



CERTIFIED PUBLIC ACCOUNTANT

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The Board of Directors  
Guam Housing Corporation

In planning and performing my audit of the financial statements of the Guam Housing Corporation (“the Corporation”) as of and for the year ended September 30, 2007, in accordance with auditing standards generally accepted in the United States of America, I considered the Corporation’s internal control over financial reporting (internal control) as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation’s internal control. Accordingly, I do not express an opinion on the effectiveness of the Corporation’s internal control.

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 entity’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 entity’s financial statements that is more than inconsequential will not be prevented or detected by the entity’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 entity’s internal control.

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

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

This communication is intended solely for the information and use of the Board of Directors, management of the Corporation, the Office of the Public Auditor, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

February 22, 2008

## **Housing and Rental Divisions**

### 2007-01 Corporate Governance

As the Corporation continues to evolve from its Reorganization Plan, the duties and responsibilities of Board of Directors are becoming more complicated and demanding. In addition, the recent corporate scandals and the Sarbanes-Oxley Act have raised public awareness in the area of corporate governance. Today's board of directors must take an active role in shaping and controlling an organization's business operations and risks by setting the proper "*tone at the top*" to effectively manage an organization. The effectiveness of internal controls rests with the people of the organization who create, administer, and monitor them. Integrity and ethical values are essential elements of a sound foundation for all other components of internal control. The commitment for effective control environment rests at the top. The Corporation's management and the Board of Directors are responsible for establishing and maintaining a sound system of internal control, which is the best means of preventing or detecting errors, fraudulent financial reporting and misappropriation of assets

The following briefly highlight the basic responsibilities the board has in actively overseeing the credit union's affairs:

Establish goals, standards, policies and procedures, and operating strategies and understand the risks involved in following certain strategies.

We recommend that the management and Board of Directors develop and implement a Fraud Policy with emphasis occupational and mortgage fraud, develop a Conflict of Interest Policy as well as a Code of Ethics/Conduct Policy to set a proper tone of at the top for management which will make policies an inherent part of the Corporation's operations, ensuring compliance with external standards, such as laws and rules, and the Corporation's own policies and procedures.

## **Housing Division**

### 2007-02 Segregation of Duties – Loan Origination and Servicing

Currently, the Loan Department is responsible for loan origination, processing and loan servicing. Also, the collections and loan servicing report directly to the Loan Administrator. Additionally, past due notices are prepared and mailed by personnel who are not independent of the loan approval and processing function. There is a lack of segregation of duties for loan monitoring and evaluation (for example, by reviewing delinquent loan reports, monitoring collection efforts on problem loans, approving modifications or renewals of significant problem loan).

The Loan Department should not be in a position to originate and process loans and perform loan servicing. We recommend that the Board of Directors and senior management consider separating the Loan origination and collection & service functions to provide a proper segregation of duties to strengthen the control environment and provide independent monitoring and reporting of past-due, troubled and delinquents loans.

## **Rental Division**

### 2007-03 Tenant Eligibility Documentation

During our eligibility testing of tenant files, we reviewed the Corporation's existing Rental Policy Manual and noted the absence of specific requirements for verifying household composition. The Certification/Recertification of Tenant Eligibility requires the applicant to provide the names, place of birth, social security number and birth date for each member of the household composition. The applicant is allowed a \$400 deduction against its annual gross income to calculate eligible/adjusted income in determining eligibility. Based on our review of the tenant files, the household composition and citizenship status is not verified and documented in each tenant file (i.e., birth certificates, social security number, or immigration Form I-9's).

We recommend management review and revise its existing Rental Policy Manual and specifically state what documentation, if any, is necessary to verify and document proof household composition, place of birth, relationship to head of household member, etc.