

**GUAM HOUSING CORPORATION
(A PUBLIC CORPORATION)**

REPORT ON COMPLIANCE AND INTERNAL CONTROL

FOR THE YEAR ENDED SEPTEMBER 30, 2003

**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:

I have audited the financial statements of Guam Housing Corporation (a public corporation), as of and for the year ended September 30, 2003, and have issued my report thereon dated September 24, 2004. I conducted my 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, I 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 my audit and, accordingly, I do not express such an opinion. The results of my 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 38 through 84) as items 03-01, 03-02, 03-04 through 03-10, 03-12 through 03-14, and 03-17 through 03-19.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Guam Housing Corporation's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my 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 03-01 through 03-19.

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 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. My 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, I consider Findings 03-02, 03-03, 03-09 through 03-13, and 03-15 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.

J. Scott Magliari & Company

September 24, 2004
Agana, Guam

**GUAM HOUSING CORPORATION
(A PUBLIC CORPORATION)**

SCHEDULE OF INTERNAL CONTROL FINDINGS

FOR THE YEAR ENDED SEPTEMBER 30, 2003

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings Year Ended September 30, 2003

PART I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:

- Material weaknesses were identified? yes no

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

- Noncompliance material to financial statements noted? yes no

The Guam Housing Corporation did not receive or expend any federal awards for the fiscal year ending September 30, 2003. Therefore, it did not have any major federal program.

PART II – FINDINGS – FINANCIAL STATEMENTS

I 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 03-01 through 03-19.

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
03-01	Loans Receivable/Delinquency	\$ -
03-02	Loans Receivable/Allowance for Loan Losses	-
03-03	Loans Receivable/Delinquency Servicing	-
03-04	Loans Receivable/Typhoon Coverage	-
03-05	Loans Receivable/Hazard Insurance	-
03-06	Loans Receivable/Hazard Insurance	-
03-07	Loans Receivable/Hazard Insurance on Condominiums	-
03-08	Loans Receivable/Delinquent Taxes on Preliminary Title Report or Title Policy	-
03-09	Loans Receivable/Hazard Mitigation Program	11,237.26
03-10	Loans Receivable/Standard Dwelling	-
03-11	Loans Receivable/Due Dates Discrepancies	-
03-12	Other Real Estate Owned Properties/Disposition and Public Liability and Hazard Insurance	-
03-13	Trust Fund/Overdrawn Trust Fund Accounts	-
03-14	Trust Fund/Surpluses in Trust Fund Accounts	-

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings Year Ended September 30, 2003

PART II - FINDINGS - FINANCIAL STATEMENTS, CONTINUED

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
03-15	Loans Held in Trust/Loan Servicing of Other Programs	\$ -
03-16	Loan Origination fees	-
03-17	Payroll/ Documentation	-
03-18	Payroll /Documentation	-
03-19	Cash Receipts/Control Forms	-
		<u>\$ 11,237.26</u>

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings Year Ended September 30, 2003

Finding No. 03-01

Area : Loans Receivable/Delinquency

Criteria:

No later than three (3) business days after a loan has reached 90 days past due and placed on non-accrual status, the Loan Department shall prepare and submit to the Loan Administrator a request for legal assistance. Within two (2) days of receipt, the Loan Administrator shall review and forward the request to the President for approval. Within two (2) days of receipt, the President shall review and return the request with final approval or disapproval. In the event the request is approved for legal action, the Loan Administrator shall prepare and deliver a request for foreclosure package to the Corporation's legal counsel. In the event the President does not approve the request for legal assistance, he or she must demonstrate and document why the delinquent account should not be referred to legal counsel.

Condition:

We conducted a review of the payment history of borrowers subsequent to September 30, 2003 to evaluate potential non-performing and delinquent loans. Based on our review of the loan portfolio, we noted that the Corporation did not adhere to its underwriting policies and procedures. There was no documentation available in the borrower's file to evidence that a loan evaluation and review was conducted to indicate that these loans were being properly serviced to cure the delinquent borrowers.

Delinquent loans that were outstanding in excess of 90 days and not included in the list of those referred to legal are as follows:

<u>Item</u> <u>No.</u>	<u>Loan</u> <u>Number</u>	<u>Subsequent</u> <u>Outstanding</u> <u>Loan Balances</u>	<u>of Days</u> <u>Delinquent</u>
1.	19802535	\$ 162,546.74	1,799
2.	19802563	8,749.12	1,677
3.	19802426	93,157.08	1,226
4.	79202187	1,122.63	1,113
5.	18701798	48,668.80	934
6.	59302275	102,322.52	818
7.	19702382	85,850.54	762
8.	79702382	8,062.86	397
9.	19102084	56,049.81	395
10.	59102122	78,012.91	315

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings Year Ended September 30, 2003

Finding No. 03-01, Continued Area : Loans Receivable/Delinquency

<u>Item No.</u>	<u>Loan Number</u>	<u>Subsequent Outstanding Loan Balances</u>	<u>of Days Delinquent</u>
11.	28601678	49,197.72	269
12.	79702395	6,451.31	252
13.	19802548	147,904.05	191
14.	38501520	12,207.75	188
15.	19802414	110,154.06	177
16.	59202170	67,951.78	166
17.	28601650	39,456.18	161
18.	19802555	42,768.87	159
19.	18301418	15,348.31	155
20.	59302239	57,366.92	149
21.	819702352	96,816.13	147
22.	59802432	147,647.70	144
23.	18301384	39,858.27	142
24.	19802425	125,989.16	133
25.	19802512	<u>121,708.71</u>	108
		<u>\$1,725,369.93</u>	

Cause:

The Corporation did not adhere to its established written internal control lending 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.

Effect:

The potential exists for these loans to become uncollectible and result in foreclosure in the near future. 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.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings Year Ended September 30, 2003

Finding No. 03-01, Continued **Area : Loans Receivable/Delinquency**

Recommendation:

The above delinquent loans should be referred to the Corporation's legal counsel for foreclosure proceedings. We recommend that the Corporation reevaluate its collection and loan servicing policies and procedure to determine areas of improvement and staff assigned to perform such functions.

Prior Year Status:

The Corporation's credit risk and potential loan loss due to lack of documentation evidencing loan evaluations and reviews were reported as findings in the audit of the Corporation for the fiscal years 1999 through 2002.

Auditee Response/Corrective Action Plan:

We agree with this finding; however, we note the following status of each account:

1. Loan Number 19802535
2. Loan Number 19802563

GHC has received legal opinion relative to loan numbers 19802535 and 19802563. A loan was approved by the Board of Directors back in May, 1998 for \$160,000 with a 10% down payment requirement. A former President of the Corporation closed this loan personally having the borrower sign a promissory note and a mortgage for \$163,200 and also another note for \$10,000.

GHC has made numerous attempts to obtain a copy of the deed as both the former GHC President and the borrower stated that a deed was in fact executed. When an updated PTR was received, the title still reflects GHC as owner. The borrower was advised to provide the deed and if one cannot be located, GHC will have to obtain legal opinion relative to the status of their loan.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings
Year Ended September 30, 2003

Finding No. 03-01, Continued

Area : Loans Receivable/Delinquency

Auditee Response/Corrective Action Plan, Continued:

The legal opinion for this matter was obtained from the lawyer dated March 4, 2004. The opinion was discussed with the current Board of Directors. The board accepted the Legal Counsel's recommendation and advised management to reflect the property as an OREO and the Cruz may rent until such time they obtain financing to purchase the property. The Cruz is renting the property for \$850.00 a month.

3. Loan No. 19802426 – The borrower requested for a workout and was making payment via ACH. Account will be referred to the Collection Committee for further action.
4. Loan No. 79202187 – This account was handled by the previous legal counsel. The borrowers are deceased and the estate is in probate. We will refer to Collection Committee referral to Counsel for further action.
5. Loan No. 18701798 - The loan was referred to legal counsel on 7/27/04.
6. Loan No. 59302275 – The loan was referred to legal counsel on 9/14/04.
7. Loan No. 19702382 – GHC is waiting for the executed Deed in Lieu of Foreclosure and Power of Authority from the borrowers. This was approved by the Board and being handled by the Corporation's legal counsel.
8. Loan No. 79702382 – This is an 1113 account for the above borrower.
9. Loan No. 9102084 - This loan was referred to the Corporation's legal counsel on 8/24/04.
10. Loan No. 59102122 – The Corporation is waiting for the release of Tax Year Returns for 2002 and 2003; the Acting President working with the Guam Department Revenue and Taxation.
11. Loan No. 28601678 – This loan was referred to legal counsel on 7/27/04.
12. Loan No. 79702395 – This loan will be given to the Collection Committee for referral to the Corporation's legal counsel.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings
Year Ended September 30, 2003

Finding No. 03-01, Continued
Area : Loans Receivable/Delinquency

Auditee Response/Corrective Action Plan, Continued:

13. Loan No. 19802548 – Borrower withdrawing from 401K account; awaiting for payment.
14. Loan No. 38501520 – Account referred to legal counsel on 7/27/04.
15. Loan No. 19802414 – The Acting President approved for the borrowers to execute a Revision Agreement; the account will be current upon execution. Appointment scheduled for 9/30/04.
16. Loan No. 59202170 – The account was referred to Legal on 7/27/04.
17. Loan No. 28601650 – The Borrower disputing the delinquency and the account being audited by GHC.
18. Loan No. 19802555 – The account was referred to legal counsel on 9/14/04
19. Loan No. 18301418 – Borrower requesting workout; making payment on account. The account being monitored.
20. Loan No. 59302239 – The account was referred to legal counsel on 8/24/04.
21. Loan No. 819702352 – The account will be referred to Collection Committee for further action.
22. Loan No. 59802432 – The Borrower making payment and the account is 81 days delinquent. If no payment is received by promised date (9/30/04); the account will be referred to the Collection Committee for further action.
23. Loan No. 18301384 – The Borrower is being processed for refinancing and we are awaiting the PTR and appraisal.
24. Loan No. 19802425 – Account was recommended by Collection Committee for referral to Legal, however Acting President suspended referral and allowed for a workout; Borrower making payment in excess of monthly payment. Delinquency decreasing each month.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings
Year Ended September 30, 2003

Finding No. 03-01, Continued
Area : Loans Receivable/Delinquency

Auditee Response/Corrective Action Plan, Continued:

25. Loan No. 19802512 – The Borrower requested for a workout and is making monthly payment of 1,300 each month. Delinquency decreasing each month. We will transfer any excess trust funds upon renewal of insurance coverage.

GHC will continue its efforts to service each delinquent account on a timely basis. For the first quarter of this Fiscal Year, GHC saw very little activity on those accounts referred to its former Legal Counsel. Upon the execution of a contract with its current Legal Counsel, GHC has seen more apparent results and has shown an increased in its collection.

The Collection Committee recommends that the loan policy, (particularly Section 13.05) be amended regarding the immediate referral of over 90 days delinquent accounts to allow additional days in order to package loan for committee review, president's action and final referral to Legal Counsel. A "one week" time frame is not sufficient time to package and conduct reviews by Committee and President.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings
Year Ended September 30, 2003

Finding No. 03-02

Area : Loans Receivable/Allowance for Loan Losses

Criteria:

Statement on Financial Accounting Standards No. 5, *Accounting for Contingencies*, Statement on Financial Accounting Standards No. 114, *Accounting by Creditors for Impairment of a Loan*, as amended, and the provisions of Statement on Financial Accounting Standards No. 118, *Accounting for by Creditors for Impairment of a Loan - Income Recognition and Disclosure* are the primary sources of guidance on accounting for the allowance for loan losses and for impaired loans.

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.

Condition:

The Corporation's allowance for loan losses totaled \$2,929,251, and based on analysis of the loan portfolio, this amount appears insufficient for potential credit risk as of September 30, 2003.

Cause:

The Corporation lacks internal control over loan monitoring and evaluation in accordance to its established written policies and procedures and accounting principles generally accepted in the United States in determining allowance for loan losses.

Effect:

An adjustment of \$477,513 was made to increase the allowance for loan losses to sufficiently absorb credit losses and risk inherent to the loan portfolio.

Recommendation:

We recommend that the Corporation adhere to its internal control policies and procedures underlying allowance for loan losses and ensure that an adequate allowance is maintained at a level that could sufficiently absorb credit losses and other risk inherent to the loan portfolio. Management is responsible for estimating credit losses. Estimating credit losses is unavoidably subjective, and accordingly, management must make careful judgments about collectibility and estimates of losses.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings
Year Ended September 30, 2003

Finding No. 03-02, Continued

Area : Loans Receivable/Allowance for Loan Losses

Recommendation, Continued:

Management's judgments should consider micro- and macro-economic factors; past, current, and anticipated events based on facts in evidence at the balance sheet date; and realistic courses of action it expects to take.

An institution's method of estimating credit losses is influenced by many factors, including the institution's size, organization structure, business environment and strategy, management style, loan portfolio characteristics, loan administration procedures, and management information systems. Although there are many different methods, there are certain common elements that should be included in any methodology for it to be effective. The method should:

- a. Include a detailed and regular analysis of the loan portfolio;
- b. Include procedures for timely identification of problem loans;
- c. Be used consistently;
- d. Consider all known relevant internal and external factors that may affect collectibility;
- e. Consider all loans and other relevant exposure;
- f. Consider the particular risks inherent in the different kinds of lending;
- g. Consider current collateral fair values, where applicable;
- h. Be performed by competent and well-trained personnel;
- i. Be based on current and reliable data; and
- j. Be well documented, with clear explanations of the supporting analyses and rationale.

Management should endeavor to incorporate the above items into its existing loan loss policies to ensure that the Corporation is able to minimize its credit risk associated with its loan portfolio.

Auditee Response/Corrective Action Plan

The loan administrator is reviewing the list of over 90 days delinquent accounts to determine the Corporation's potential loss. When completed, a recommendation will be presented to the Board of Directors for approval.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings Year Ended September 30, 2003

Finding No. 03-03

Area : Loans Receivable/Delinquency Servicing

Criteria:

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

Condition:

As of September 30, 2003, loans in arrears three months or more, including those referred to the Corporation's attorney for collection, totaled \$7,474,454 and \$6,255,612 for the years September 30, 2003 and 2002, respectively. Loan in arrears three months or more represents 20.70% of the total Corporation's loan portfolio. As of September 30, 2003, the Corporation had referred to legal counsel totaling \$1,812,981 comprising of 23 accounts. As of April 30, 2004, loans in arrears had increased to \$3,661,120 representing 41 accounts. Subsequent foreclosure proceeding on these loans totaled \$1,033,322 at May 31, 2004.

Cause:

The above condition could have been mitigated if proper monitoring, timely evaluation, and adherence to established policies and procedures had been in place in the Collection Department. Other contributing factors stem from the lack of appropriate follow-up, by making use of all possible servicing efforts, to include a personal visit to the delinquent borrower.

Effect:

The Corporation could incur material loan losses and increased foreclosures in subsequent periods. Moreover, the Corporation has lost additional interest income as a result of not being able to accrue and collect interest income associated with the above loans delinquent in excess of 90 days. This interest income could have been used to fund operations and new loans.

Recommendation:

We are cognizant that the Corporation has implemented its Recovery Action Plan and conducted a review of its loan portfolio and its existing loan underwriting, servicing and collection policies, and procedures. However, we recommend that the Corporation reevaluate its collection and loan servicing policies and procedure to determine areas of improvement and staffing requirement to effectively perform such functions.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings
Year Ended September 30, 2003

Finding No. 03-03, Continued

Area : Loans Receivable

Auditee Response/Corrective Action Plan:

The Collection Committee recommends that the Collection Policy, *Section 9.06* be amended to read that the first, second and third delinquency letters will be supported by a telephone call with proper documentation on file. It would be on the fourth delinquency that the notice will be supported by a personal visit.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings
Year Ended September 30, 2003

Finding No. 03-04

Area : Loans Receivable/Typhoon Coverage

Criteria:

Hazard insurance coverage shall be maintained for all real estate property used as collateral for a loan. The coverage must provide protection against catastrophic loss resulting from damage or destruction to the collateral due to the perils of fire, earthquake, and typhoon. All housing hazard insurance policies must name Guam Housing Corporation as co-insured along with the borrower/owner of the property.

Typhoon coverage shall be maintained on all structures in an amount equal to the principal amount of the loan. In no case shall the amount of insurance coverage be less than the principal loan balance. The replacement value of improvements shall be determined by a real estate appraisal prepared by a licensed real estate appraiser. The Corporation will accept a hazard insurance clause of no less than 80% on a case-by-case basis, subject to approval by the President.

Typhoon coverage may be waived based on a written request from the borrower, subject to the conditions as set forth in the Corporation's underwriting policies. All waivers of typhoon insurance coverage shall be recommended by the Loan Administrator and President and approved by the Board of Directors. Waivers shall be reviewed on an annual basis.

Condition:

For fourteen, (14), or 21% of the borrower loan files tested, the insurance coverage was not adequate to provide protection against catastrophic loss typhoon coverage or waivers of such coverage for the following:

<u>Loan Number</u>	<u>Outstanding Balance 09/30/03</u>
18001107	\$ 18,030.95
19802508	157,923.30
18201360	22,856.33
59102043	75,010.36
59102064	66,817.18
19702364	52,078.67
19802431	136,457.05
19902569	67,477.27
59102069	52,029.78
59802433	103,467.22
19902202	<u>103,604.02</u>
Sub-total	<u>\$ 855,752.13</u>

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings Year Ended September 30, 2003

Finding No. 03-04, Continued

Area : Loans Receivable/Typhoon Coverage

Condition, continued:

<u>Loan Number</u>	<u>Outstanding Balance 09/30/03</u>
Sub-total	\$ 855,752.13
59802551	161,994.95
59702377	137,819.68
19702351	<u>82,241.51</u>
	<u>\$1,237,808.27</u>

Further inquiries disclosed that approximately 50% of the total Corporation's loan portfolio has no typhoon coverage. Verification was performed of the number of borrowers that had filed for the waiver of typhoon and that had been approved by the Board, and found only one real property owner identified as loan number 19902637.

Cause:

It appears there is lack of internal control in reviewing and evaluating each borrower's respective hazard insurance coverage annually and prior to the disbursement of loan proceeds.

Effect:

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

Recommendation:

We are cognizant of the revised underwriting loan policies and procedures of the Corporation have been implemented in May 2003. The Corporation should ensure that compliance to its underwriting hazard insurance coverage policy is properly implemented in a timely manner. The Loan Administrator should take necessary action by informing all borrowers in which real estate property is used as collateral for loan about the waiver of typhoon insurance, subject to borrower's compliance to the conditions set forth by the Corporation.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings
Year Ended September 30, 2003

Finding No. 03-04, Continued

Area : Loans Receivable/Typhoon Coverage

Prior Year Status:

Lack of internal control with regards to the review and documentation of insurance policies on loan files was reported as a finding in the audit of the Corporation for the fiscal years 1999 through 2002.

Auditee Response/Corrective Action Plan:

When GHC Board of Directors first approved for borrowers to delete typhoon coverage, it was only with the condition that the house be equipped with manufactured and professionally installed typhoon shutters. Those who were approved did in fact have shutters as verified by either GHC or the insurance companies. The recent change in policy resulted in borrowers submitting additional documentation, thus requiring GHC to do another inspection. GHC is currently reviewing those accounts with no typhoon coverage.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings Year Ended September 30, 2003

Finding No. 03-05

Area : Loans Receivable/Hazard Insurance

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.

In the event that the hazard insurance policy is cancelled by a customer, the Corporation shall order a replacement policy with the appropriate coverage and charge the loan account.

Condition:

For three (3), or 5%, of the loan file tested has no insurance coverage. These borrowers are as follows:

	<u>Loan Number</u>	<u>Loan Balance 09/30/03</u>	<u>Cash Value Coverage</u>	<u>Cash Value Coverage less Loan Balance</u>
1.	18001044	\$ 16,791.76	No insurance	\$ (16,791.76)
2.	18001057	6,814.71	No insurance	(6,814.71)
3.	18001076	13,853.17	No insurance	(13,853.17)
4.	19802429	<u>144,942.30</u>	<u>\$ 65,000.00</u>	<u>(79,942.30)</u>
		<u>\$182,401.94</u>	<u>\$ 65,000.00</u>	<u>\$(117,401.94)</u>

Cause:

The Corporation did not comply with its internal control loan underwriting policies and procedures to ensure that all hazard insurance policies are reviewed and evaluated by the loan officer.

Effect:

The Corporation is at risk to the possibility of total loss resulting from damage or destruction to the collateral due to the perils of fire, earthquake, and typhoon.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings
Year Ended September 30, 2003

Finding No. 03-05, Continued

Area : Loans Receivable/Hazard Insurance

Recommendation:

We recommend that the Loan Officers adhere to its established policies and procedures underlining hazard insurance coverage.

Auditee Response/Corrective Action Plan:

The policy was revised on April 23, 2003 to allow for co-insurance no less than 80% of the replacement value. The committee recommends that the loan policy, Section 5-03 be amended to omit the wording "In no case shall the amount of insurance coverage be less than the principal loan balance.

The homeowner's policy is being reviewed by the Trust Fund Technician, a Loan Officer, the Loan Administrator, Quality Assurance Officer, Certifying Officer and the President at the time the vouchers are being routed for payment.

The statuses of those loans mentioned are as follow:

1. 18001044 – House is not insurable as the roof is damaged and the Borrowers are not living in house. The Collector will inspect the dwelling.
2. 18001057 – Letter has been sent out to Borrower; however, the letter returned unclaimed. We will have collector deliver the letter and inspect house.
3. 18001076 – Letter sent to the borrower. The Collector will inspect house.
4. 19802429 – The account was subsequently foreclosed and acquired in December 2003 and is now and OREO property.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings Year Ended September 30, 2003

Finding No. 03-06

Area : Loans Receivable/Hazard Insurance on Condominiums

Criteria:

In a condominium, the Homeowner's Association normally purchases a master insurance policy that covers all of the common elements with the project. To cover personal property and any additions or alterations to the unit not insured by the master policy, a condominium unit owner's policy may be obtained. A copy of the Homeowner's Association master policy shall be obtained prior to any loan disbursement.

Condition:

For six (6), or 60% of loan files tested, there was no evidence of hazard insurance on file. Therefore, perils and cash value coverage, and co-insurance clauses on the property that collateralized the mortgage loan could not be determined for the following condominium owners:

<u>Loan Number</u>	<u>Outstanding Loan Balance 9/30/03</u>
1. 10002650	\$ 29,398.94
2. 18901926	38,464.30
3. 19702371	59,912.57
4. 19802547	62,156.31
5. 59102098	53,592.44
6. 59802434	135,287.39
	<u>\$ 378,811.95</u>

Cause:

Loan files were not properly reviewed in a timely manner to ensure that adequate insurance was maintained and documented in the borrower's loan files.

Effect:

Because of the uncertainties on the coverage of the above condominium properties could not be determined, therefore, the Corporation has assumed collateral risk.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings Year Ended September 30, 2003

Finding No. 03-06, Continued

Area : Loans Receivable/Hazard Insurance on Condominiums

Recommendation:

The Loan Officer and the Insurance Clerk should ensure that an original or certified copy of the hazard insurance policy, insurance binder, or a letter of verification of insurance and evidenced of premium payment be obtained prior to the disbursement of any loan proceeds. The Loan Administrator, in conjunction with the Insurance Clerk, should ensure that proper review and compliance with the Corporation's hazard insurance coverage policy is adhered.

Prior Year Status:

Lack of internal control with regards to the review and documentation of insurances policies on loan files was reported as finding in the audit of the Corporation for the fiscal years 1999 through 2002.

Auditee Response/Corrective Action Plan:

A trust fund account was not required for these types of dwellings as the insurance and taxes are included in the homeowner's association fees.

For loan number 19802547, foreclosure was completed and the property is an OREO. As for the other accounts, the Trust Fund Technician contacted the borrowers or is preparing a letter for submission of policy.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings Year Ended September 30, 2003

Finding No. 03-07

Area : Loan Receivable/Hazard Insurance

Criteria:

All hazard insurance policies shall be reviewed by the Loan Officer and the Insurance Clerk. All reviews shall include the following items:

- a. The name of the insured must match the name of the obligor on the Corporation's promissory note, mortgage, and title policy.
- b. The amount of the insurance must be equal to the replacement value of the improvements, but in no instance less than the principal loan balance.
- c. The policy must include fire, earthquake, and typhoon coverage. Any waivers of typhoon insurance must be properly documented.
- d. The legal description of the collateral must match the description on the Corporation's mortgage, appraisal report, and title policy.
- e. The policy must name Guam Housing Corporation as loss payee.
- f. The expiration date shall be a minimum of one (1) year from the date of the loan disbursement.

Condition:

For four (4), or 7 % of the loan files tested, policies were noted with inadequacies for the following:

<u>Loan Number</u>	<u>Loan Balance</u> <u>09/30/03</u>	<u>Inadequacies noted in the Insurance Policy:</u>
1. 59802433	\$103,467.22	Description of the collateral did not match the description on the note.
2. 18001107	18,030.95	The policy did not name the Corporation as a loss payee.
3. 19802506	170,212.34	Description of the collateral did not match the description on the note and title policy.
4. 19702410	<u>136,172.79</u>	Description of the collateral did not match the description on the note and title policy.
Total	<u>\$427,883.30</u>	

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings Year Ended September 30, 2003

Finding No. 03-07, Continued

Area : Loans Receivable/Hazard Insurance

Condition, continued:

We extended the review of the loan history for loan number 18001107 and discovered that the borrower was deceased. The Title policy also indicated exception that borrower cannot sell the property without the permission of the Government of Guam; however, it appears that a new successor has insured the property under his own name and the deceased borrower.

Cause:

Loans were not properly reviewed and adequately serviced in a timely manner by the Loan Department. Consequently, the Corporation is not adhering to its existing loan policies and procedures.

Effect:

The Corporation may not be the primary lien holder on loan number 18001107 and in the event of foreclosure, it may not be able to satisfy the outstanding loan balance.

Recommendation:

We recommend that the Loan Administrator and Loan Officers adhere to the Corporation's established policies and procedures in regards to loan servicing. Necessary action should be taken to ensure that all loans are properly reviewed and serviced in a timely manner. The Corporation should consider hiring additional personnel for the Loan Department or shifting existing resources to service its loan portfolio. The Loan Department should exercise care when reviewing loan files to ensure that all documentation is complete and accurate.

Auditee Response/Corrective Action Plan:

For those accounts where the legal descriptions do not match, amendment endorsements were on file for accounts 19802506 & 19702410.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings
Year Ended September 30, 2003

Finding No. 03-08

Area : Loans Receivable/Delinquent Taxes on Preliminary Title Report or Title Policy

Criteria:

A preliminary title report (PTR) serves as a basis for the commitment by a title insurance company to provide title insurance on a property's title. It shows the condition of a property's title at a specific time, indicating the current owner and any liens on the property that have not been removed. The Corporation's loan officer is responsible for reviewing all PTR's to include all stated exceptions that may impair the Corporation's mortgage position prior to loan origination.

Condition:

For two (2), or 3% of the loan files tested, the PTR indicated back taxes were outstanding and there was no documented evidence of those amounts being paid for the following:

<u>Loan Number</u>	<u>As disclosed in the Preliminary Title Report</u>
10002679	1996 through 1999 back taxes not paid totaling \$1,055.30, closing statement shows on \$504.00 was paid.
19702346	<u>Bill assessment as reviewed:</u> No evidenced of real property tax paid on Building property 1998 through present.

Cause:

The Corporation did not comply with 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. Additionally, as property taxes are basic source of funds to pay various public services within the Territory of Guam, ensuring settlement and clearing by the applicant should take first priority.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings
Year Ended September 30, 2003

Finding No. 03-08, Continued

Area : Loans Receivable/Delinquent Taxes on Preliminary Title Report or Title Policy

Recommendation:

Loan files should be properly reviewed to ensure that all documents have been obtained and exceptions have been cleared prior to loan approval and disbursement of funds. The Loan Department should ensure adherence to the Corporation's established policies and procedures outlining the review of preliminary title reports and title insurance policy.

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, 1999 through 2002.

Auditee Response/Corrective Action Plan:

We agree with the finding. The following action was taken:

1. For loan number 10002679, the 1996 receipt is on file. The 1997 thru 1999 billing was picked up from Revenue and Taxation and will the payment will be processed.
2. For loan number 19702346, the billing was picked up from Revenue and Taxation and the payment will be processed.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings
Year Ended September 30, 2003

Finding No. 03-09

Area : Loans Receivable/Hazard Mitigation Program

Criteria:

The program objectives under Hazard Mitigation Revolving Loan Fund are to facilitate the retrofitting of residential structures in order to meet the National Flood Insurance Program (NFIP) and 1991 Uniform Building Code (UBC) requirements. The eligibility criteria under this program are as follows:

1. Individuals and families that demonstrate an inability to qualify for an adequate loan amount to build or rebuild a residential dwelling that meets all the requirements of the NFIP and/or 1991 UBC.
2. Victims of Typhoon Omar and subsequent typhoons that received SBA loan and/or FEMA grants of such amounts that is not adequate to build or rebuild a residential dwelling that meets the NFIP and/or 1991 UBC requirements.

Under the Memorandum of Agreement between the Grantee of the Hazard Mitigation Fund and the Corporation (Sub-grantee), the Hazard Mitigation Funds shall be use solely for the purposes for which these funds are provided and as approved by the Governor's Authorized Representative.

Condition:

During the fiscal year ending September 30, 2003, the Corporation approved and disbursed one loan funded under the Hazard Mitigation Loan Program. Based on our review of loan file number 40302700 originated on May 5, 2003 in the amount of \$11,237.26, we noted various deficiencies as follows:

1. Scope of work of the repair did not meet the criteria required to qualify under hazard mitigation loan program.
2. No trust fund was required to the borrower which appears to be an exception to the underwriting policy on trust fund; hence, exception must require board approval.
3. Broker's Price Opinion (BPO) was used as basis to evaluate the property in lieu of Real Estate Appraisal Report by a certified appraiser; hence, such exception must require board approval.
4. No hazard insurance policy on file.
5. No loan fee was charged to the borrower. This exception must require the board approval.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings
Year Ended September 30, 2003

Finding No. 03-09, Continued

Area : Loans Receivable/Hazard Mitigation Program

Cause:

The reviewing and approving Loan Officers did not adhere to the qualifying criteria required for the used of Hazard Mitigation Fund Program, and to its policies and procedures set forth in Trust Fund and Real Estate Appraisal requirement.

Effect:

The Corporation has improperly approved loan under the Hazard Mitigation program objective. As a result, the borrower was not properly charged of the interest rate that is intended to reflect the Corporation's cost of funds, plus reasonable degree of risk, and a reasonable return on investment. Additionally, a questioned cost of \$11,237.26 exists as a result of the above condition.

Recommendation:

We recommend that the Corporation to take necessary action to correct improper approval of loan number 40302700. Reviewing and approving Loan Officers must ensure correctness of the facts stated in this loan package, and the legality of its approval under the use of Hazard Mitigation Fund.

Auditee Response/Corrective Action Plan:

We agree with this finding. No further origination activity under this loan program. We will change the program from which this loan was funded. It will be changed from Hazard Mitigation Revolving Loan Program to the Revolving Loan Program which allows for this loan purpose.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings Year Ended September 30, 2003

Finding No. 03-10

Area : Loans Receivable/Standard Dwelling

Criteria:

The Corporation will not make any loans that are collateralized by residential property that is less than fully concrete, unless the loan is for the specific purpose of financing improvements that will result in bringing the property to a fully concrete status.

Condition:

For one (1), or 7%, the Corporation has approved a loan #19702369 for \$172,000 under the Direct Loan Program for a single family unit on June 12, 1997. The property used as collateral for this loan was described as an existing single story detached pre-fabricated with paneling walls and a metal paneled roof. As evident by the property photos in support to the appraisal report dated February 27, 1997, the collateral was less appealing than three comparable used which were all fully concrete structures. Based on the 1997 assessed value of the same property per borrower's property tax assessment, the building property assessed value was \$28,300 and land value at \$20,385. The Corporation did not conduct a visual inspection of the property taken as collateral to this loan prior to the approval and disbursement. Moreover, based on our review of the borrower's loan history, we noted that the borrower has been delinquent since September 1, 1999, and the Corporation did not properly service or refer this loan to legal on August 30, 2002. As of September 30, 2003, the borrower has unpaid interest and charges of \$58,361.20, and outstanding principal loan balance of \$168,451.46, and was placed for second referral under new legal counsel only on September 16, 2003.

Cause:

The Corporation did not adhere to its existing policies on collateral guidelines and collection procedures.

Effect:

The loan was improperly approved and disbursed because of inadequate, unreasonable evaluation of the collateral risk involved for a prefabricated metal structure, butler type metal panel roofing property. The loan may not be collectible and may result in foreclosure.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings
Year Ended September 30, 2003

Finding No. 03-10, Continued

Area : Loans Receivable/Standard Dwelling

Recommendation:

We recommend the Corporation should ensure adherence to its loan policies and guidelines in evaluating collateral risk on all loans. Standard due care is required of reviewing and approving officers in approving loans and by no means should allow the value of the collateral to take precedence over the borrower's credit repayment ability when approving loans.

Auditee Response/Corrective Action Plan:

At the time this loan was approved, the Corporation's underwriting policy allowed for financing of dwellings other than fully concrete with the condition that the dwelling is insurable against all perils. The Corporation's current policy does not allow any financing of substandard homes.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings Year Ended September 30, 2003

Finding No. 03-11

Area : Loans Receivable/Due Dates Discrepancies

Criteria:

Payment due dates should correspond to the date the loan was closed which was the date of the promissory note and the same date the borrower has made its initial payment to an escrow account.

Condition:

Based on the review of the Corporation's loan portfolio comparative listings, we noted that the borrower's due date did not match to the initial payment date it made to its escrow account or to the date of the promissory note for the following borrowers:

<u>Loan Number</u>	<u>Date of First Payment</u>	<u>Due Date on the System</u>	<u>Maturity date on the System</u>
17700882	09/23/77	30	08/23/07
17700900	01/02/78	15	12/02/07
17900969	04/22/79	30	03/22/09
17900987	09/09/79	15	08/15/09
17900999	11/05/79	15	10/05/09
18001046	04/04/80	15	03/04/10
18001076	07/11/80	15	06/11/10
18001104	08/14/80	1	07/14/10
18001111	09/06/80	10	08/06/10
18001127	09/26/80	1	08/26/10
18101209	01/21/82	1	12/21/11
18201245	07/18/82	20	06/18/12
18301361	06/06/83	15	05/06/13
18301408	12/17/83	30	11/17/13
18301409	12/18/83	30	11/18/13
18601704	11/30/87	29	10/31/12
18901871	02/28/89	2	01/28/19
19302218	02/28/93	29	01/29/23
19702348	02/28/97	29	01/28/27
19702369	07/12/97	1	06/12/27
19802438	02/28/98	30	01/30/28
19802512	05/09/98	13	04/13/28
19802548	07/29/98	22	06/29/28
19802549	08/02/98	1	04/01/29
28601651	10/25/86	1	09/25/16
28601673	11/27/86	1	10/27/06
28701710	02/13/87	10	01/13/17
59102063	05/11/91	1	04/11/21

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings Year Ended September 30, 2003

Finding No. 03-11, Continued

Area : Loans Receivable/Due Dates Discrepancies

Condition, continued:

<u>Loan Number</u>	<u>Due date of First Payment</u>	<u>Due Date on the System</u>	<u>Maturity date on the System</u>
59102068	05/16/91	1	04/16/21
59302254	01/15/94	15	07/14/23
59702357	04/30/97	30	03/31/27
59702358	04/30/97	30	03/31/27
59702366	07/02/97	15	06/02/27
59902565	01/04/99	30	12/04/28
99902590	08/30/99	28	07/30/19
819302215	01/01/98	29	03/29/24
859002011	04/01/96	13	02/13/22
38901867	02/28/89	30	02/02/19

Cause:

The cause of the above condition is unknown.

Effect:

There may be errors in the calculation of interest due and late fees. Additionally, it could mislead the borrower's determination of its being current or within the grace period dates, in which case, the late fees are not assessed to the borrowers.

Recommendation:

We recommend the Corporation to take necessary action to correct the discrepancies noted above.

Auditee Response/Corrective Action Plan:

GHC was correcting the discrepancies; however, these files were not completed because the files were not available. The loan officer who was assigned this project is currently completing the necessary documents to correct discrepancies on those files noted on the audit report.

GHC does not dispute this finding as it was aware of the discrepancies and was correcting the discrepancies.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings
Year Ended September 30, 2003

Finding No. 03-12

Area : Other Real Estate Owned (OREO) Properties/
Disposition of OREO, Public Liability and Hazard Insurance

Criteria:

Pursuant to Section 14.01 of the Corporation's Loan Policy, all OREO property should be acquired, managed, and disposed of in the manner to maximize recovery. All OREO properties should be disposed of within three (3) years of acquisition. Additionally, in accordance with Section 14.10 of the Corporation's Loan Policy, public liability insurance must be obtained for all OREO properties to protect the Corporation from liability, losses, or injuries suffered by third parties such as tenants who rent OREO property pending its ultimate disposition. The amount of public liability insurance should be no less than full replacement value of the property as determined by a current appraisal.

Condition:

For four (4), or 80%, of the Corporation's OREO properties exceeded the 3 years holding period as of September 30, 2003. Three (3) of these OREO properties were not income producing as of September 30, 2003 and as of the date of this report, to satisfy that holding extension is necessary for the following:

<u>Property Location</u>	<u>Date Acquired through Loan Foreclosure</u>	<u>Carrying Value as of 9/30/03</u>
Lot 219, Municipality of Agat	7/26/99	\$ 58,048.57
Lot 89-4-2 Sinajana	7/27/99	95,511.96
Lot 9, Blk. 9, Tract 178, Machanao	9/27/00	143,235.39
Lot 9, Blk. 25, Tract 240, Dededo	3/14/00	<u>125,339.97</u>
Total		<u>\$422,135.89</u>

Additionally, as of September 30, 2003, the Corporation did not provide public liability and hazard insurance coverage on the above properties and also for Lot 2349-4, Barrigada, acquired in February 2001.

Cause:

The Corporation failed to adhere to its existing policies and procedures to ensure the most efficient disposition of OREO properties, minimizing any exposure or loss to the Corporation.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings
Year Ended September 30, 2003

Finding No. 03-12, Continued

**Area : Other Real Estate Owned (OREO) Properties/
Disposition of OREO, Public Liability and Hazard Insurance**

Effect:

The possibility of additional losses being incurred resulting from added devaluation of the OREO assets pending its ultimate disposition exists. The Corporation is exposed to the risk of third party liability, losses, or injuries suffered by third parties, such as tenants, who rent these OREO properties.

Recommendation:

We recommend that the Corporation adhere to its established written policies and procedures underlining Other Real Estate Owned properties by insuring all such properties pursuant to Section 14.10 and properly disposing of those assets which have been held excess of three years in accordance with Section 14.01 of the Corporation's loan policy.

Additionally, we further recommend that pursuant to Section 14.13, the Loan Administrator, within 30 days of acquisition, prepare and submit to President and Board of Directors a formal plan for disposition of any OREO property. Based on changing economic and housing market conditions, all disposition plans should be reviewed, revised or amended, as necessary, on a quarterly basis by the Loan Administrator and presented to the Board of Directors for its review and approval.

Auditee Response/Corrective Action Plan:

GHC concurs with the audit findings. It is the Board's directive to dispose of OREO properties at the current appraisal value. GHC staff have had many inquiries and received offers which are way below the appraisal values. During the fiscal year 2003, GHC has sold 6 properties.

As to public liability and hazard coverages for the following properties:

1. Lot 89-4 Sinajana: This dwelling has been determined not structurally sound. The dwelling is not insurable.
2. Lot 2349-4 Barrigada: This is land only and is not insurable
2. Lot 219 Agat. This is a substandard dwelling and is not insurable.

For the other properties, a request for proposal would have to be done to obtain insurance.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings
Year Ended September 30, 2003

Finding No. 03-13

Area : Trust Fund/Overdrawn Trust Fund Accounts

Criteria

In accordance with Section 6.01 of the Corporation's Loan Policy, the Corporation shall establish a trust fund for all residential mortgage loans. In doing so, the Corporation will require impounding of real estate property taxes and hazard insurance premiums so that there will be sufficient funds available to pay each respective borrower's annual real estate property taxes and hazard insurance premiums. Once these funds are placed in a trust fund account, the Corporation becomes responsible for paying the real estate property taxes and hazard insurance when they are due.

Pursuant to Section 6.12 of the Corporation's Loan Policy, in the event that a borrower is delinquent, the Corporation will make all necessary payments for property taxes and hazard insurance and add the amount to the borrower's loan.

If a borrower cancels or fails to have their insurance policy renewed, the Corporation will order a policy in the appropriate coverage amount and pay the premium. The cost of this premium will be added to the borrower's loan. The loan administrator may also review the borrower's financial condition to determine whether or not they qualify for a 1113 loan to finance the annual hazard insurance and property tax. The loan shall be approved subject to standard underwriting guidelines and should be made only if the borrower appears willing to make the necessary payments.

Condition:

As of September 30, 2003, the Corporation had advanced funds on behalf of the borrowers for the disbursements of hazard insurance and real property tax approximating \$134,317 consisting of 80 loans, or 13%, of the total loan portfolio for the following:

<u>No. of Borrowers</u>	<u>Aggregate Amount Advanced by the Corporation for the borrowers</u>	<u>Loan Status of the Borrower as of 9/30/03</u>	<u>Range of Advances made by the Corporation to the Borrower for Hazard Insurance and Real Property Tax</u>
29	\$ 38,776	Current	\$ 75 - \$ 6,684
6	12,898	1 - 14 days past due	147 - 4,721
5	8,823	15 - 30 days delinquent	701 - 4,703
10	7,577	31 - 87 days delinquent	19 - 3,194
17	19,088	181 - 840 days delinquent	65 - 6,424
<u>13</u>	<u>47,155</u>	<u>1,288 - 2,826 days delinquent</u>	<u>405 - 10,519</u>
<u>80</u>	<u>\$134,317</u>		

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings
Year Ended September 30, 2003

Finding No. 03-13, Continued

Area : Trust Fund/Overdrawn Trust Fund Accounts

Cause:

The cause of the above condition is the lack of adherence to the Corporation's established policies and procedures concerning delinquent accounts. The Corporation does not properly servicing the borrower trust funds in a timely manner. Borrowers are not properly notified of trust fund account balance to ensure that such accounts are maintained at required levels to cover real estate taxes and insurance.

Effect:

The Corporation is financing borrowers' real property tax and insurance payments. This practice is negatively impacting the Corporation's operations and cash flow position. The potential exist for these amounts to become uncollectible in the event of foreclosure.

Recommendation:

We recommend that the Corporation adhere to its internal control loan policies and procedures underlying delinquent trust fund accounts. We further recommend the Corporation to establish formal written policies and procedures for addressing issues on trust funds shortages, surpluses, and deficiencies in accordance to requirements as set forth in the 24 CFR Section 3500.17, and or as may be required of under Real Estate Procedures Act (RESPA).

Prior Year Status:

The lack of adherence to the established internal control loan policies and procedures over review of delinquent accounts, trust fund policy, and collection policy, were reported as findings in fiscal years 2001 and 2002.

Auditee Response/Corrective Action Plan:

For accounts in the 181 -840 days and the 1,288 – 2826 days delinquent categories, these accounts have been either given a final letter or already referred to Legal Counsel for further collection action.

For the other accounts, GHC will request financial documents to determine if the borrowers are eligible for an 1113 account. Some borrowers have already made a payment arrangement to pay the overdrawn amount rather than an 1113 account.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings Year Ended September 30, 2003

Finding No. 03-14

Area : Trust Fund/Surplus Trust Fund Accounts

Criteria

Pursuant to 24 CFR §3500.17(c)(i),(f)(2)(ii)(iii), for each escrow account, the servicer shall conduct an escrow account analysis to determine whether a surplus, shortage, or deficiency exists. If an escrow account analysis discloses a surplus, the servicer, shall, within 30 days from the date of the analysis, refund the surplus to the borrower if the surplus is greater than or equal to 50 dollars (\$50). If the surplus is less than \$50, the servicer may refund such amount to the borrower, or credit such amount against the next year's escrow payments. These provisions regarding surpluses apply if the borrower is current at the time of the escrow account analysis. After an initial or annual escrow analysis has been performed, the servicer and the borrower may enter into a voluntary agreement for the forthcoming escrow accounting year for the borrower to deposit funds into the escrow account for that year greater than the amount sufficient to pay the charges respecting mortgaged property such as taxes and insurance. The amount "sufficient to pay" is computed so that the lowest month end target balance projected for the escrow account computation year is zero.

Additionally, pursuant to the Corporation's policy, the Trust Fund Clerk shall review the borrower's trust fund account annually on the expiration date of the hazard insurance policy. In the event that the trust fund has excess funds, the trust fund clerk shall provide the Loan Administrator with the necessary documentation to prepare a check in the amount of any excess to the borrower.

Condition:

Of fifteen (15) trust funds selected with balances greater than or equal to \$4,000, there were thirteen (13), or 87%, in which recalculation disclosed surpluses in excess of the target balance projected for the next escrow computation year. There were two (2), or 13% in which surpluses were accordingly refunded and 2 were delinquent, hence, surplus was retained in the Corporation. There appears to be no review made in prior years on the trust fund balances, as evidenced by the excessive amount noted in the reconciliation of the escrow account. There is no voluntary agreement from borrowers present on file to evidence that escrow surplus maybe retained by the Corporation for the following:

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings
Year Ended September 30, 2003

Finding No. 03-14, Continued
Area : Trust Fund/Surplus Trust Fund Accounts

Condition, Continued:

<u>Loan Number</u>	<u>Aggregate Analysis of Annual Disbursements from Escrow Account</u>	<u>Trust Fund Balance at Analysis Date</u>	<u>Noted Shortage (Overage) as at Analysis Date</u>
17700898	\$ 820.25	\$ 4,918.26	\$ (4,098.01)
18001107	\$ 778.32	\$ 5,735.05	\$ (4,956.73)
18201360	\$ 884.80	\$ 5,490.88	\$ (4,606.08)
19702346	\$ 1,529.17	\$ 4,698.02	\$ (3,168.85)
19702402	\$ 1,215.51	\$ 4,943.25	\$ (3,727.74)
19902637	\$ 1,026.35	\$ 6,002.43	\$ (4,947.08)
17700865	Paid off 8/19/03	\$ 5,330.80	\$ (5,330.80)
18001044	No hazard insurance disbursements	\$ 6,372.13	\$ (5,000.00)
18001076	No hazard insurance disbursements	\$ 4,453.57	\$ (5,815.06)
59202170	No hazard insurance of hazard insurance	No Trust Fund	Analysis on file
18001057	No disbursements of hazard insurance	\$ 7,844.97	\$ (7,156.11)
59802544	\$ 1,374.70	\$ 4,307.62	\$ (2,932.92)
59302247	\$ 1,782.54	\$ 4,707.54	\$ (2,925.00)

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings
Year Ended September 30, 2003

Finding No. 03-14, Continued

Area : Trust Fund/Surplus Trust Fund Accounts

Cause :

The cause of the above condition is a lack of adherence to the Corporation's established policies and procedures underlying Trust Fund.

Effect:

The Corporation may have violated the underlying requirements of Real Estate Settlement Act (RESPA) under 24 CFR Section 3500.17(f)(2).

Recommendation:

We recommend that the Corporation should adhere to existing internal control policies and procedures to ensure compliance for reviewing trust fund accounts, on an annual basis. Additionally, the Corporation should establish internal control to ensure compliance to applicable RESPA requirements.

Auditee Response/Corrective Action Plan:

GHC loan staff has reviewed all accounts to determine the status of each borrower's trust fund. Letter advising shortages as well as surpluses have been sent. If there is a surplus and the account is current, a check will be mailed to the borrower. If, however, the account is delinquent, an authorization is attached to the letter to authorize GHC to transfer excess to satisfy delinquency. The review is ongoing.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings
Year Ended September 30, 2003

Finding No. 03-15

Area : Loans Held in-Trust/Loan Servicing of Other Programs

Criteria:

In order for the Corporation to maximize its collection efforts, the Loan Administrator shall make use of all possible alternatives when servicing accounts, to include delinquency, demand letters, personal contact, and telephone contact. All obligors, whether borrowers, co-borrowers, or guarantors, must be included in servicing efforts to ensure proper notification is made.

Condition:

Based on the review of the delinquent reports as of September 30, 2003 and subsequently for other receivable due from borrowers under Community Affordable Housing Action Trust (CAHAT), Down Payment and Closing Costs Assistance Program (DPCCA), we noted that there is no review and evaluation made on the following loans:

<u>Loan Number</u>	<u>Number of Days Delinquent</u>	<u>Subsequent Loan Balances</u>	<u>Loan Number</u>	<u>Number of Days Delinquent</u>	<u>Subsequent Loan Balances</u>
DPCCA:			CAHAT:		
99802435	1478	\$ 4,421.20	69602335	2,082	\$ 36,782.81
99802426	1440	5,030.13	69502314	1,760	21,509.88
90002654	1156	17,129.20	69402292	1,301	31,550.08
90002668	1126	19,333.36	69502326	946	21,525.00
90002676	942	18,833.38	60002664	624	31,332.57
99902590	823	17,486.76	69902583	303	<u>34,655.60</u>
90002660	747	17,740.86	Total		<u>\$ 177,355.94</u>
99802561	730	3,126.05			
90002689	578	18,166.74	SAGAN LINAYAN:		
90002681	563	17,833.42	All in default for 56		
99902627	479	15,518.66	borrowers		<u>\$ 304,339.95</u>
90002669	365	16,609.58			
90002662	242	16,833.35			
99802554	196	7,009.87			
99902621	179	<u>9,475.60</u>			
Total		<u>\$ 204,548.16</u>			

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings
Year Ended September 30, 2003

Finding No. 03-15, Continued

Area : Loans Held in-Trust/Loan Servicing of Other Programs

Cause:

It appears that the Corporation lacks sufficient personnel to adequately review delinquent loans held in-trust. In addition, the Loan Administrator is specifically responsible to make collection efforts and to provide appropriate servicing needs of delinquent borrowers under other loan programs held in-trust.

Effect:

The potential exists for loans to become uncollectible and subsequently foreclosed in the near future. Potential loan loss also exist due to inefficiency of collections procedures. Had program income from such home assistance programs been collected in a timely manner from borrowers, the income could have been used for eligible activities or other home assisted projects.

Recommendation:

We recommend that the Corporation develop and implement formal written policies and procedures to address responsibility over collection procedures and appropriate servicing of other loan programs held in-trust subject to the applicable local and federal guidelines.

Auditee Response/Corrective Action Plan:

For the Sagan Linayan Loan Portfolio – The Board in its October 22, 2003 meeting terminated this program. GHURA's counsel preparing documents to convert loan to grants.

Down Payment and Closing Cost Assistance Program - This program has also been terminated by GHC. GHC transferred loans to GHURA pursuant to sub-recipient agreement. In the interim, GHURA requests that the borrowers be allowed to continue using coupons to make payment until their system is set up.

CAHAT – Some of the accounts under this program are being serviced. There were two accounts previously referred to GHC's former Legal Counsel. A payment arrangement was made with another borrower. Accounts will be serviced in accordance with GHC's current collection policy.

1. 69602335 – This account was previously referred to GHC's former Legal Counsel for further action. Per Legal Counsel, GHC can not foreclose as the first mortgagee foreclosed. GHC can payoff first mortgage and then sell property to recover investment.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings
Year Ended September 30, 2003

Finding No. 03-15, Continued

Area : Loans Held in Trust/Loan Servicing of Other Programs

Auditee Response/Corrective Action Plan, Continued:

CAHAT, Loan acct. number 69602335, Continued

It is our position to refer this account to our current legal counsel to determine if GHC has other alternatives. Account will be referred to Committee for further transmittal to Legal.

2. 69502314 – This account was also referred to the former Legal Counsel with no action taken. Will be referred to committee for further transmittal to Legal Counsel.
3. 69602292 – This account was on a payment arrangement. Will be referred to Committee for further referral to Legal.
4. 69502326 - Collector is assigned to service this account in accordance with GHC's current collection policy.
5. 60002664 – Collector is assigned to service this accounts in accordance with GHC's collection policy.
6. 69502583 – Collector is assigned to service this account in accordance with GHC's collection policy.

The collector will concentrate on the collection of all delinquent loans under this program.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings Year Ended September 30, 2003

Finding No. 03-16

Area : Loan Origination Fees

Criteria:

It is the policy of the Corporation to charge loan origination fees on all residential mortgage loans. Understanding the nature and risk associated with Corporation's loan portfolio, origination fees should be at minimum, equal to or greater than those charged by other lenders for similar types of loans. The fees shall be quoted on an internal rate sheet that is distributed to all loan officers and management.

The Loan administrator shall be responsible for all collection efforts including collection of loan fees upon loan closing.

Condition:

Based on audit procedures applied on deferred loan fees, it was noted that the following borrowers were charged of the loan fees, however, it appears no collection efforts made on them, nor was there any evidence that required loan fees were ratified prior to loan disbursement for the following:

<u>Loan Number</u>	<u>Date Originated</u>	<u>Amount of Loan fees</u>
R6-2586	July 7, 1999	\$ 1,200.00
SRF-2672	Aug. 1, 2000	2,160.00
R6-2672	Aug. 1, 2000	405.00
R6-2644	Sept. 1, 2000	1,843.31
SRF-2691	June 19, 2001	327.66
SRF-2693	Sept. 19, 2001	<u>1,485.66</u>
Total		<u>\$ 7,421.63</u>

Cause:

The cause of the above condition is unknown.

Effect:

The Corporation has assumed the burden of the corresponding origination cost disbursed on behalf of the above borrowers.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings
Year Ended September 30, 2003

Finding No. 03-16, Continued
Area : Loan Origination Fees

Recommendation:

We recommend the Corporation should ensure adherence to its loan policies and guidelines underlining loan fees and other charges prior to any loan disbursements made.

Auditee Response/Corrective Action Plan:

The following accounts were approved for First Time Homeowner's Grant Program for their loan origination fees. The following accounts were authorized for closing and await payment from this program.

10002644
10102691
50102693

Because funding was from the First Time Homeowner's Grant Program, the disbursement of the funds must be done by the Title Company. GHC continues to follow with the title company to remit the required funds for the following two accounts.

10002672
60002672

GHC awaits the disbursement of the loan fees from the title company for account 69902586. Funds were deposited in escrow account. GHC will follow-up with title company again.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings Year Ended September 30, 2003

Finding No. 03-17

Area : Payroll

Criteria:

The Corporation must maintain pertinent documentation within the employee's individual personnel folders, which includes the employee's application form, personnel action form, performance evaluations, copies of deduction forms (i.e. medical, dental, retirement), current W-4 form, Drug Free Workplace Act Policy, and other miscellaneous documents such as certificates from trainings and recommendations.

Condition:

For sixteen (16), or 94%, of the seventeen (17) personnel files tested, we noted that personnel folders lacked certain documentation for the following:

<u>Employee's Identification No.</u>	<u>Document not on file</u>
1. 101, 301, 102, 405, 303, 505, 302, 504, 404, 401, 403, 406, 503, 402, 304 & 202	2003 and 2004 W-4 Forms
2. 304	Retirement plan
3. 101, 104, 404, 401, 403, 406	Drug Free Workplace Act statement duly signed by the employee.

Cause:

It appears that there is no personnel staff in-charge to ensure that the necessary documents are on file for future references.

Effect:

The Corporation is not in compliance with their Personnel Policy in maintaining the pertinent documentation for employees.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings Year Ended September 30, 2003

Finding No. 03-17, Continued

Area : Payroll

Recommendation:

The Corporation should perform a detailed review of its personnel files, at least annually, to verify whether the information is updated, complete, and accurate. A checklist should be developed and inserted in each employee personnel file to ensure that all required documentation is obtained, updated or added when revisions are made.

Auditee Response/Corrective Action Plan:

GHC concurs with the auditor's findings and has taken the following corrective actions:

All employees W4 data has been updated. Supporting documents will be placed in employee files by October 1, 2004. Previously, GHC would poll employees annually and update W4s only when changes requested. Upon the recommendation of the auditor, this data will be updated annually. Copy of employee 304's retirement plan enrollment form has been retrieved from GGRF and is now on file. The Drug Free Workplace statements have been signed and will be placed in employee files by October 1, 2004. Finally, a checklist & log sheet will be designed and inserted into all personnel files to improve document tracking.

The job for updating and auditing personnel files has been a shared duty among the three-person staff of Administration. This has been the case since the downsizing three years ago.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings Year Ended September 30, 2003

Finding No. 03-18

Area : Payroll

Criteria:

Payroll transactions must be properly supported by pertinent records such as time record, authorized leave request, and approved deductions. Approving officer's and Supervisor's signature must be present on these documents to signify the existence and correctness of the facts stated in the payroll records have been adequately reviewed and approved.

Condition:

For eight (8), or 32%, of the payroll disbursements tested, we noted the following:

<u>Payroll Reference</u>	<u>Payroll Period Covered</u>	<u>Deficiency noted:</u>
Control Vouchers No. 0695, 0712 Check Nos. 31655, 31659 Control Voucher No. 0826	1/27-2/7/03 12/29/02-11/11/03 4/20-5/3/03	Signature of Department Supervisor and President/Controller did not appear on payroll timesheet records.
Control Voucher No. 0794, Control Voucher No. 0838	3/24-4/5/03 4/20-5/3/03	Signature of Department Supervisor did not appear on Timesheet records
Check No. 31535	12/15-28/02	Signature of Department Supervisor and employee's signature did not appear on time sheet record.
Control Vouchers 0966, 0969 and 0974(Loan Dept. Payroll Timesheets)	7/14-25/03	Not on file.

Cause:

The cause of the above condition is the lack of adherence to existing internal control policies and procedures to ensure that standard due care as required from approving officers and supervisors.

Effect:

The possibility exists that an incorrect payroll disbursement has been made.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings Year Ended September 30, 2003

Finding No. 03-18, Continued

Area : Payroll

Recommendation:

The Corporation should take necessary actions to ensure that existing controls are strictly implemented. The Approving officers and Supervisors must provide standard due care as they are required to prevent mistakes. Additionally, the Corporation should continue surveys of paper work operations, and recommend improvements in current records management practices in regard to maintaining, storing, and servicing records.

Auditee Response/Corrective Action Plan:

Control Vouchers No. 0695, 0712 , Check Nos. 31655, 31659 : We concur with the auditor's findings. For the pay period in question. GHC may have overlooked the protocol due to relocation activities in post-Super typhoon Pongsona.

Control Voucher Nos. 0826, 0794 & 0838: We concur with the auditor's findings. for the periods in question, the specified timesheets, though not signed by the immediate supervisors, were signed by the President. Currently, there is no designation of the responsibility for signing a timesheet in the absence of the immediate supervisor. The Corporation will review the signing protocols and initiate appropriate backup support measures.

Check No. 31535: We concur with the auditor's findings. Super typhoon Pongsona occurred during this pay period. GHC remained closed, employees were to refrain from travel due to emergency conditions and the tank yard fire. Payroll was completed manually and without normal protocols. The situation was an isolated case.

Control Vouchers 0966, 0969 & 0974: We concur with the auditor's findings. GHC is reviewing its files to locate the missing document.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings
Year Ended September 30, 2003

Finding No. 03-19

Area : Cash Receipts/Control Forms

Criteria:

Control forms to cash count should be properly completed to ensure that control objectives are achieved. Preparer's signature of the Cashier's Cash Count Report should be signed by the authorized designated employee for third-party verification. The authorized counter verifying officer (Pre-Audit Officer) should always sign-off to indicate that the cash was independently verified.

Condition:

For four (4), or 9%, of the cash receipts tested, the Cashier's Count Report is left unsigned by either of the preparer or the Pre-audit officer as follows:

<u>Official Receipt Number</u>	<u>Date</u>
3226	12/23/02
3362/03-115	01/16/03
3983	05/07/03
4452	08/05/03

Cause:

The cause is lack of adherence to the Corporation's existing internal control policies and procedures.

Effect:

There is no financial effect on this condition.

Recommendation:

We recommend that the Corporation adhere to existing internal control policies and procedures to ensure that all Cashier Count Report are properly completed and independently verified by authorized designated employees.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings
Year Ended September 30, 2003

Finding No. 03-19, Continued

Area : Cash Receipts/Control Forms

Auditee Response/Corrective Action Plan:

GHC concurs with the auditor's findings. The appropriate auditor or pre-auditor has been identified and the correct acknowledgments notated. GHC would like to point out that for 12/23/02 & 1/16/03 occurred in the timeframe under which the Corporation was still in emergency recovery from Super typhoon Pongsona. Standard Operating Procedures will be adopted to correct such occurrences.

GUAM HOUSING CORPORATION

SUMMARY OF UNRESOLVED QUESTIONED COSTS
SEPTEMBER 30, 2003

	<u>Beginning Questioned Costs</u>	<u>Costs Allowed</u>	<u>Costs Disallowed</u>	<u>Unresolved Questioned Costs</u>
Total unresolved questioned costs for fiscal year 2003	\$ -	\$ -	\$ -	\$ -
Questioned costs for fiscal year ending 2003	<u>11,237</u>	<u>-</u>	<u>-</u>	<u>11,237</u>
Total unresolved questioned costs At September 30, 2003	<u>\$ 11,237</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,237</u>

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