planning and performing our audit of the financial statements of Guam Housing Corporation (the Corporation) as of and for the year ended September 30, 2012, in accordance with auditing standards generally accepted in the United States, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

During our audit, we noted the following deficiencies in internal control (as described above) and other matters:

Loan Documentation

Condition:

Our review of selected borrowers' file disclosed the following:

- ✚ Insurance policies of three borrowers had no typhoon insurance coverage and had no duly approved typhoon insurance waiver on file.
- ✚ Original loan file for one borrower is missing, therefore, was not available for our review. The Corporation created a temporary file with backup documents.

Loan Documentation, continued

Recommendation:

A periodic review of loan files should be performed and any exceptions should be remedied to minimize the Corporation's risk of loss.

Management's response:

For the insurance policies, typhoon waiver of one of the loans was submitted to the President for approval. The Corporation submitted requests to the insurance companies to include typhoon coverage for the remaining two loans. Currently, the Corporation awaits amended policies. A review will be conducted prior to the expiration of the current policies to ensure all requirements are met.

For the loan file, the aforementioned file was subpoenaed by the U.S. Attorney. A request was made, however, the file has yet to be returned. In the interim, the temporary file contains the documents necessary to service the account.

Rental Policy

Condition:

Of a sample of 25 tenants randomly selected for rental income testing, we noted the following:

- ✚ In accordance with Section 1.05 of the rental policy manual, all applicants for housing under the Corporation's rental program will be evaluated for unit assignment utilizing the family income and household composition. The gross household income may be adjusted periodically to ensure compliance with the Department of Housing and Urban Development (HUD) income limits for very-low to moderate income families. Based on our procedures performed, we noted that the Corporation does not regularly conduct re-certifications of tenant eligibility to ensure compliance with the income limits set forth by HUD.
- ✚ In accordance with Section 1.06 and 1.07 of the rental policy manual, the Federal Home Loan Bank established a grant requirement that the Corporation conduct re-certification of tenant eligibility and a verification of employment. Based on our review of the certification of tenant eligibility form, we noted that the Corporation does not regularly perform re-certifications.

Rental Policy, continued

Recommendation:

We recommend that the Corporation regularly conduct re-certifications to ensure that tenants are in compliance with eligibility requirements of the rental program.

Management's response:

The Corporation's rental units are not bound by the Department of Housing and Urban Development income limits. In this respect, this matter will be addressed to Board of Directors. The rent amounts are reviewed periodically by the Board of Directors.

The recertification of eligibility for the As-Atdas apartments is no longer a requirement as the eligibility period was over in July of 2010. We will address the removal of section 1.06 from the Rental Policy as it is no longer applicable.

Stale-dated Checks

Condition:

Based on our review of the bank reconciliations as of September 30, 2012, we noted checks totaling \$2,054 that have been outstanding for over six months.

Recommendation:

We recommend that the Corporation reverse all stale-dated checks.

Management's Response:

The stale dated checks consist of three paid-off customers. One of the customer's checks was voided in November 2012 and reissued. The other two will be reversed and further attempts will be made to verify the customer's address. If there is no success finding these customers, the amounts of the stale dated checks will be recorded as other income in fiscal year 2013.

We have separately reported in our letter dated February 7, 2013 addressed to the Corporation's Board of Directors certain matters involving internal control and its operation that we consider to be significant deficiencies under standards established by the American Institute of Certified Public Accountants.

This communication is intended solely for the information and use of the Board of Directors and management of the Guam Housing Corporation, the Office of Public Accountability, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public information.

We would be pleased to discuss the above matters or to respond to any questions, at your convenience.

Ernst + Young LLP