



Compliance and Internal Control

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

Year ended September 30, 2012

Ernst & Young LLP

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

Reports on Compliance and Internal Control

Year ended September 30, 2012

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**Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Management and the Board of Directors
Guam Housing Corporation

We have audited the financial statements of Guam Housing Corporation (the Corporation) as of and for the year ended September 30, 2012, and have issued our report thereon dated February 7, 2013. We conducted our audit 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.

Internal control over Financial Reporting

Management of the Corporation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Corporation's internal control over financial reporting 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

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 a 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of finding and response, as item 2012-1 that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a 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.

Compliance and other matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, we 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 our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors and management of 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.

Ernst + Young LLP

February 7, 2013

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

Schedule of Finding and Response

Year ended September 30, 2012

Significant Deficiency

**Finding Number 2012-1
Allowance for Loan and Lease Losses**

Condition:

In accordance with its loan policy, the Corporation should maintain an allowance for loan and lease losses (ALLL) of no less than 3% of the gross loan portfolio. The Corporation has no documentation that supports the basis for the aforementioned minimum ALLL policy. A majority of these delinquent loans are fully secured by a first lien position on single family residential units. However, in determining the ALLL, the Corporation did not measure the loss allowance as the difference between the carrying value of the loan and the fair value of the collateral less cost to sell as required by accounting principles generally accepted in the United States.

Recommendation:

We recommend that management document its basis and rationale to maintain a 3% minimum ALLL based on the gross loan portfolio. Additionally, we recommend that the Corporation consider fair value of collateral less cost to sell in determining the specific allowance to be provided on delinquent loans or loans near foreclosure.

Management's response:

Management has prepared an updated analysis with a recommendation to reduce the ALLL subject to Board of Directors' (BOD) review. This matter will be presented to next BOD meeting scheduled on February 7, 2013.