



Management Letter

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

September 30, 2011

Ernst & Young

February 2, 2012

Management and the Board of Directors
Guam Housing Corporation

In planning and performing our audit of the financial statements of Guam Housing Corporation (the Corporation) as of and for the year ended September 30, 2011, in accordance with auditing standards generally accepted in the United States, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

During our audit, we noted the following deficiencies in internal control (as described above) and other matters:

Loan Documentation

Condition:

Our review of selected borrowers' file disclosed the following:

- ✚ Insurance policies of two borrowers had no typhoon insurance coverage and had no duly approved typhoon insurance waiver on file.
- ✚ Loans receivable confirmation of two borrowers selected for confirmation were returned due to insufficient address. The Corporation did not have the current address on file.
- ✚ Original loan file for one borrower is missing, thus, was not available for our review. The Corporation created a temporary file with backup documents.

Loan Documentation, continued

Recommendation:

A periodic review of loan files should be performed and any exceptions should be remedied to minimize the Corporation's risk of loss.

Management's response:

Typhoon Waivers – Typhoon waivers for the two loans have been acquired and are on file.

Current Address – Addresses for borrowers are updated upon notification by the borrower or co-borrower. If an item is returned unclaimed, the Borrower is contacted and the file is corrected.

Missing File – We are not certain as to what happened to the file, but the original Promissory Note is in the safe and a copy of the recorded mortgage is on file. A temporary file was made for the purpose of servicing the account and we will continue looking for the file.

Foreclosed Assets Held for Resale

Condition:

In accordance with the Corporation's foreclosure policy, the foreclosed asset is measured at the carrying value of the other real estate owned (OREO) represents the historical cost, which include the principal loan balance plus any approved acquisition cost and accrued interest. The Corporation's policy measures the carrying value of OREO as the lower of the fair market value or historical cost.

In accordance with ASC 360-35-43, Property, Plant and Equipment, "a long-lived asset (disposal group) classified as held for sale shall be measured at the lower of its carrying amount or fair value less cost to sell. If the asset (disposal group) is newly acquired, the carrying amount of the asset (disposal group) shall be established based on its fair value less cost to sell at the acquisition date". The cost to sell which includes title charges, recording fees and escrow charges are not considered by the Corporation in determining the proper carrying value of OREO.

Recommendation:

We recommend that the Corporation consider the fair value of the OREO less cost to sell in determining the carrying value of its OREO.

Management's response:

The Corporation is recording foreclosed properties according to its policy. The auditor's recommendation will be brought to the Board's attention for further review.

Rental Policy

Condition:

Of a sample of 60 tenants randomly selected for rental income testing, we noted the following:

- ✚ In accordance with Section 1.05 of the rental policy manual, all applicants for housing under the Corporation's rental program will be evaluated for unit assignment utilizing the family income and household composition. The gross household income may be adjusted periodically to ensure compliance with the Department of Housing and Urban Development (HUD) income limits for very-low to moderate income families. Based on our procedures performed, we noted that the Corporation does not regularly conduct re-certifications of tenant eligibility to ensure compliance with the income limits set forth by HUD.

- ✚ In accordance with Section 1.06 and 1.07 of the rental policy manual, the Federal Home Loan Bank established a grant requirement that the Corporation conducts re-certification of tenant eligibility and a verification of employment. Based on our review of the certification of tenant eligibility form, we noted that the Corporation does not regularly perform re-certifications.

Recommendation:

We recommend that the Corporation regularly conduct re-certifications to ensure that tenants are in compliance with eligibility requirements of the rental program.

Management's response:

We agree with the auditor's recommendation. We will revisit the Corporation's Rental Policy and see how we may implement this.

Vacation Leave

Condition:

Of a sample of 10 employees randomly selected for accrued vacation testing, we noted that vacation leave taken by an employee during the pay period September 25, 2011 through October 8, 2011 was not timely deducted on available vacation hours as of September 30, 2011 until after year-end. The Corporation does not adjust the accrued vacation leave until the payroll for the pay period is processed.

The aforementioned deficiency, if not corrected, may result in possible misstatement of accrued leave and payment of vacation leave.

Vacation Leave, continued

Recommendation:

We recommend that the Corporation closely monitor and review employee vacation reports. This may help ensure that employee leave hours for calculating vacation leave credits and related liability are accurately accounted for.

Management's response:

It has been the Corporation's procedure to record leave earned and used at the end of each pay period. At the auditor's recommendation, we will make an extra adjustment to record annual leave used as of the fiscal year ending effective fiscal year 2012.

Stale-dated Checks

Condition:

Based on our review of the bank reconciliations as of September 30, 2011, we noted checks that have been outstanding for more than six months totaling approximately \$16,371.

Recommendation:

We recommend that the Corporation reverse all stale-dated checks.

Management's Response:

All the stale dated checks are from paid off customers. We have made attempts to reach these customers without success. Reversing the checks will put the amounts back to payables causing another issue with aged payables. We will offset the checks to Other Income in fiscal year 2012.

Guam Housing Corporation
Management Letter

We have separately reported in our letter dated February 2, 2012 addressed to the Corporation's Board of Directors certain matters involving internal control and its operation that we consider to be significant deficiencies under standards established by the American Institute of Certified Public Accountants.

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

We would be pleased to discuss the above matters or to respond to any questions, at your convenience.

Ernst + Young LLP