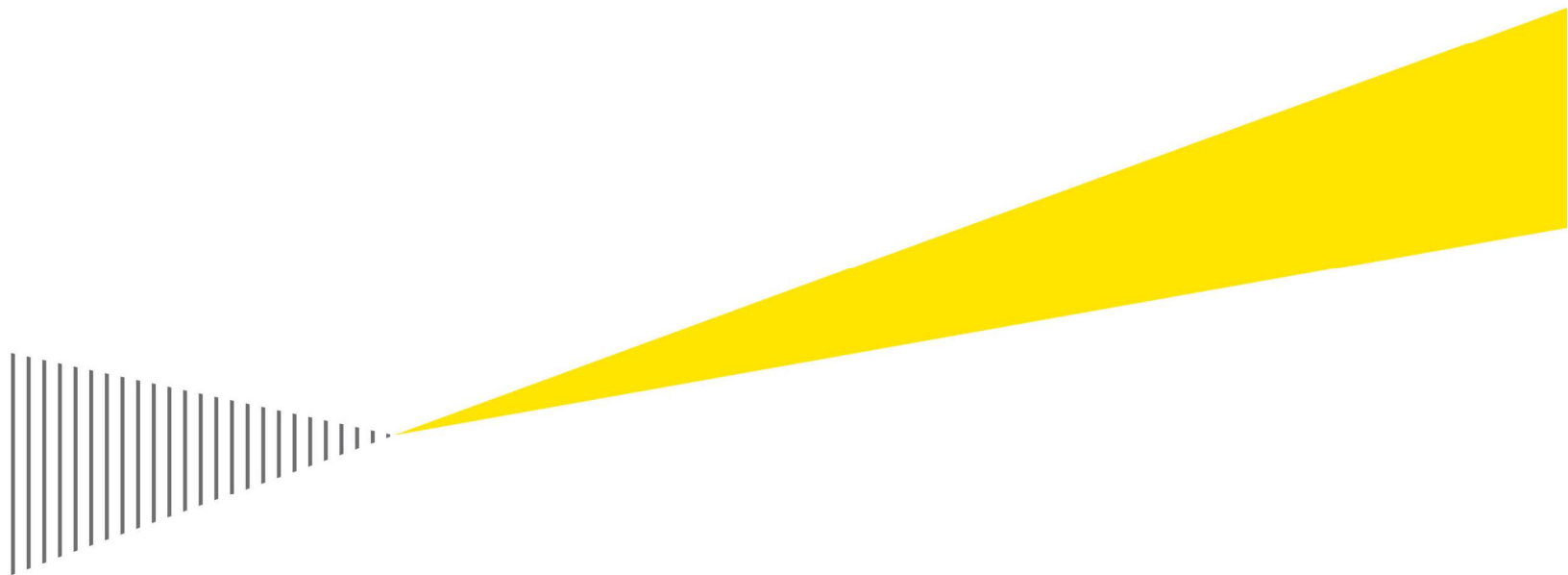


*Management Letter*

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

*Year ended September 30, 2014*



**Building a better  
working world**



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February 6, 2015

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, 2014, 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:

### **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 4703 (b) (2) of PL 31-166 states that the applicant must be a United States (U.S.) citizen or a permanent resident alien in order to qualify for assistance in this Program. For six out of 10 samples selected for testing, there is no evidence to support the applicant's status such as a copy of the applicant's U.S. passport or permanent resident card.
- Section 4703 (b) (5) of PL 31-166 states that the applicant must attend and complete a home ownership education program and/or workshop or other similar program, as approved or provided by the Corporation. The joint applicants included in our samples individually submitted home ownership education program certificate. However, one out of 6 joint applicant samples selected for testing, only one of the joint applicants submitted the required document.

#### 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.

#### Management's response:

Every applicant and co-applicant is required to submit a notarized affidavit reflecting their citizenship (U.S. or permanent resident). That document is on file.

P.L. 31-166 Section 4702 (b) defines applicant to be any individual or family who is applying for First-time Homeowner Relief. The Corporation interprets that definition to allow either of the applicants to take the First-time Homeownership class. The Corporation will request further clarification and possible amendment from the Legislature to the law. In the interim, the Corporation has amended its checklist requiring the primary applicant's name to be on the certificate effective February 10, 2015.

### **Annual Leave**

#### Condition:

During our audit procedures on the Corporation's accrued compensated absences, we noted the following:

- For 1 out of 10 employees selected for testing, the annual leave form was not properly approved.
- For 1 out of 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.

### **Annual Leave, continued**

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 properly.

Management's response:

Auditor's recommendation noted. The Corporation's standard operating procedures will be revisited to include tighter control relative to recording leave properly.

### **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:

Lease agreements are to be renewed every year. Any changes to the lease (e.g., rent increases or terms) would be reflected via an addendum to the lease. The Corporation's Rental Policy will be amended and submitted to the Board of Directors for approval.

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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*