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& COMPANY

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The Board of Directors
Guam Housing Corporation

In planning and performing our audit of the financial statements of the Guam Housing Corporation (“the Corporation”) as of and for the year ended September 30, 2009, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered the Corporation’s internal control over financial reporting as a basis for designing auditing procedures that are applicable in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation’s internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the Corporation’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Corporation’s financial statements that is more than inconsequential will not be prevented or detected by the Corporation’s internal control.

A *material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Corporation’s internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify deficiencies in internal control that we consider to be material weaknesses, as defined above.

Furthermore, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning those matters.

This communication is intended solely for the information and use of the Board of Directors, management, the Office of Public Accountability and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.


February 17, 2010

Control Deficiencies

Approval of General Journal Entries

Condition:

During our review of journal entries made throughout the fiscal year ending September 30, 2009, we noted that certain journal entries prepared by the Accounting Manager were not reviewed or approved by an appropriate level of management; however, we did not find any impropriety of any of those journal entries recorded in the general ledger.

Recommendation:

In order to strengthen internal controls and to ensure that all general journal entries recorded in the general ledger are properly approved, we recommend that all journal entries prepared by the Accounting Manager be reviewed and approved by the Compliance Officer or designated person independent of the accounting.

Mortgage Loans

Condition:

We conducted a review of the payment history of borrowers subsequent to September 30, 2009 to evaluate potential non-performing and delinquent loans. Based on our review of the loan portfolio we noted delinquent loans that were outstanding in excess of 90 days that were pledged as collateral with the Federal Home Loan Bank of Seattle, as follows:

<u>Item #</u>	<u>Loan No.</u>	<u>Unpaid Principal Balance as of 9/30/09</u>	<u>Number of Days Past Due</u>
1.	19302251	\$ 69,147.77	115
2.	59002008	74,609.89	115
3.	19702351	64,522.57	559
4.	59802430	<u>145,134.19</u>	834
		<u>\$353,414.42</u>	

Mortgage Loans, continued

Recommendation:

The above loans should be evaluated for collectibility on a monthly basis and be carefully monitored. We recommend that the Corporation continue to reevaluate its existing collection and loan servicing policies and procedures to determine areas of improvement and staff assigned to perform such functions.

We commend management's aggressive review of its loan portfolio to service delinquent loans. This review and level of effort should be continued and consistently performed on a monthly basis. However, the Corporation should continue evaluating loans once the monthly scheduled payments are not remitted past the 15-day grace period. This will facilitate the process of identifying potential delinquent or troubled loans before they reach the 90-day non-performing status. This will enable the Corporation to have sufficient time to bring the loan current or establish a repayment or work-out plan with the borrower and ensure the collection of interest income and repayment of principal on the loan.

Condition:

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.

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 Loan #59002009 does not have typhoon insurance coverage. The dwelling has a tin roof and borrower's insurer will not provide such for coverage.

Recommendation:

Loan files should be periodically reviewed to ensure that all required documents have been obtained. The current loan documentation checklist should be compared to the actual loan documentation for verification during the loan origination process and prior to loan closing.

Section II – Other Matters

Insurance Coverage

Condition:

During our risk assessment, we noted that the Corporation did not maintain insurance coverage on its buildings, hence the Corporation was self-insured. The Corporation does maintain a self-insurance fund which totaled \$1,291,117, which in the event of a catastrophe, would be insufficient cover potential damages incurred.

Recommendation:

We recommend that the Corporation obtain adequate insurance coverage to insure its buildings against perils and catastrophic loss.

Board Minutes

Condition:

During our review of the Corporation's Board of Directors' minutes of its meetings, we noted that none properly signed to evidence that such were properly approved by the Chairperson and/or legal counsel.

Recommendation:

We recommend that the minutes of all Board of Directors' meetings be properly signed and approved by the Corporation's Chairperson in a timely manner.

Loan File Maintenance

We would like to commend the Corporation's efforts in improving the maintenance of its loan files, as we noted that files were well-organized in systematic order for easy review and retrieval of information.