GUAM HOUSING CORPORATION
(A PUBLIC CORPORATION)

REPORT ON COMPLIANCE AND INTERNAL CONTROL

FOR THE YEAR ENDED SEPTEMBER 30, 2004

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& COMPANY
CERTIFIED PUBLIC ACCOUNTANT

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS 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), a component unit of the Government of Guam, as of and for the year ended September 30, 2004, and have issued my report thereon dated May 17, 2005. I conducted my audits 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.

Internal Control over Financial Reporting

In planning and performing the 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 the 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 (pages 49 through 85) as items 04-01 through 04-20.

A material weakness is a reportable 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 caused by error or fraud 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 assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I consider items 04-01, 04-02, 04-05, 04-06, 04-11, 04-12, 04-13, 04-17 and 04-20 to be material weaknesses.

Compliance and Other Matters

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, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Internal Control Findings as items number 04-03 through 04-09 and 04-12 through 04-19.

I also noted certain immaterial instances of noncompliance that I have reported to management of the Guam Housing Corporation, which are included in the accompanying Schedule of Internal Control Findings.

This report is intended for the information of the Board of Directors and management of the Guam Housing Corporation, federal awarding agencies, pass-through entities and the cognizant audit and other federal agencies and is not intended to be, and should not be, used by anyone other than the specified users. However, this report is a matter of public record and its distribution is not limited.

J. Scott Magliari & Company

Hagåtña, Guam
May 17, 2005

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings
Year Ended September 30, 2004

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

The Guam Housing Corporation did not receive or expend any federal awards for the fiscal year ending September 30, 2004. Therefore, it did not have any major federal programs.

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 04-01 through 04-20.

Reference Number	Findings	Questioned Costs
04-01	Loans Receivable – Allowance for Loan Losses	$ -
04-02	Loans Receivable – Delinquency and Loan Servicing	-
04-03	Loans Receivable – Typhoon Coverage	-
04-04	Loans Receivable – Title Reports	-
04-05	Loans Receivable – Loan Approval	-
04-06	Trust Fund – Surplus in Trust Fund Accounts	-
04-07	Trust Fund – Overdrawn Trust Fund Accounts	-
04-08	Trust Fund – Appraisal Reports	
04-09	Procurement – Sole Source	45,460.00
04-10	Petty Cash – Unaccounted Funds	124.26
04-11	Tenant Receivables – Allowance for Doubtful Accounts	-
04-12	Tenant Receivables – Eligibility	-
04-13	Tenant Receivables – Recertification	-
04-14	Tenant Eligibility – Household Composition	-
04-15	Tenant Receivables – Lease Agreements	-

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings
Year Ended September 30, 2004

PART II - FINDINGS - FINANCIAL STATEMENTS, CONTINUED

Reference Number	Findings	Questioned Costs
04-16	Tenant Receivables – Housing Inspections	$ -
04-17	Tenant Recertification – Income Verification	-
04-18	Tenant Receivables – Applications	-
04-19	Tenant Receivables – Use of Dwelling Units	-
04-20	Cash Receipts – Segregation of Duties	-
		$ 45,584.26

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings
Year Ended September 30, 2004

Finding No. 04-01
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 $3,318,904 and based on analysis of the loan portfolio, this amount appears insufficient for potential credit risk as of September 30, 2004. The loan portfolio is not consistently analyzed in a matter that would categorize loans based on credit and collateral risk to ensure that an appropriate allowance is maintained for potential loan loss. Subsequent to September 30, 2004, we noted that management commenced an aggressive review of delinquent loans to perform a workout plan, re-amortize or refer the loans to legal counsel for collection or foreclosure and as a result subsequent collections and a decrease in delinquent loans as occurred.

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 $250,000 was made to increase the allowance for loan losses to sufficiently absorb credit losses and risk inherent to the loan portfolio.

Finding No. 04-01, continued
Area: Loans Receivable/Allowance for Loan Losses

Prior Year Status:

The lack of internal controls over loan monitoring and evaluation was reported as finding in the 2003 audit of the GHC.

Recommendation:

We acknowledge and commend management's aggressive collection efforts of its delinquent loans subsequent to September 30, 2004; however, we recommend that the Corporation sustain the effort to 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. Delinquent loans should be categorized and documented in various performing status and identified on a watch list as substandard and doubtful and establish percentages to be reserved based on loss probability. This will facilitate in identifying troubled loans and aid the borrower in seeking alternatives to potential loan default and foreclosure.

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.

The Corporation's method of estimating credit losses is influenced by many factors, including its business environment, loan portfolio characteristics, loan administration procedures, 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 current collateral fair values, where applicable;
f. Be based on current and reliable data; and
g. Be well documented, with clear explanations of the supporting analyses and rationale.

Finding No. 04-01, continued
Area: Loans Receivable/Allowance for Loan Losses

Recommendation: continued

Management should endeavor to incorporate the above items into its existing loan loss policies and procedures to ensure that the Corporation is able to minimize its credit risk associated with its loan portfolio. Additionally, when loans initially become delinquent beyond the 15-day grace period, they should be given immediate attention for collection and loan servicing to mitigate potential loans entering a non-performance status (91 days past due) and resulting in a loss of interest income and ultimately potential foreclosure.

Auditee Response/Corrective Action Plan

The Corporation continues to show a reduction in the total delinquent accounts over the 90 days to include the accounts referred to legal counsel for further collection or foreclosure proceedings. As of May, 2005, a review of these accounts supports the Loan Administrator's recommendation that the allowance of loan losses is an adequate for reserve for future losses.

For FY 2003, the Corporation's total delinquent accounts 91 days and over to include accounts referred to legal is $7,474,454. As of Fiscal Year 2004, the total for the same categories is at $5,385,624. As of May, 2005, the total is at $4,138,346.

Auditor's Response:

We acknowledge the Corporation's aggressive review of its loan portfolio as of May 2005 to service delinquent loans. This review and level of effort should be performed consistently on a monthly basis. The Corporation must continue to sustain its aggressive posture and consistent adherence to its existing loan policies and procedures. Delinquency will be thoroughly examined in the 2005 audit to determine whether substantial progress has been made to further reduce delinquency and monitor Corporation's achievement in the implementation of the recommendation outlined above. If it is determined that the Corporation is consistently monitoring its loan portfolio at sustainable levels resulting in reduced delinquency, the allowance for doubtful accounts will be reduced and aligned relative to the amount of credit risk inherent to the loan portfolio.

Finding No. 04-02
Area: Loans Receivable/Delinquency and Loan 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, 2004, loans in arrears three months or more, including those referred to the Corporation's attorney for collection, totaled $5,385,624 and $7,474,454 for the years September 30, 2004 and 2003, respectively. Loan in arrears three months or more approximate 21% of the total Corporation's loan portfolio.

Cause:

The above condition could have been mitigated if timely monitoring, 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.

Prior Year Status:

The lack of adherence to internal controls over delinquent loan servicing was reported in the 2003 audit of the GHC.

Finding No. 04-02
Area: Loans Receivable/Delinquency and Loan Servicing

Recommendation:

We understand that the Corporation has implemented it's a Credit Committee and hired personnel for the Collection Department and is now conducting a review of its loan portfolio for delinquent loans 90 days past due. However, we recommend that the Corporation start evaluating loans once the monthly scheduled payment is not remitted past the grace period. This will facilitate the process of identifying potential delinquent or troubled loans before the loan reaches a non-performing status. Also, it will minimize the potential loss of interest income.

Auditee Response/Corrective Action Plan:

A reduction on the total delinquency is a reflection that servicing actions are in fact taking place and that follow up are being made.

Auditor's Response:

We acknowledge the Corporation's aggressive review of its loan portfolio as of May 2005 to service delinquent loans. This review and level of effort should be performed consistently on a monthly basis. The Corporation must continue to sustain its aggressive posture and consistent adherence to its existing loan policies and procedures. Delinquency will be thoroughly examined in the 2005 audit to determine whether substantial progress has been made to further reduce delinquency and monitor Corporation's achievement in the implementation of the recommendation outlined above. If it is determined that the Corporation is consistently monitoring its loan portfolio at sustainable levels resulting in reduced delinquency, the allowance for doubtful accounts will be reduced and aligned relative to the amount of credit risk inherent to the loan portfolio.

Finding No. 04-03
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:

The insurance policy lapsed and no insurance coverage was maintained for the fiscal year ending September 30, 2004 for loan #59102120.

Subsequent to September 30, 2004, we noted that the Corporation began an inspection of all dwelling and a review of loan files to determine that borrower maintained sufficient insurance coverage.

Cause:

There is lack of internal control in reviewing and evaluating each borrower's respective hazard insurance coverage annually.

Effect:

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

Finding No. 04-03, 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 2003.

Recommendation:

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.

Auditee Response/Corrective Action Plan:

For loan #59102120, we are awaiting payment of borrower's share for last year's insurance premium, in order to place one the current year. The insurance company will not place insurance until the outstanding balance is settled.

Finding No. 04-04
Area: Loan Receivable – Title Reports

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:

We read the title insurance policy, attorney's opinion letter or other title documentation and verified the collateral constitutes a first lien against the property and noted the following:

Loan #59102082

Based on review of the recorded mortgage, the property is listed as Lot No. 1031-2-R4, Barrigada, Guam, Municipality of Barrigada under Document #444388; however, the insurance policy reflected the insured property as Lot No. 1021-2-R4, Barrigada, Guam. The property tax documents indicate 1031-2-R4.

Loan #59302242

Based on review of recorded mortgage, the property is listed as Lot No. P10.9A-3-13, Dededo, Guam, Document #490570; however, the most recent insurance policy on-file which lapsed indicates the insurance property as Lot No. P10-9A-13, Dededo, Guam and the promissory note indicate Lot No. P10.9-3-13, Dededo, Guam.

Loan #59102123

The title policy indicates that a mortgage made by relative of the borrower for $11,100 to Pacific Financial Corporation was filed with the Department of Land Management and thus constituting a first lien against the property.

Loan #59802432

The title policy indicated delinquent property taxes of $266.16 outstanding for 1996; however, there is no documentation to indicate that such were paid.

Finding No. 04-04, continued
Area: Loans Receivable – Title Reports

Condition, continued:

Loan #38601596

Per review of the Title Report, a mortgage dated 6/13/80 was executed by the borrowers in favor of American Savings & Loan for $28,000 and there was no release of mortgage on-file.

Loan #59302222

The title policy states that tax liens dated 9/25/75 and 2/10/77 were filed against the borrower's relative in the amount of $365.79 and $1,593.25, respectively, for income taxes plus penalties and interest. There was no documentation on-file to verify that these amounts were cleared.

Loan #59802433

The title policy indicates delinquent property taxes of $536.45 outstanding for tax years 1978 thru 1981; however, there is no documentation to indicate that such were paid.

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.

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 2003.

Finding No. 04-04 continued
Area: Loans Receivable – Title Reports

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 and ensure that all exceptions noted of these are reports are cleared prior to loan closing.

Auditee Response/Corrective Action Plan:

For loan #59102082 regarding the insurance policy, GHC has on file two requests made to make the correction to reflect the correct legal description.

For loan #59302242, an amended promissory note will be prepared for the borrowers to sign.

For loan #59102123, a PTR will be requested to verify if prior mortgage still exist.

For loan #59802432 regarding 1996 real property taxes, we have requested from to Revenue and Taxation for certification of payment.

For loan #38601596, this loan was approved since 1986. A PTR will be ordered to verify if prior mortgage still exists.

For loan #5930222, a certification of payment request was made in March 2005 and again in June 2005.

For loan No. 59802433, a certification of payment request was made in June 2005.

Finding No. 04-05
Area: Loans Receivable – Loan Approval

Criteria:

Pursuant to the Corporation's loan policies, loans should be properly approved and documented and collateral used to secure loans should be fee simple.

Condition:

Based on review of 60 loan files, we noted the following exceptions for 3 or 5% of the loan files tested:

Loan #59102141

This loan represents an assumed mortgage loan (original note for $130,000 bearing interest of 6% dated 10/8/91 for 20 yrs). No documentation was on-file to evidence that the current borrowers completed a loan application, obtained an updated title report and current appraisal. A new promissory note was not executed. The loan balance was $121,955.08 at the time of assumption. A warranty deed with the assumption of mortgage was duly recorded; however, there was no indication that this loan was properly approved by GHC.

Loan #59102089

Original loan was made to a related borrower for $100,000 dated 5/30/91 and was subsequently assumed by the borrower's son when the loan balance was $99,830.56 on 12/2/91. A new note was not executed, the loan application of the new borrower was not signed by the borrower or by GHC, a credit check was not conducted and an updated appraisal and an updated Title search were not obtained.

Loan #19902570

The property used as collateral for this loan is leased to the borrowers from the Chamorro Land Trust which prohibits the borrower from subletting or selling the property, and even in the event of foreclosure, the property can only be sold to another qualified Chamorro Land Trust applicant. Pursuant to §10(ii) of the executed leasehold mortgage dated 1/8/99, in the event of default, GHC may foreclose and sale the property and apply the proceeds to be applied to pay off the debt. Moreover, pursuant to §3 of the Chamorro Land Trust Commission (CLTC) Guaranty, in the event of default by the borrower, the CLTC will pay the delinquent payments for no more than one (1) year and may cancel or transfer the borrower's lease to another qualified person or simply pay GHC the entire outstanding loan balance. The safety and soundness of the Chamorro Land Trust has not been determined as it has never been audited nor have any financial statements been prepared and made public.

Finding No. 04-05, continued
Area: Loans Receivable – Loan Approval

Cause:

There is a lack of internal control policies and procedures to ensure that all loans are properly documented, reviewed and approved according to loan origination policy and procedures. It appears that the Corporation circumvented and did not comply with existing loan origination internal control policies and procedures.

Effect:

The Corporation did not comply with loan origination policies and loans were improperly granted to individuals who may not have been qualified and may not be secured by sufficient collateral in the event of default and foreclosure.

Recommendation:

The above loans should be reviewed and the appropriate level of loan documentation should be obtained.

We understand that the Corporation continues to expand its loan program to recipients of the Chamorro Land Trust. We recommend first determine the financial viability of the Chamorro Land Trust since it has never been audited or financial statements have not been made available because there is no assurance that CLTC will be able to repay the note in the event of foreclosure or comply with §3 of the Chamorro Land Trust Commission (CLTC) Guaranty.

All loans should be supported by loan applications, appraisals, credit reports, recorded mortgages, etc., and be properly secured by fee simple collateral. Loan files should be properly reviewed to ensure that all documents have been obtained. The Loan Department should ensure strict adherence to the Corporation's established loan origination policies and procedures prior to loan closing.

Auditee Response/Corrective Action Plan:

At the time of origination for loans #59102141 and #59102089, the Corporation did not have an underwriting policy to address processing of assumption of loans. Both loans have an assumption of mortgage on file and are both performing.

Loan #19902570 is secured by a leasehold mortgage under the Chamorro Land Trust Act and a guaranty was issued by CLTC. This loan is acceptable collateral by FHLB.

Finding No. 04-06
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 an 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, 2004, the Corporation had advanced funds on behalf of the borrowers for the disbursements of hazard insurance and real property tax approximating $103,222 consisting of 59 loans, or 11%, of the total loan portfolio. The negative trust fund balances range from $12,040 to less than $100. Subsequent to September 30, 2004, we noted that the Corporation starting applying loan payments received from borrowers to the negative trust balances before to reducing the borrower's principal loan balance.

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.

Finding No. 04-06, continued
Area: Trust Fund/Overdrawn Trust Fund Accounts

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 exists for these amounts to become uncollectible in the event of foreclosure.

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 year 2003.

Recommendation:

We recommend that the Corporation examine all negative trust account balances and either collect amounts due from borrowers or apply future monthly loan payments to cure the negative trust fund balance. We further recommend the Corporation to adhere to its 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 to those procedures as may be required under Real Estate Procedures Act (RESPA).

Auditee Response/Corrective Action Plan:

The Board of Directors has already amended GHC's policy relative to application of payments in order to satisfy overdrawn trust fund. GHC's has since made contact to each borrower with an overdrawn trust account. Copies of letters are on file with the homeowner's policy.

As of September, 2004, the report reflected a total of $103,222 consisting of 59 loans. As of May, 2005, a total of $39,439.58 for 23 loans is reflected as overdrawn trust fund accounts. This equates to a reduction of 61% on the overdrawn trust fund.

Finding No. 04-07
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 ten (10) trust funds selected with balances greater than or equal to $4,000, the recalculation disclosed surpluses in excess of the target balance projected for the next escrow computation year. It appears that no review was made in prior years on the trust fund balances, as evidenced by the excessive amount noted in the reconciliation of the escrow account. There were no voluntary agreements from borrowers present on file to evidence that escrow surplus maybe retained by the Corporation.

Cause:

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

Finding No. 04-07, continued
Area: Trust Fund/Surplus Trust Fund Accounts

Effect:

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

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 year 2003.

Recommendation:

We recommend that the Corporation examine and recalculate the trust balances for all accounts in excess of $4,000 to determine the actual surplus and refund any amounts due to the respective borrowers. Additionally, the Corporation should establish internal control to ensure compliance to applicable RESPA requirements.

Auditee Response/Corrective Action Plan:

The Corporation continues to review each trust fund account to determine the excess amount. If an amount is held, borrowers are advised that there is a surplus, however if the account is delinquent or an insurance is not in effect, no disbursement will be made. Documentation made on the file.

As of May 2005, there are still 10 loans with an outstanding amount over $4,000. Loan #18201360 and #59702391 were delinquent and borrowers were advised to authorize transfer to loan with the balance to be refunded to borrower. GHC is waiting authorization for disbursement.

Finding No. 04-08
Area: Trust Fund – Appraisal Reports

Criteria:

All loans should be subject to a Financial Institutions Reform Recovery Enforcement Act (FIRREA) complaint appraisal or other FIRREA-eligible collateral evaluation and all conditions of the appraisal should be resolved prior to closing.

Condition:

Appraisal reports were not on file for inspection. Therefore we were unable to perform this procedure for loans #59802423, #59802432, #59802433 and #59102089.

Cause:

The appraisals were either misfiled or not conducted prior to loan origination.

Effect:

The potential exist for the property values to be understated and expose the Corporation to additional collateral risk.

Recommendation:

We recommend that collateral used for loans be subject to appraisals for proper loan to value determinations prior to approval of the loan.

Auditee Response/Corrective Action Plan:

The abovementioned loans were submitted to Federal Home Land Bank of Seattle (FHLB) for collateral along with original appraisal reports. The appraisal reports were submitted to FHLB and copy was not retained. A request for a copy will be requested from FHLB.

However, we note that the Quality's Assurance Review Checklist notes that an appraisal was in fact completed prior to loan approval. As for loan #59102089, an appraisal was not conducted at the time of assumption; however, the original appraisal report was provided.

Finding No. 04-09
Area: Procurement – Sole Source

Criteria:

Pursuant to General Service Agency (GSA) Procurement Regulations Section 3-205 "Sole Source Procurement," a contract may be awarded for a supply, service, or construction item without competition when the provisions of this section are met, provided that the Chief Procurement Officer (CPO), the Director of Public Works (DPW), the head of a Purchasing Agency (PA), or their designee above the level of Procurement Officer determines in writing that there is only one source for the required supply, service, or construction item. Section 3-205.02 states that sole source procurement is permissible unless a requirement is available from only a single supplier. A requirement for a particular proprietary item does not justify a sole source procurement if there is on more than one potential bidder or offeror for that item.

The following examples of circumstances which could necessitate sole source procurement: (a) where the compatibility of equipment, accessories, or replacement parts is the paramount consideration; (b) where a sole supplier's item is to be procured for resale; (c) where public utility services are to be procured; or where supplies are offered through bankruptcy or receivership sales, or other disposition at lower than prevailing market prices. The determination as to whether a procurement shall be made as a sole source shall be made by the CPO, the DPW, the head of a PA, or designee of such officer. Such determination and the basis thereof shall be in writing. Such officer may specify the application of such determination and the duration of its effectiveness. In cases of reasonable doubt, competition should be solicited. Any request by a using agency that a procurement be restricted to one potential contractor shall be accompanied by an explanation as to why no other will be suitable or acceptable to meet the need.

Condition:

GHC procured via sole source a MIP Gov Series Accounting Software System, Support and Maintenance under purchase order #46Z00080 dated 8/18/04 for $45,460. GHC's justification for sole source procurement indicated that they had downsized and relocated and entered into a contract with the Guam Economic Development and Commerce Authority (GEDCA) to use its accounting system which is on the same software platform. GHC further stated that the Governor's reorganization plan to merge GHC with the Guam Housing and Urban Renewal Authority was a basis for sole source procurement and therefore the data was required to be transferred and upgraded to the same software yet separate from GEDCA. Additionally, the GSA did not provide, in writing, a determination letter stating which of the above circumstances necessitated sole source procurement. GHC failed to obtain and sufficiently document that comparable software could not be obtained from other potential vendors since it did solicit nor advertise for such services. While we understand GHC’s intent, it appears that GHC and GSA failed to comply with the Sections 3-205 and 3-205.02 of the GSA Procurement Regulations.

Finding No. 04-09, continued
Area: Procurement – Sole Source

Cause:

The Corporation relied on various verbal and informal written communications with GSA for guidance in making it decision to sole source the above procurement. There is lack of understanding of proper procedures of utilizing the sole source procurement method.

Effect:

The Corporation is not in compliance with its procurement rules and regulations. Because the justification for purchase was not properly obtained and noted, it remains unknown whether in-fact, the purchase qualifies for sole source method or that the best price or comparable software was obtained. Therefore, a questioned cost of $45,460 exists as a result of this condition.

Recommendation:

All sole source procurements should meet the criteria outlined in GSA Procurement Regulations Section 3-205 and ensure that written approval is first obtained from GSA.

Auditee Response/Corrective Action Plan:

Final approval authority for all procurement matters rests with the GSA Chief Procurement Office or her designee. GHC is satisfied to have complied with the documentation requirements as directed by the procurement agency. We believe the justification to pursue sole source procurement for the accounting software to be sound and in compliance with 2GAR on the basis of compatibility of equipment and accessories. Of paramount importance to the Corporation was to acquire the product and support services which would not impede the operations of the accounting division. Under GSA's guidance, we believe that this has been accomplished successfully.

Finding No. 04-10
Area: Petty Cash – Unaccounted Funds

Criteria:

Petty cash funds should be properly accounted for reconciled upon each replenishment.

Condition:

Although immaterial, we conducted a surprise petty cash count of the Corporation to determine whether such funds were properly accounted for. The Corporation maintains two (2) cash accounts which consist of Petty Cash and a Change Fund of $300 and $500, respectively. The Change Fund was discontinued effective October 2004. We met with the Petty Cash custodian conducted a surprise count and noted a discrepancy of $124.26 as follows:

Total Petty Cash Fund		$300.00
Less receipts accounted for:		85.21
Less cash on-hand:		
Currency	$88.00	
Coins	2.53	
Total cash on-hand		90.53
Sub-total		175.74
Unlocated difference		$124.26

The Petty Cash custodian was unaware of the discrepancy and could not explain the variance. We obtained the last replenishment dated September 30, 2004 and noted that Petty Cash replenished the Fund to $300; however, the cash on-hand was not independently verified.

Cause:

The Corporation has not established proper internal control policies and procedures to ensure that petty cash is properly controlled and accounted for.

Effect:

There is no material effect on the financial statements; however, the potential exist for misappropriation of assets.

Finding No. 04-10, continued
Area: Petty Cash

Recommendation:

We recommend that policies and procedures develop and implement policies and procedures to ensure that petty cash funds are properly accounted for. All petty cash reimbursements should be properly supported receipts or invoices prior to replenishment.

Auditee Response/Corrective Action Plan:

For current and future guidance, the GHC President has developed and implemented some initial guidelines and procedures to administer and monitor the use of petty cash in the Corporation. Despite the infrequent use of the petty cash fund in recent years, The Corporation recognizes the potential need and use of the fund to provide an efficient and cost-effective way to make prompt payments for minor business expenses. In this regard, a more formal policy, with accompanying procedures, is being developed by the GHC Manager for consideration and adoption by the Corporation.

Finding No. 04-11
Area: Tenant Receivables - Allowance for Doubtful Accounts

Criteria:

An allowance for doubtful accounts for tenant receivables should be maintained at a level, which, in management's opinion, is adequate to absorb losses inherent in the receivables. The amount of the allowance should be based on an evaluation of the collectibility of receivables, credit concentrations, and trends in historical loss experience, economic conditions, and other risks inherent to the receivables.

Condition:

An adjustment of $40,516 was made to increase the Corporation's allowance for doubtful accounts for potential uncollectible tenant receivables, resulting in a total allowance of $67,670 or 41% of the Corporation's tenant receivables outstanding as of September 31, 2001. Based on our review of the tenant receivables, this amount may not be sufficient for the potential uncollectible accounts as of September 30, 2004.

Cause:

The Corporation has not established a collection policy and formal written internal control policies and procedures to evaluate tenant receivables for potential loss for past due accounts.

Effect:

The effect of the above condition is the possibility of an ineffective method for determining the allowance for doubtful accounts and consequently the Corporation may have some level of risk in its tenant receivables.

Recommendation:

The Housing Manager should establish internal control policies and procedures for determining doubtful accounts and ensure that an adequate allowance is maintained and establish a for formal collection policy.

The Senior Tenant Relations Advisor (TRA) should enforce the terms and conditions of the Tenant Lease Agreement for past due accounts or seek to collection such delinquent accounts.

Finding No. 04-11, continued
Area: Tenant Receivables - Allowance for Doubtful Accounts

Auditee Response/Corrective Action Plan:

Policy parameters are now in place to reduce the amount of delinquent accounts. Tenants who fall into the 30+ day's delinquent are given notices to bring their account current or are referred to the Collection Committee for further action which may include eviction or a payment work-out.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings
Year Ended September 30, 2004

Finding No. 04-12
Area: Tenant Receivables - Eligibility

Criteria:

Pursuant to the Chapter 5, Section 1, of the Handbook, GRC is required to recertify and adjust the Tenant's rent annually. Recertification of Tenants must be implemented as of the first day of the month (the anniversary date) in which the tenant moved in the project.

Condition:

During our audit of the Corporation's tenant files, for all of the of the twenty-five (25) files tested for recertification, we noted that the Certification/Recertification of Tenant Eligibility (Form 50059) was not in the tenant file nor was any other corroborating evidence to indicate that the tenants were properly recertified who reside in the units.

Cause:

The Corporation's Handbook has not been updated to reflect past and current policies approved and followed by the Senior TRA to ensure that tenants are properly recertified on an annual basis. Additionally, there is no segregation of duties as the Senior TRA is responsible for all aspects of monitoring and enforcing program compliance.

Effect:

The Corporation is in noncompliance with Chapter 5, Section 1, of the Handbook. The potential exists for the Corporation to make an incorrect determination of tenant eligibility, bedroom unit size, and tenant monthly rent.

Recommendation:

We recommend that the Corporation update its existing Handbook to reflect all policy changes approved by the Board of Directors. Tenants should be recertified at least annually to ensure to determine continued eligibility and ability to pay the monthly rent. Furthermore, the Quality Assurance Officer or the Housing Manager should perform periodic reviews of tenant files to ensure compliance with Handbook regulations and compliance requirements and to establish an appropriate level of segregation of duties relative to program policies and procedures.

A tenant-tracking list should be developed and implemented to ensure all tenants are recertified on their respective anniversary dates. The above listed tenants should be immediately recertified to verify whether those tenants are still eligible for program participation or whether their rent amounts should be adjusted.

Finding No. 04-12, continued
Area: Tenant Receivables - Eligibility

Auditee Response/Corrective Action Plan:

The annual recertification for tenants was suspended by the Board of Directors during the regular board meeting held April 18, 2002 and are further defined in the rental policy. This initiative includes actions necessary to meet the HUD requirements for the Guma' As Atdas units and corporate requirements for the Lada Gardens units. This recertification may be conducted at the option of the Corporation.

Auditor's Response:

We acknowledge that the requirement to conduct tenant annual recertification is a carryover of the old U.S. Department of Housing and Urban Development (HUD) and that the Corporation's policy were changed to allow the Rental Division to conduct re-certifications at its option. We are also cognizant that the Rental Division does not have sufficient manpower to staff However, based on the 25 files tested, no re-certifications were conducted for the past 3 years. We believe it is essential to perform periodic re-certifications to determine continued tenant eligibility to ensure that tenants remain qualified to participate in the Corporation's rental program.

Finding No. 04-13
Area: Tenant Receivables - Recertification

Criteria:

In accordance with Chapter 5, Section 1, of the Occupancy Requirements for Multifamily Housing Programs Handbook, the Corporation is required to annually re-verify tenant's income and recalculate the Tenant's rents; and household composition which occur between those regularly scheduled re-certification to ensure that eligibility and tenants pay rents commensurate with their ability to pay.

Condition:

During our audit of the Corporation's tenant files, for seventeen (17) or 68% of the twenty-five (25) files tested for recertification, we noted that the Certification/Recertification of Tenant Eligibility (Form 50059) was not updated nor was any other corroborating evidence to indicate that the following tenants were properly recertified for tenants residing the following units:

Unit Numbers	
A-236	281
B-212	264
A-112	252
B-206	226
A-108	283
A-104	273
A-145	262
A-169	251
218	

Cause:

The Senior TRA unable to perform the required tenant annual recertification due to lack of staff. The Corporation's Handbook has not been updated to reflect past and current policies approved by the Board of Directors. Additionally, there is no segregation of duties as the TRA is responsible for all aspects of monitoring and enforcing program compliance.

Effect:

The Corporation is in noncompliance with Chapter 5, Section 1, of the Handbook. The potential exists for the Corporation to make an incorrect determination of tenant eligibility, bedroom unit size, and tenant monthly rent resulting over/under recognition of rental income.

Finding No. 04-13, continued
Area: Tenant Receivables - Recertification

Recommendation:

The above listed tenants should be immediately recertified to verify whether those tenants are eligible for the program participation and whether their monthly rent amounts should be adjusted. A tenant-tracking list should be developed and implemented to ensure all tenants are recertified on their respective anniversary dates

We recommend that the Corporation update its existing Handbook to reflect all policy changes approved by the Board of Directors (BOD). Tenants should be recertified at least annually to ensure to determine continued eligibility and ability to pay the monthly rent. Furthermore, the Quality Assurance Officer or the Housing Manager should perform periodic reviews of tenant files to ensure compliance with Handbook regulations and compliance requirements and to establish an appropriate level of segregation of duties relative to program policies and procedures.

Auditee Response/Corrective Action Plan:

The annual recertification for tenants was suspended by the BOD during the regular board meeting of April 18, 2002 and is further defined in the rental policy. This initiative includes actions necessary to meet the HUD requirements for the Asatdas units and corporate requirements for the Lada Gardens units. This recertification may be conducted at the option of the Corporation.

Auditor’s Response:

We acknowledge that the requirement to conduct tenant annual recertification is a carryover of the old U.S. Department of Housing and Urban Development (HUD) guidelines and that the Corporation’s policy was changed to allow the Rental Division to conduct re-certifications at its option. We are also cognizant that the Rental Division does not have sufficient manpower to staff. However, based on the 25 files tested, no re-certifications were conducted for the past 3 years. We believe it is essential to perform periodic re-certifications to determine continued tenant eligibility to ensure that tenants remain qualified to participate in the Corporation’s rental program.

Finding No. 04-14
Area: Tenant Receivables – Eligibility/Household Composition

Criteria:

Family members' name and relationship should be stated on the Certification/Recertification of Tenant Eligibility (Form 50059) to document and determine household composition and whether the applicant is eligible for program participation in accordance with Chapter 2, Section 2, of the Handbook.

Condition:

For all of the twenty-five (25) files tested for eligibility, the participant's household composition was not properly determined or verified birth certificates, social security numbers or any other such documentation.

Additionally, for 3 or 16% of the 25 files tested for eligibility, the household composition exceeded the allowable bedroom size per unit for the following:

Unit Number	Bedroom Size	Household Composition
B209	2	7
A145	2	7
226	3	9
218	4	9

Cause:

The Senior TRA did not to adhere to existing established written policies and procedures for verifying and documenting participant household composition prior to determining eligibility and providing adequate housing based on the size of the family. There is no segregation of duties as the Senior TRA is sole individual responsible for all aspects of monitoring and enforcing program compliance.

Effect:

The Corporation is in noncompliance with Chapter 2, Section 2, of the Handbook. The potential exists for the Corporation to make an incorrect determination of tenant eligibility, bedroom unit size, and tenant monthly rent resulting over/under recognition of rental income and ineligible persons participating in the housing program.

Finding No. 04-14
Area: Tenant Receivables – Eligibility/Household Composition

Recommendation:

We recommend that the Corporation adhere to Chapter 2, Section 2, of the Handbook. Furthermore, we recommend Quality Assurance Officer perform periodic review of tenant files to ensure compliance with all Handbook regulations and other such compliance requirements. The participant's household composition should be properly verified by examination of income tax returns, social security records, birth certificates, child support records or some form of similar documentation. The information should be reflected on form 50059 and properly maintained for independent review and verification.

We further recommend that examine the household composition of the tenants residing in the above-mentioned units and provide assistance in obtaining sufficient housing based on their respective family size to ensure compliance with housing quality standards for safe and decent living accommodations.

Auditee Response/Corrective Action Plan:

The rental policy states the number of occupants permitted in the various units, those that may have exceeded this number will be earmarked for larger units when they may become available.

Finding No. 04-15
Area: Tenant Receivables – Lease Agreements

Criteria:

Pursuant to Chapter 4, Section 1 of the Handbook, the Corporation is required to execute the lease agreement upon tenant certification to participate in the housing program. The lease agreement should be signed and dated by both the head of household and spouse along with a duly authorized representative of the Corporation.

Condition:

Of the twenty-five files tested, 1 or 4% did not have a properly executed lease agreement for the tenant residing in unit #A-104. The lease agreement was signed by the tenant.

Cause:

The cause appears to be an oversight error or the Senior TRA simply failed to sign the lease agreement. The Resident Manager has not established effective internal control policies and procedures to ensure that all lease agreements are properly executed and maintained on-file.

Effect:

The Corporation does not have a valid lease agreement in effect for the above-mentioned tenant and is not in compliance with its Handbook requirements. The potential exists for material noncompliance to occur by the Tenant and not be enforceable pursuant to Section 4-15 of the Lease Agreement.

Recommendation:

Lease agreements should be executed with Tenants residing the above listed units and maintained on-file.

The Housing Manager should establish internal control policies and procedures to ensure that the Tenant and the Housing Manager or its duly authorized representative, other than the Senior TRA, properly sign all lease agreements.

Auditee Response/Corrective Action Plan:

GHC concurs with this finding. The lease agreement has been signed. Action considered complete.

Finding No. 04-16
Area: Tenant Receivables – Housing Inspections

Criteria:

Housing units should be inspected annually to ensure that such units remain in good repair, clean and safe in accordance with Housing Quality Standards.

Condition:

Of the twenty-five (25) tenant files tested, none contained inspection reports or other documentation to evidence that unit inspections were conducted for tenants residing in the units

Cause:

Inspections were not conducted or were not properly documented in a manner to ensure that the housing units were inspected in a timely manner.

Effect:

The Corporation is not in noncompliance with Handbook requirements for conducting unit inspections. The potential exist for the housing units to become damaged and unsafe and requiring the Corporation to incur significant repair and maintenance expense.

Recommendation:

The Senior TRA should periodically inspect all housing units, at least annually. The Housing Manager should establish internal control policies and procedures to ensure that housing units are maintained in accordance with housing quality standards for safe and decent dwelling units.

Auditee Response/Corrective Action Plan:

The Policy Manual states in paragraph 3.01 that the Corporation shall conduct a move-in inspection and a move-out inspection, and reasonable periodic inspections of the property and all improvements; however, we have continually conducted and documented these inspections twice each year.

Auditor's Response:

We are cognizant of section 3.01 of the Policy Manual; however, inspections do not appear properly documented in a manner that would allow for independent verification and tenant acknowledgement. The Policy Manual should be updated to reflect current procedures.

Finding No. 04-17
Area: Tenant Receivables – Recertification/Verification of Income

Criteria:

In accordance with Chapters 2 and 3 of the Corporation's Handbook, the Corporation is required to obtain certain information to verify tenant income and eligibility. Among others, such information includes employment verifications, paycheck stubs, W-2 forms, income tax returns, etc.

Condition:

For three (3) or 12% of the twenty-five (25) tenant files tested, there was no documentation to verify income, such as verification of employment, check stub, income tax return, public assistance or any other document stating income for tenants residing in units 236, B212 and B209.

Cause:

The Senior TRA did not obtain required documentation to verify the Tenant's income. Consequently, there appears that the Senior TRA did not adhere to establish internal control policies and procedures to properly verify tenant's income and eligibility.

Effect:

The Corporation is in noncompliance with the Handbook. The potential exists for the Corporation to make an incorrect determination of tenant eligibility and tenant monthly rent.

Recommendation:

We recommend that management update the Handbook to incorporate current policies and practices. The TRA should obtain required documentation to properly determine tenant income sources and eligibility to comply with to the Handbook regulations.

Furthermore, the Quality Assurance Officer should conduct a periodic review of tenant files to ensure compliance with all Handbook regulations and other such compliance requirements. The participant's household composition should be properly verified by examination of income tax returns or some form of similar documentation.

Auditee Response/Corrective Action Plan:

GHC concurs with the auditor's findings and documentation has been obtained and placed in the respective tenant files.

Finding No. 04-18
Area: Tenant Receivables – Applications

Criteria:

In accordance with Chapters 2 and 3 of the Corporation's Handbook, the Senior TRA is required complete the participant application and to obtain certain information to verify tenant income and eligibility.

Condition:

For (2) or 8% of the twenty-five (25) tenant files tested, the application was not on file for the tenant residing in unit B209 and not signed and dated by the applicant and the Corporation for the tenant residing in unit A110.

Cause:

The application was either misfiled or never completed in order for the Senior TRA to determine eligibility. Consequently, it appears that the Senior TRA did not adhere to establish internal control policies and procedures to properly verify tenant's income and eligibility.

Effect:

The Corporation is in noncompliance with the Handbook. The potential exists for the Corporation to make an incorrect determination of tenant eligibility and tenant monthly rent.

Recommendation:

We recommend that Senior TRA obtain the required documentation to properly determine tenant income sources and eligibility for tenants residing in the units above to comply with to the Handbook regulations for determining applicant eligibility and tenant rents.

Furthermore, the Quality Assurance Officer should conduct a periodic review of tenant files to ensure compliance with all Handbook regulations and other such compliance requirements. The participant's household composition should be properly verified by examination of income tax returns or some form of similar documentation.

Auditee Response/Corrective Action Plan:

GHC concurs with the auditor's findings and documentation has been obtained and placed in the respective tenant files.

Finding No. 04-19
Area: Tenant Receivables – Use of Dwelling Units

Criteria:

Pursuant to the authority granted to the Guam Housing Corporation under Public Law 8-80, GRC was created to promote the general welfare of the inhabitants of the Territory of Guam by encouraging and engaging in the development and lease of low-cost rental housing. The Corporation's rental division is principally engaged providing rental units to low to very lower income families.

Condition:

During our physical inspection of the rental housing units of Lada Gardens, we noted that a tenant residing in unit 190/261 is using the unit as a retail outlet. The tenant is operating a small convenience store out of the unit and on the premises. Based on our discussions with the TRA, the tenant has been conducting business out of the rental unit for several years and no action was taken to either inform the tenant to cease such operations or taken eviction action.

Cause:

The TRA allowed the tenant to conduct its business operations and it appears that management was unaware that the unit was being for business operations.

Effect:

The Corporation is in noncompliance with the Handbook.

Recommendation:

We recommend that the Housing Manager advise the tenant that the rental units are dwelling purposes only and to cease commercial operations or evict the tenant.

Auditee Response/Corrective Action Plan:

GHC concurs with the auditor's findings. Tenant possesses a business license and has been paying gross revenue taxes. The GHC President plans to take this issue up with the Board of Directors.

Finding No. 04-20
Area: Tenant Receivables – Segregation of Duties

Criteria:

Internal controls should be maintained to ensure a proper segregation of duties.

Condition:

Coupons are provided to tenants to make monthly rental payments directly to banks. While on-site we noted that the TRA is responsible for maintaining and posting tenant receivables and also collects cash at its on-site rental office. Although receipts are issued, they are always independently controlled and reconciled and there is lack segregation of duties over receivables and the receipt of cash.

Cause:

The TRA is the only administrative staff situated at the rental office is responsible for all functions, including eligibility determinations, posting of receivables, and cash collections. Management has not established proper internal control policies and procedures to ensure that a proper segregation of duties is maintained for revenue, cash receipts and tenant receivables.

Effect:

The potential for fraud and misstatement of receivables exists.

Recommendation:

We recommend that the TRA encourage all tenants to remit monthly rent payments directly to the designated bank locations and cease collecting cash payment directly from tenants. Housing Manager should establish internal control policies and procedures to ensure that there is a proper segregation of duties over cash collections and receivables to mitigate the risk of fraud. Cash receipts should be independently and controlled reconciled by individuals other than the TRA.

Auditee Response/Corrective Action Plan:

GHC concurs with the auditor's findings. Coupons have been distributed to all tenants and payments are being made at the financial institution.

GUAM HOUSING CORPORATION

SUMMARY OF UNRESOLVED QUESTIONED COSTS
SEPTEMBER 30, 2004

	Beginning Questioned Costs	Costs Allowed	Costs Disallowed	Unresolved Questioned Costs
Total unresolved questioned costs for fiscal year 2003	$ 11,237	$ -	$ -	$ 11,237
Questioned costs for fiscal year ending 2004	45,584	-	-	45,584
Total unresolved questioned costs At September 30, 2004	$ 56,821	$ -	$ -	$ 56,821