GUAM HOUSING CORPORATION
(A PUBLIC CORPORATION)

REPORT ON COMPLIANCE AND INTERNAL CONTROL

YEARS ENDED SEPTEMBER 30, 2001 AND 2000

J. Scott Magliari
COMPANY
CERTIFIED PUBLIC ACCOUNTANT

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

To the Board of Directors
Guam Housing Corporation:

We have audited the financial statements of Guam Housing Corporation (a public corporation), as of and for the year ended September 30, 2001, and have issued our report thereon dated April 2, 2002. We conducted our audit in accordance auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Guam Housing Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, grants, and bond covenants, 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 ours 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 Internal Control Findings (pages 32 through 47) as items 01-01 and 01-02.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Guam Housing 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 Guam Housing 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 Internal Control Findings as items 01-03 through 01-12.

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 misstatements in amounts 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 functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses. However, of the reportable conditions described above, we consider Findings 01-03, 01-04, 01-05 and 01-12 to be material weaknesses.

This report is intended for the information of the Board of Directors, management and the federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

April 2, 2002
Agana, Guam

GUAM HOUSING CORPORATION
(A PUBLIC CORPORATION)

SINGLE AUDIT REPORT

YEAR ENDED SEPTEMBER 30, 2001

GUAM HOUSING CORPORATION
(A PUBLIC CORPORATION)

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

PART I - SUMMARY OF AUDIT RESULTS

Financial Statements

We have audited the basic financial statement of Guam Housing Corporation and issued an unqualified opinion.

Internal control over financial reporting:

- Material weaknesses were identified? ___x___ yes ______ no

- Reportable conditions identified that are not considered to be material weaknesses? ___x___ yes ______ no

- Noncompliance material to financial statements noted? ______ yes ___x___ no

The Guam Housing Corporation did not receive or expend any federal awards for the fiscal year ending September 30, 2001. Therefore, it did not have any major federal program.

PART II - FINDINGS - FINANCIAL STATEMENTS

We noted certain reportable conditions and instances of noncompliance which should be reported in accordance with Government Auditing Standards that are presented in the following pages as items 01-01 through 01-12.

Reference Number	Findings	Questioned Costs
01-01	Notes Payable	$ -
01-02	Bonds Payable	-
01-03	Loans Receivable	-
01-04	Loans Receivable	-
01-05	Allowance for Loan Loss	-
01-06	Accounts Payable/Contingencies	-
01-07	Loans Receivable	-
01-08	Loans Receivable	-
01-09	Loans Receivable	-
01-10	Deposits by Borrowers/Trust Fund	-
01-11	Loans Receivable	-
01-12	Loans Receivable	-
		$ -

GUAM HOUSING CORPORATION
(A PUBLIC CORPORATION)

Schedule of Internal Control Findings
Year Ended September 30, 2001

01-01 Criteria:

The Corporation should maintain current loan agreements for all financial debt.

Condition:

The Corporation has notes payable of $13,650,000 due to the Government of Guam's Revolving Loan Fund ("the Fund") since November 1999 resulting in an arrears balance approximating $517,000. During fiscal year 2001, the notes and accrued interest payable were deferred until January 2004. However, the notes have not been restructured nor has a new loan agreement been successfully executed with the Government of Guam as required by Corporation's Recovery Action Plan. Consequently, the Corporation currently does not have an agreement with the Department of Administration.

Cause:

The Corporation has not taken action to consummate a new loan agreement with the Government of Guam.

Effect:

The Corporation does not have a current notes payable agreement with the Government of Guam.

Recommendation:

We recommend that the Corporation fully implement the Recovery Action Plan and meet with the Department of Administration to negotiate or amend the existing note payable to the Fund expeditiously.

Auditee Response/Corrective Action Plan:

The Corporation has not responded to this finding.

Prior Year Status:

Failure to execute a new note agreement with the Government of Guam was cited as a finding for the fiscal year ending September 30, 2000.

01-02 Criteria:

In accordance with the Bond Indenture, the Corporation's $50 million Mortgage Revenue Bonds ("MRB") are subject to early redemption or a non-origination call if such bond proceeds are not fully expended no later than November 1, 2001. Pursuant to Article IV, Section 4.02(A) of the Bond Indenture, on any date prior to October 1, 2001 specified by the Corporation, the Trustee shall transfer amounts on deposit in the Program Fund that the Corporation certifies will not be used to acquire Mortgage-Backed Securities to the Redemption Fund to be applied to the redemption of the Bonds.

Condition:

The Corporation's Recovery Action Plan, calls for, among others, fully expending the proceeds from the MRB. As of September 30, 2001, the Corporation had originated loans totaling $6,249,012 for which the Trustee had not disbursed such moneys from the Program Fund for acquisition of Mortgaged-Backed Securities. Subsequent to September 30, 2001, that amount was reduced by $266,325 to $5,982,687 for loans that did not close. Consequently, the Corporation was not able to originate loans for the entire $50 million MRB bond issue and therefore is subject to mandatory redemption and will have to remit unexpended bond proceeds approximating $44,492,204.

Cause:

The Corporation has not been able to attract qualified applicants.

Effect:

The Corporation will forfeit $1 million deposited into an escrow fund administered and maintained by the Bond Trustees. The early redemption of the MRB may adversely effect the Territory of Guam's bond rating.

Recommendation:

We recommend that the Corporation commence arrangements with the Bond Underwriter to comply with Article IV, Section 4.02(A) of the Bond Indenture.

01-02 Auditee Response/Corrective Action Plan:

Management represents that Guam Economic Development Authority will initiate correspondence with the Bond Underwriter to comply with the Bond Indenture.

Prior Year Status:

Failure to originate the mortgage revenue bonds and compliance with Article V, Section 5.02(b) of the Bond Indenture was cited as a finding in the 2000 audit report.

01-03 Criteria:

Financial lending institutions should design their lending activities to control and manage lending risks e.g., credit risk, collateral risk, concentration risk, management or operational risk, and fraud risk. Those activities can generally be classified into the following categories:

a. Originating and disbursement
b. Servicing and accounting
c. Credit monitoring and collection
d. Internal loan review
e. Loan evaluation

Condition:

The Corporation's loan portfolio includes loans due from borrowers categorized as Deferred Loans. These are loans whereby the borrower requests, in writing, that loan payments be deferred for a specified period of time. They are considered non-performing loans. As of September 30, 2001, there were 18 deferred loans outstanding totaling $1,373,542 with accrued interest approximating $108,703. There are no formal approved written underwriting policies and procedures for the approval and administration of deferred loans. Therefore, this condition appears to indicate a lack of internal controls over loan credit monitoring and collection and internal loan review activities.

Cause:

The Corporation has not established and implemented internal control underwriting policies and procedures for granting and administering deferred loans.

01-03 Effect:

The potential exists for borrowers to default on the above-mentioned deferred loans and not to be able to collect the deferred accrued interest.

Recommendation:

We recommend that the President, in conjunction with the Loan Administrator, establish internal control loan underwriting policies and procedures for granting approval and administering deferred loans for Board approval. We recommend that Loan Officers commence efforts to contact all such borrowers to move all deferred loan to a performing status.

Auditee Response/Corrective Action Plan:

This finding was previously addressed by the Loan Administrator to the President. The President recommended to the Board and subsequently the Board of Directors approved the termination of deferring loan as a course of action to cure delinquency. In lieu of developing a policy for the Board's approval on deferred loans, the Loan Division continued its review on each account and determined what course of action should be taken on each account to cure delinquency and thus continue as a performing loan. On March 14, 2002, the Board approved a new underwriting policy, subject to the Corporation's legal counsel review and approval.

Prior Year Status:

No formal approved written underwriting policies and procedures for granting approval of deferred loans and a lack of internal controls over loan credit monitoring and collection and internal loan review activities were reported as findings in the audits of the Corporation for the fiscal year ending September 30, 1999 and 2000.

01-04 Criteria:

Loans should be properly monitored to minimize credit risk and to identify delinquent loans and potential foreclosures in a timely manner.

Condition:

Loans in arrears three months or more including those referred to the Corporation's attorney for collection totaled $4,540,609 for the year September 30, 2001, which translates to a decrease in delinquent loans of $5,626,091 or 55% over the prior year. We commend management's effort to reduce the Corporation's delinquency rate to 11% as compared to 24% for fiscal year 2000.

However, based on our review of certain loan files, there was no documentation available in the borrowers' file to evidence that a loan evaluation and review was conducted to indicate that the collateral value was higher than the potential loan loss. Consequently, this condition appears to indicate there is a potential credit risk and eventual foreclosure on these loans.

Cause:

The Corporation did not adhere to its established written policies and procedures for identifying and servicing delinquent loans in a timely manner. Additionally, it appears that the Corporation's loan servicing and collection policies and procedures may still be ineffective or not properly adhered to.

Effect:

The potential exists for these loans to become uncollectible and subsequently foreclosed in the near term. Additionally, the above condition negatively impacts the Corporation's cash flow from its inability to collect principal and interest on delinquent loans in a timely manner.

Recommendation:

We are cognizant that the Corporation has implemented a Recovery Action Plan and conducted a review of its loan portfolio and its existing loan underwriting, servicing and collection policies, and procedures.

Accurate monthly past due loan reports should be generated and reviewed promptly to identify potential delinquent accounts once they become 30-days past due and aggressively pursue payments from such borrowers to help control credit risk.

01-04 Recommendation: (continued)

We recommend that the Corporation establish an internal loan review function independent of origination, disbursement, servicing, accounting, monitoring, and collection functions. The loan review function may be performed by a committee of the board of directors or employees of another department. The objectives of internal loan reviews are to: 1) monitor compliance with established lending policies; 2) assess whether the payments due on the loan are likely to be received in accordance with the loan terms; and 3) identify weaknesses in the lending process or the lending officers' skills in originating, monitoring, servicing and collecting loans.

Auditee Response/Corrective Action Plan:

The Loan Division continues its efforts to review each delinquent account which has resulted in lowering the Corporation's delinquency rate. The accounts past ninety (90) days with no alternative to cure delinquency have been referred to legal counsel and loans continue to be reviewed. The revised collection policy requires additional documentation such as preliminary title reports and appraisals to be included in the referral package.

Prior Year Status:

Loans in arrears three months or more including those referred to the Corporation's attorney for collection and loan servicing was reported as finding in the audit of the Corporation for the fiscal year 2000 and 1999.

01-05 Criteria:

Statement on Financial Accounting Standards No. 5, *Accounting for Contingencies*, (SFAS No. 5) and Statement on Financial Accounting Standards No. 114, *Accounting by Creditors for Impairment of a Loan* (SFAS No. 114), as amended, are the primary sources of guidance on accounting for the allowance for loan losses.

An allowance for loan losses should be maintained at a level, which, in management's opinion, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance should be based on an evaluation of the collectibility of the loan portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, economic conditions, and other risks inherent to the loan portfolio. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows. The allowance should be increased by a provision for loan losses, which is charged to expense and reduced by charge-offs, net of recoveries. Changes in the allowance relating to impaired loans should be charged or credited to the provision for loan losses.

Condition:

The Corporation lacks formal written internal control policies and procedures to evaluate loans for potential loss. The Corporation has not performed a detailed review or assessment of the collateral value of its non-performing loans to determine its credit risk should such loans result in foreclosure. At September 30, 2001, we adjusted the Corporation's allowance for loan losses for approximately $2,423,000 for potential loan loss. Based on our review of the loan portfolio, this amount may not be sufficient for potential credit risk as of September 30, 2001.

Cause:

The Corporation has not established written policies and procedures for determining the allowance for loan losses based on generally accepted industry requirements.

Effect:

The effect of the above condition is the possibility of an ineffective method for determining the allowance for loan losses and consequently the Corporation may have some level of credit risk in its loan portfolio.

01-05 Recommendation:

We recommend that the Corporation document its policies and procedures for determining loan losses and ensure that an adequate allowance for loan loss is maintained to absorb credit losses and impaired loans in accordance with SFAS No. 114. Allowance for loan losses should be maintained at a level, which in management's judgment should be sufficient to absorb credit losses inherent in the loan portfolio. The amount of the allowance should be based on management's documented evaluation of the loan portfolio, including the nature of the portfolio, credit concentration, trends in historical loss experience, specific impaired loans, economic conditions, and other risks inherent in the portfolio.

The collateral value of existing non-performing loans should be properly assessed inclusive of obtaining updated property appraisals, as original appraisals may be too old and not indicative of current market values.

Auditee Response/Corrective Action Plan:

On March 14, 2002, the Board approved a new Policy on Allowance for Loan Losses, subject to the Corporation's legal counsel review and approval.

Prior Year Status:

The lack of formal written internal control policies and procedures to evaluate loans for potential loan loss was reported as finding in the 2000 and 1999.

01-06 Criteria:

The Lada Estates Affordable Subdivision Improvement Project ("Project") was designed to provide affordable housing units. The Government of Guam transferred 46 acres of land to the Corporation upon which to develop affordable housing units for sale to first time homeowners. The Corporation has a contract with a certain contractor for project development. The contract states that the Corporation will pay the contractor within ninety days upon completion and acceptance of all work.

Condition:

Phase I of the project has been completed; however, the Corporation has not been able to obtain a contractor to complete Phase II of the development project. The Phase II project requires the developer to build the housing units and to be responsible for the marketing and sale of such housing units and has the obligation to pay for the cost of Phase I of the project.

01-06 Condition: (continued)

Ultimately, this cost will be borne by the homebuyer on Phase II of the project. Based on the land development cost incurred to-date, the decline in market demand for single-family homes, private market competition, and a weak economy in the Territory of Guam, the project has stalled and no continued development has taken place. The Corporation has a contractual liability payable to the contractor totaling $10,555,000 for the cost associated with the Project. The contractor's work was substantially complete on July 24, 1998. The contractor is seeking payment plus an additional $2,756,826 as interest charges for non-payment of the contract amount that is being disputed by the Corporation.

Cause:

The Corporation was not able to obtain sufficient, qualified buyers for the Project and was not able to successfully bid out and obtain a qualified contractor for the completion of Phase II of the project in a timely manner. The Corporation contends that payment to the contractor is contingent upon the obtaining a contractor to complete Project Phase II.

Effect:

The Corporation does not have the funds to pay the amounts due to the contractor. This condition also contributed to the issuance of a going-concern opinion on 2001 audited financial statements.

Recommendation:

We recommend that the Corporation seek legal counsel's advice to determine who is ultimately responsible for payment of the $10.5 million payable to the contractor and seek advice on the disputed $2.7 million in interest claimed by the contractor.

Auditee Response/Corrective Action Plan:

Management represents that the Corporation is working with legal counsel to cure the disputed amount. Additionally, efforts are being made to obtain a qualified bidder and develop the project.

Prior Year Status:

The Project completion and non-payment of contractual amount and related interest payable was reported as finding for the year 2000.

01-07 Criteria:

Upon receipt of the recorded mortgage and title policy, the Loan Officer should review the documents and ensure the legal description of the property pledged as collateral is identical with the legal description on the recorded mortgage.

Condition:

For Loan number 38501526, we noted that the mortgage note filed with the Department of Land Management and the Certificate of Title Insurance had property description (Lot No. 5009-8-1) that did not agree with the property description on the real property tax voucher (Lot No. 5099-8-1).

Cause:

It appears that the Loan Department did not adequately verify and ensure the accuracy of legal description of the property pledged as collateral.

Effect:

The potential exists whereby the Corporation may not have legal collateral on the loans approved.

Recommendation:

Loan officers should exercise due care in reviewing and verifying property descriptions listed on Certificate of Titles and tax documents.

Auditee Response/Corrective Action Plan:

A copy of the amended mortgage to reflect the legal description was subsequently obtained. The Title Company has been requested to provide an amendment to the title policy.

GUAM HOUSING CORPORATION
(A PUBLIC CORPORATION)

Schedule of Internal Control Findings
Year Ended September 30, 2001

01-08 Criteria:

Upon receipt of the recorded mortgage and title policy, the Loan Officer should review the documents and ensure the legal description of the property pledged as collateral is identical with the legal description on the recorded mortgage.

Condition:

For loan number 819001981, there was a discrepancy in the parcel description. The Real Property Tax voucher has the parcel description as 5396-4-3, with a land area of 1,295 square meters, while the title insurance policy and mortgage documents have the parcel description as lot number 5396-4-R1, with a land area of 3,000 square meters.

Cause:

The Loan Department did not verify the accuracy of legal description of the property pledged as collateral.

Effect:

The potential exists whereby the Corporation may not have legal collateral on the loans approved.

Recommendation:

We recommend that the Loan Administrator investigate this matter and determine if the Corporation has legal collateral to property pledged as collateral. Underwriting internal control policies and procedures should be adhered to by Loan Officers and properly monitored by the Loan Administrator to ensure that all loan documents have consistent property or parcel descriptions.

Auditee Response/Corrective Action Plan:

The property was subdivided without the Corporation's approval or release of mortgages. It was subdivided subsequent to the Corporation's loan. The Department of Revenue and Taxation did not provide the Corporation the property taxes for the land parcels because it was listed to another individual. According the Department of Revenue and Taxation, payments have been made for all lots from the basic lot mortgaged to the Corporation. The Loan Division did adhere to the underwriting policy. The Borrower should not have conveyed their interest without the Corporation's approval. The Borrower will be notified, in writing, of this finding.

GUAM HOUSING CORPORATION
(A PUBLIC CORPORATION)

Schedule of Internal Control Findings
Year Ended September 30, 2001

01-09 Criteria:

The Corporation shall require hazard insurance sufficient to cover 100% of the replacement value of all improvements, or the unpaid balance of the loan, whichever is less. In no case shall the amount of insurance coverage be less than the principal loan balance.

Condition:

For eight (8) or 13% of the sixty (60) loan files tested, a current copy of the borrower's hazard insurance policy was not on file for the following loans:

Loan Number	
18701731	38701788
19102022	59702357
38501493	59802544
38501526	819001981

Additionally, for three (3) or 5% of the sixty (60) loans tested, we noted that the insurance coverage for the property was less than the original amount of the loan for the following loans:

Loan Number
19702409
19702403
19702404

Cause:

There appears to be a lack of internal control with regards to the documentation of insurance policies for the loan files.

Effect:

The properties are not properly insured and the Corporation has assumed additional collateral risk.

01-09 Recommendation:

The Loan Officer should obtain copies of the borrowers hazard insurance policy ensuring that such coverage is sufficient to cover 100% of the replacement value of all improvements, or the unpaid balance of the loan, whichever is less. Additionally, the Loan Administrator should ensure that the Corporation's hazard insurance coverage policy is adhered to by the Loan Department.

Auditee Response/Corrective Action Plan:

The corrective course of action has been taken for the above loans as follows:

Loan #18701731:	Borrower's authorization was obtained to place insurance.
Loan #19102022:	Copy of insurance was obtained.
Loan #38501493:	Insurance was requested by the Corporation.
Loan #38501526:	Borrower's authorization was obtained to place insurance.
Loan #38701788:	Borrower's authorization was obtained to place insurance.
Loan #59702357:	Copy of insurance was obtained.
Loan #59802544:	Copy of insurance was obtained.
Loan #819001981:	Insurance has requested assistance to locate the dwelling.
Loan #19702409:	Insurance coverage increased to $174,000 (loan amount).
Loan #19702403:	Property was foreclosed and Corporation to insure as asset.
Loan #19702404:	Insurance coverage increased to $93,000 (replacement value).

01-10 Criteria:

The Corporation is required to establish a trust fund for all residential mortgage loans. The Corporation shall collect real estate taxes and hazard insurance premiums sufficient and available to pay the borrower's annual real estate taxes and insurance premiums. Once these funds are placed in the trust fund, the Corporation is responsible for the payment of such taxes and premiums.

Additionally, all trust fund accounts must be reviewed annually, at which time, the borrower may be required to increase their monthly obligation if costs associated with their real estate property tax or hazard insurance premium increase, or the borrower may receive a refund if the same costs decrease. If the trust fund account has excess funds, the borrower will be given the option to leave the funds in the account; receive the excess funds; or reduce the trust fund assessment in increments over the subsequent twelve-month period.

Condition:

Based on our review of the Corporation's reconciliation of the escrow/trust fund balances on the loans receivable trial balance, we noted 116 or 15% of the Corporation's loan portfolio had debit balances totaling $139,883 representing amounts paid by the Corporation on behalf of and due from borrowers. The individual amounts from borrowers ranged from $100 to $7,571. Based on our inspection of the loan files, no documentation was on-file to evidence that repayment arrangements were in effect or any other correspondence to indicate that the respective borrowers were properly notified to cure amounts in arrears.

Cause:

There appears to be a lack of internal control policies and procedures to ensure that all real property taxes and insurance payments are collected in advance from borrowers in a timely manner prior to the respective due dates.

Effect:

The Corporation is financing borrowers' real property taxes and insurance payments which is negatively impacting its operations and cash flow position.

01-10 Recommendation:

We recommend that the Corporation establish and implement internal control policies and procedures to ensure that all real property taxes and insurance payments are collected in advance from borrowers, in a timely manner. The Trust Fund Clerk should contact each such borrower and arrange to cure the amount in arrears. Monthly reports should be prepared by the Trust Fund Clerk and submitted to Loan Administrator and Loan Servicing personnel to follow up with borrowers for any deficiency in their trust fund account.

Auditee Response/Corrective Action Plan:

The borrowers with negative account balances have been given notice to come in to make a payment adjustment and to pay the deficient amount due. Because the Board approved the Corporation to force place insurance on all mortgaged properties, including delinquent and referred accounts, there will always be accounts with negative balances. This amount will be recovered when foreclosed and eventually sold.

Prior Year Status:

The lack of formal written internal control policies and procedures to ensure that all real property taxes and insurance payments are collected in advance from borrowers in a timely manner prior to the respective due dates was reported as finding in the 2000.

01-11 Criteria:

The Corporation should maintain an updated database on all borrowers.

Condition:

Based on our audit of loan balances, we noted that five (5) or 8% of the loan confirmation letters sent to borrowers were returned by the Post Office with the wrong address. Upon inquiry with the Corporation's Data Processing and Loan Divisions, current addresses were not available. This condition has not been properly corrected for over four years.

As a result, monthly loan statements and related correspondence sent out to borrowers may not be received. We were able to review the transaction history of the accounts and other related documentation to substantiate the validity of the accounts and the correctness of the borrowers' loan balances; however, certain accounts were delinquent and indicative of collection problems.

01-11 Cause:

The Loan Department along with Data Processing Department have not established internal control policies and procedures to ensure that an updated and current database is maintained for borrowers.

Effect:

The lack of a current borrower database has the potential to negatively impact the Corporation's ability to collect on delinquent loans if it is not able to adequately contact such borrowers in a timely manner to cure delinquent account balances.

Recommendation:

We recommend that the Corporation review and update borrower information currently maintained in its database. Borrowers should be contacted by whatever means available to obtain current addresses and other vital information and loan files and borrower databases should be updated accordingly.

Prior Year Status:

Failure to develop written internal control policies and procedures for maintaining an updated and current database for borrowers was reported as a finding in the Corporation's audit for the fiscal years ending September 30, 2000 and 1999.

01-12 Criteria:

Loan files should be maintained in an orderly and systematic manner to ensure that all documentation obtained and filed can be independently verified.

Condition:

The Corporation utilizes a document checklist for obtaining borrower information and maintaining loan files. The loan file checklist form is not being properly used. Documents are not being filed in accordance with the index on the checklist and in certain files; documents were loosely kept in the loan files. In 18 or 30% of the 60 loans tested, tasks were initialed as being completed or documents obtained when in fact, such had not been completed.

01-12 Cause:

The cause of the above condition is the lack of adherence to existing internal control policies and procedures to ensure that all loan files are reviewed for proper documentation prior to loan approval.

Effect:

The potential exists for loans to be improperly approved and for documents to be lost or misplaced.

Recommendation:

Loan files should be properly reviewed to ensure that all documents have been obtained prior to loan approval and disbursement of funds. All tasks performed should be initialed as completed by the responsible individual to ensure that the task was completed. Additionally, the filing of documents as indexed on the loan file checklist will not only enhance efficiency but also reduce the likelihood of missing documents. For example, loan file contents could be categorized and arranged by credit investigation, application, supervision section, and loan documentation section with subcategories for each section.

Auditee Response/Corrective Action Plan:

Borrower addresses and telephone numbers are continuously being updated. The Loan Division upon receipt of a returned mail, checks for an updated address and contact number from the Credit Bureau's file; however, even that resource reflects the same information as reflected by the Corporation. The Data Processing Division updates borrower information as interest statements are returned and borrowers pick up their returned mail.

Prior Year Status:

The lack of proper loan file management and documentation was reported as finding in the Corporation's audit for the fiscal years ending September 30, 2000 and 1999.