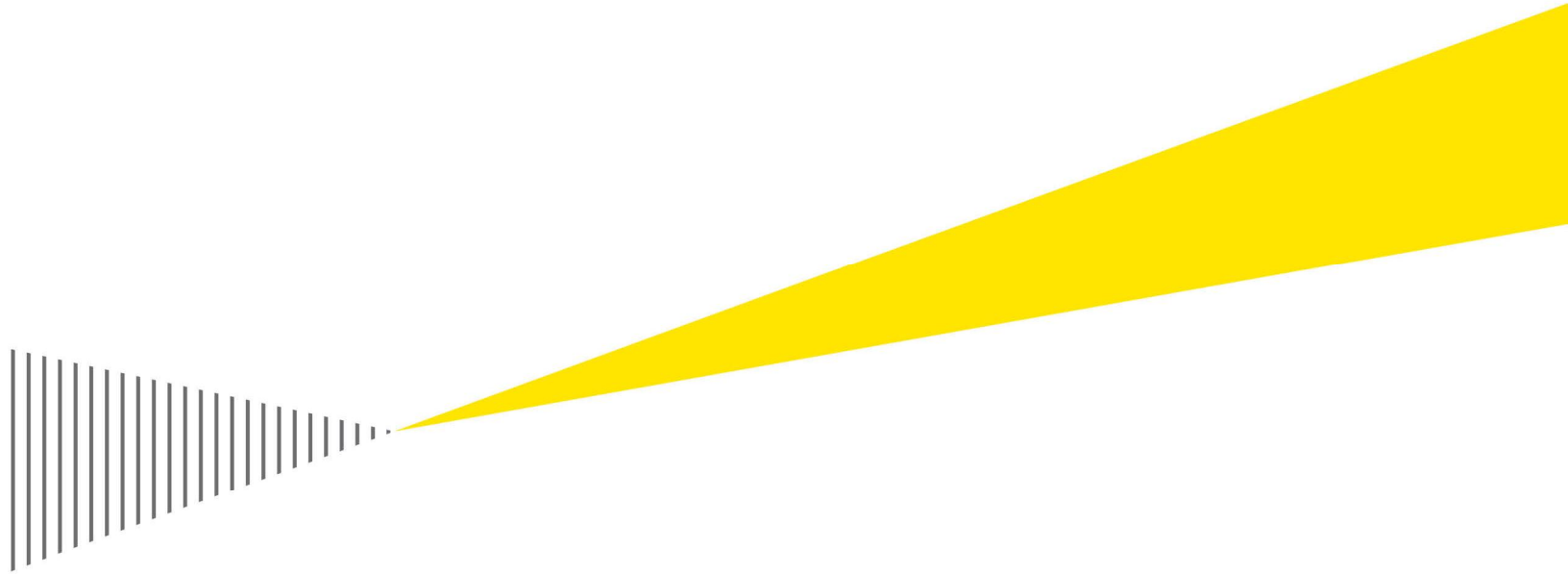


Management Letter

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

September 30, 2013



Building a better
working world

February 14, 2014

Management and the Board of Directors
Guam Housing Corporation

In planning and performing our audit of the financial statements of the Guam Housing Corporation (the Corporation) as of and for the year ended September 30, 2013, 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:

Allowance for Loan Losses

Condition:

In accordance with its loan policy, the Corporation should maintain an allowance for loan losses (ALL) of no less than 2% of the gross loan portfolio. The Corporation has no documentation that supports the basis for the aforementioned minimum ALL policy. A majority of these delinquent loans are fully secured by a first lien position on single family residential units. However, in determining the ALL, the Corporation did not measure the loss allowance as the difference between the carrying value of the loan and the fair value of the collateral less cost to sell as required by accounting principles generally accepted in the United States.

Allowance for Loan Losses, continued

Recommendation:

We recommend that management document its basis and rationale to maintain a 2% minimum ALL based on the gross loan portfolio. Additionally, we recommend that the Corporation consider fair value of collateral less cost to sell in determining the specific allowance to be provided on delinquent loans or loans near foreclosure.

Management's response:

The ALL was reduced in fiscal year 2013 from 3% to 2% of the loan portfolio, which remains a comfort level for the Board of Directors. Even though an analysis would show this amount could be reduced even further, the Board of Directors desires to hold firm at its current amount based on the lower quality loans the Corporation initiated.

Annual Leave

Condition:

For two of the 10 employees selected for testing, we noted that, during our review of the approved annual leave forms, certain annual leave hours taken were not recorded and the employees' annual leave balances were not updated. We were informed that these adjustments will be reflected in the fiscal year 2014.

Recommendation:

We recommend that the Corporation's management revisit its existing controls, particularly over the annual leave accrual process, to ensure the employees' annual leave hours taken are recorded.

Management's response:

Management have subsequently corrected the employees' respective leave records and have taken additional steps in monitoring time sheets and leave forms to ensure there are no further deficiencies.

First-Time Homeowner Assistance Program

Condition:

In January 2012, the Housing Trust Fund Act was signed into law as Public Law (P.L.) 31-166 which allowed eligible recipients of the program financial assistance of up to \$10,000 (4% of purchase price including down payment and closing costs amount maximum of \$250,000) to be used for down-payment assistance or closing cost.

First-Time Homeowner Assistance Program, continued

During our audit procedures on the Corporation's compliance with the P.L. 31-166 requirements, we noted the following:

- Section 4704 states that, if the applicant intends to purchase a home, the applicant must submit the certificate of title, warranty deed, policy of title insurance or other evidence of ownership by the intended seller. For one of the 15 disbursements selected for testing, the required document or evidence was not submitted by the applicant.
- Section 4704 (c) (1) states that, if the applicant intends to construct a home, the applicant must submit a certificate of title, policy of title insurance, warranty deed or other evidence of fee simple title, or lease to a Chamorro Land Trust lot, to the unimproved land intended for construction. One of the 15 disbursements selected for testing did not have the required document before the assistance was granted to the applicant.
- Section 4704 (c) (2) states that, if the applicant intends to construct a home, the applicant must submit construction plans and specifications certified by a licensed professional engineer or architect authorized to practice on Guam by the Professional Engineers, Architects, and Land Surveyors Board of Guam. Two of the 15 disbursements selected for testing did not have the required document before the assistance was granted to the applicant.
- Section 4703 (b) (6) states that the applicant or applicant's spouse must not have received earlier assistance under this Program. For one of the 15 disbursements selected for testing, there is no evidence to support that the applicant's spouse has not received assistance under this Program. It was further noted that the Affidavit submitted by the applicant did not include the spouse, therefore, it cannot be determined whether the applicant's spouse is in compliance.
- Section 4703 (c) requires the applicant to occupy the home to which the application relates as the applicant's principal place of residence within six months after the completion of the eligible transaction. For two of the 15 disbursements selected for testing, the Affidavit or Certificate of Occupancy was not submitted by the applicant.

Recommendation:

We recommend that management establish a formal policies and procedures manual in accepting and processing FTHAP assistance to ensure compliance with and consistent application of the requirements of P.L. 31-166.

First-Time Homeowner Assistance Program, continued

Management's response:

The Corporation recognizes the statute requirements, however for Sections 4704 and 4704 (c) (1), it will be difficult for the Corporation to comply with the statute at the time of eligibility. The submission of these documents would have to be at post-closing. The Corporation has since included in its closing instructions to the title company to provide the required documents. Management will also submit a proposed legislation to amend this provision of the law.

Section 4703 (b) (6) requires that both the applicant and spouse indicate that they have not received earlier assistance under this Program. Affidavits have been requested and the Corporation has amended its checklist to require the spouse to sign an affidavit.

Section 4703 (c) requires all recipients to submit an Affidavit of Occupancy. Only two grantees have yet to submit the affidavits. The Corporation will write to the grantees that they are in violation and will have to pay 10% of the grant amount if not submitted immediately.

Lease Agreements

Condition:

During our test of reasonableness of rental income, we noted that rental escalations were not documented in the tenants' files and not acknowledged by the tenants in writing.

Recommendation:

We recommend that the Corporation maintain a file of all the significant provisions (e.g., terms, escalation, etc.) and periodically monitor them to ensure rent income recorded is properly supported.

Management's response:

An addendum to the lease agreements regarding the rent increase is in progress. When finalized, this will be forwarded to the Corporation's legal counsel for review. The addendum will require signatures from the tenants. Once signatures have been affixed, signed copies will be issued to the tenants, while the original addendum will remain in the tenants' files.

Guam Housing Corporation
Management Letter

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.

The Corporation's written responses to the deficiencies and other matters identified in our audit were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

Ernst + Young LLP