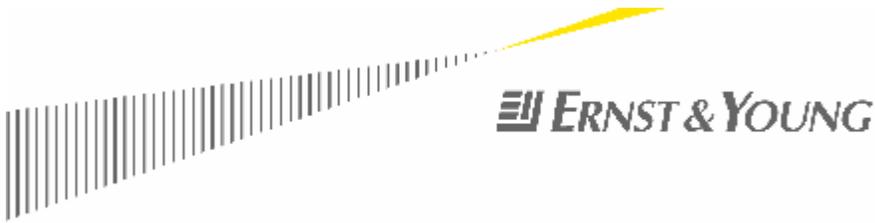


Management Letter

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

September 30, 2010

Ernst & Young



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March 3, 2011

Management and the Board of Directors
Guam Housing Corporation

In planning and performing our audit of the financial statements of the Guam Housing Corporation (the Corporation) as of and for the year ended September 30, 2010, in accordance with auditing standards generally accepted in the United States, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

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

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

Loan Documentation

Condition:

Our review of selected borrowers' files disclosed the following:

- ✚ Review sheets of two borrowers were not signed by the President and/or the Loan Administrator
- ✚ Underwriting forms of two borrowers were not on file
- ✚ Credit/Collection Committee approval sheet of one borrower was not on file
- ✚ Title insurance policies of two borrowers were not on file
- ✚ Insurance policies of five borrowers had no typhoon insurance coverage and had no duly approved typhoon insurance waiver on file
- ✚ Title insurance policy of one borrower disclosed that there is a fee simple mortgage with other banks
- ✚ Property tax statement of one borrower is under the name of the former owner of the property
- ✚ There is a notice of tax levy on the collateral of one borrower

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 and incurring additional expenses upon foreclosure.

Management's response:

For the title insurance policies not on files, the original policies were forwarded to Federal Home Loan Bank of Seattle and the Corporation will request a copy of these policies.

For the borrowers without typhoon insurance waiver on files, the Corporation provided a written notice to the insurance company for typhoon insurance coverage.

For the title insurance policy with fee simple mortgage with other banks, the Corporation requested a copy of the release of mortgage from the title company.

For the property tax under the name of former owner, the Corporation provided the Department of Revenue and Taxation (DRT) with a warranty deed and DRT agreed to change the name of the owner.

For the notice of tax levy on the collateral, the Corporation forwarded a copy to the title company as the title insurance policy reflected no exceptions. The title company advised the Corporation that they will provide documentation relative to this issue and that the lot description was in error.

Vacation Leave

Condition:

Of a sample of 10 employees randomly selected for accrued vacation testing, we noted the following:

- ✚ Annual leave taken by five employees had no proper documentation
- ✚ Vacation leave forms of two employees were not signed by approving officers
- ✚ Vacation leave taken by an employee in two instances was not deducted on available vacation hours timely because leave forms were submitted after the payroll had been processed

The aforementioned deficiencies, 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 establish procedures to ensure that employee leave hours are properly supported and approved. We also 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:

Previously, time sheets were collected on the Wednesday before the pay period ending causing last minute leave taken by employees after Wednesday to be adjusted to the next pay period ending and also resulting in unsigned/approved leave forms. Time sheets are now being collected on the Friday before the pay period ending thus eliminating any adjustment to be made to the next pay period.

It should be noted that all leave taken was deducted and vacation and sick leave report balances have and will continue to be balanced with the General Ledger every pay period ending.

Long-Outstanding Liability

Condition:

The Corporation received funds from the Federal Management Agency for a Hazard Mitigation Program totaling \$108,200 and recognized a liability. There has been no movement in this liability account since 2001. The Corporation disbursed two loans related to the program that had an aggregate outstanding balance of \$23,334 as of September 30, 2010. Management is uncertain on the disposition of the aforementioned liability.

Recommendation:

We recommend that the Corporation review all agreements related to the funds received to determine the ultimate disposition of this long outstanding liability.

Management's response:

We have referred this matter to our Legal Counsel for an opinion. At the advice of our Legal Counsel, the repayment of these loans will be included as restricted cash and will be made available for future loans eligible under this program. Legal opinion further states that the Corporation will not be required to repay the funds received for this program and as such will be removed as a liability.

Adequacy of Insurance Coverage

Condition:

Our review of the insurance policies disclosed that the Corporation's insurance coverage for Guma As-atdas apartment may not be adequate.

Recommendation:

We recommend that the Corporation consult with its insurance provider to determine an adequate level of insurance coverage.

Management's response:

As-Atdas is insured through a commercial policy for fire, earthquake & liability and via a self-insurance policy for typhoon. A review of the each insurance policy may be needed to ensure adequate coverage for both Lada & As-Atdas.

It should be noted that As-Atdas is equipped with typhoon shutters.

Minutes of Board Meetings

Condition:

We noted that none of the Corporation's minutes of board of directors meetings contained authorized signatures to evidence that the minutes documented were accurate and that they had been approved by the board members.

Recommendation:

We recommend that the minutes of all Board of Directors' meetings be properly signed and approved.

Management's response:

Board of Director's minutes are prepared and signed by our Legal Counsel, who presents the minutes to the Board at the following Board meeting. Follow ups have been made with Legal Counsel to obtain the signed minutes.

Organized Loan Folders

Our review of loan documentation disclosed that the Corporation maintains a good filing system over its loan folders. A checklist is attached to summarize the content of each folder and a tab is properly placed to segregate each significant section. We commend the Corporation for maintaining an organized loan filing system. This facilitates the review process and helps in the verification of the completeness of loan documents.

This report 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 have separately reported in our letter dated March 3, 2011 addressed to Corporation's Board of Directors certain matters involving internal control and its operation that we consider to be significant deficiencies and/or material weaknesses under standards established by the American Institute of Certified Public Accountants.

Ernst + Young LLP