

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General**

**MANAGEMENT LETTER FOR
THE HOME PURCHASE ASSISTANCE
PROGRAM
FOR THE FISCAL YEARS ENDED
SEPTEMBER 30, 1997, 1996, AND 1995**



**CHARLES C. MADDOX, ESQ.
INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Charles C. Maddox, Esq.
Inspector General



December 20, 1999

Valerie Holt
Chief Financial Officer
Office of the Chief Financial Officer
441 4th Street, N.W., Suite 1060
Washington, D.C. 20001

Othello Mahone
Interim Director
Department of Housing and Community Development
801 North Capitol Street, N.E.
8th Floor
Washington, D.C. 20005

Dear Ms. Holt and Mr. Mahone

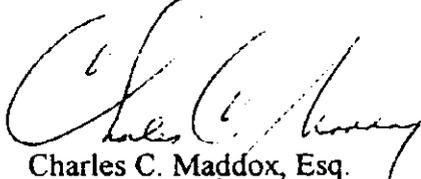
The Office of the Inspector General (OIG) has prepared a Management Letter (OIG-2a-99DB) for the Home Purchase Assistance Fund for the fiscal years ended September 30, 1997, 1996, and 1995. The Department of Housing and Community Development (DHCD) administers the Program. The OIG prepared a Management Letter containing comments and recommendations we believe will improve management of the Home Purchase Assistance Program. This Management Letter does not modify our opinion as expressed in the auditor's report on such financial statements.

In accordance with generally accepted government auditing standards, we performed a review of existing internal controls for the purpose of providing a basis for the reliance on accounting and administrative records and determining the extent of substantive testing. The review was not intended to be an exhaustive study of the internal controls for making detailed recommendations and would not have necessarily disclosed all weaknesses in the system. Also, we performed some compliance testing to ascertain if home purchase assistant loans were made in compliance with District of Columbia Municipal Regulations relative to the administration of the Home Purchase Assistance Program (HPAP).

The accompanying report includes comments and recommendations for improvements related to the preparation of the financial statements, maintenance of mortgages receivable balances, and close-out of HPAP contracts.

Valerie Holt
Chief Financial Officer
Othello Mahone
Interim Director, DHCD
December 20, 1999
Page 2 of 2

Should you have any questions on this Management Letter or need additional information, please contact me at 727-2540 or John N. Balakos, Assistant Inspector for Audits, at 727-8279.

A handwritten signature in black ink, appearing to read "Charles C. Maddox". The signature is fluid and cursive, with a large initial "C" and "M".

Charles C. Maddox, Esq.
Inspector General

Enclosure

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**AUDIT OF THE
HOME PURCHASE ASSISTANCE PROGRAM
MANAGEMENT LETTER
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 1997, 1996, & 1995**

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**MEMORANDUM OF COMMENTS AND RECOMMENDATIONS
FOR MANAGEMENT IMPROVEMENTS**

PREPARATION OF FINANCIAL STATEMENTS

The Department of Housing and Community Development (DHCD) did not prepare financial statements for the Home Purchase Assistance Program (HPAP) for the periods under review (fiscal years 1995 through 1997). As a result, internal controls over financial reporting as related to the HPAP needed improvement. Furthermore, not preparing financial statements for one year increased the opportunity of inaccurate statements being prepared for subsequent years.

DHCD informed the Office of Inspector General (OIG) that it was unable to prepare the financial statements for the three periods audited because of other priorities during the time OIG conducted the audit. The OIG also noted that DHCD seemed to have a staff shortage in the accounting division at the time of the audit. However, the statements for fiscal years 1995 and 1996 should have been prepared at the end of those fiscal years:

The OIG had noted in its prior HPAP management letter, dated November 7, 1995, that DHCD had difficulty preparing HPAP financial statements. This was principally due to the inability of the District's Financial Management System (FMS) to properly reflect HPAP transactions such as advances to the contractor, interest revenue, and repayment of loans. The OIG had recommended that DHCD maintain ledgers, manual or automated, separate from FMS in which it properly recorded HPAP transactions. The OIG further recommended that financial statements be prepared on a quarterly basis. If such recommendations had been implemented, DHCD could have expeditiously prepared the fiscal year-end statements. However, the recommendation was not implemented.

The OIG also notes that the District has a new financial management system known as "System Of Accounting and Reporting (SOAR)." DHCD should explore the extent to which HPAP transactions can be recorded in the SOAR so that HPAP transactions are properly reflected.

Recommendations --

We recommend that the Director, DHCD:

- 1) Ensure that the financial statements and supporting schedules that support transactions affecting HPAP are prepared in a timely manner;

- 2) Ensure that the staff is available to perform the accounting duties to determine whether there is a need for additional human resources to accomplish HPAP objectives.
- 3) Take action to ensure that the HPAP transactions can be properly recorded in SOAR.

DHCD Response

After the issuance of the draft financial statements for FY 1996 and 1997, the CFO of DHCD responded by stating that the financial statements for FY 1996 and 1997 were prepared by the agency subsequent to the completion of the audit fieldwork. These statements were utilized in resolving differences between auditors work papers and the agency's financial records. The DHCD will prepare financial statements for FY 1998 and 1999, and on a quarterly basis thereafter beginning in FY 2000. (See Attachments.)

OIG's Comments

The proposed action taken by DHCD is considered responsive to the recommendations.

RECORDING OF MORTGAGE LOANS RECEIVABLE

DHCD needs to improve its accounting and financial reporting for mortgage loans receivable by timely recording loans to its general ledger. This is especially true for loans, which are designated in-transit, or in suspense.

DHCD classifies loans which have been awarded, but for which it has not received promissory note documents, as loans in-transit. These loans are not posted to the loan subsidiary ledgers until the documents are received from the contractor or loan originator who processes mortgage loan applications. As a result, the mortgages receivable balance is not current. It does not reflect all loans, which have been issued. Also, the financial statements are affected when all loans issued are not recorded.

DHCD contracts with a loan servicer who maintains the subsidiary ledgers for most of the HPAP loans. DHCD uses the ledgers/reports of the servicer as a basis for recording loans in the District's financial management system. According to DHCD officials, the loan servicer will not record loans in its ledgers unless it has copies of the promissory notes or loan agreements.

Recommendations

We recommend that the Director, DHCD:

4. Ensure that the loan originator who processes loan applications forwards loan documents of settled loans in a timely manner;
5. Ensure that the loan transactions are recorded or posted in a timely manner so that financial reporting of loan balances is current.
6. Ensure that suspense loans are resolved.

DHCD Response

During discussions with the agency on the draft financial statements, the CFO of DHCD responded by stating that the DHCD will meet with the loan originator to establish a protocol for forwarding loan documents in a timely manner. In addition, DHCD will strengthen its internal processes to ensure items are appropriately recorded and posted.

OIG's Comments

We consider the proposed actions by DHCD responsive to the recommendations.

CLOSE-OUT OF CONTRACTS

DHCD and the contractor who processed HPAP's loan applications and settled loans did not closeout contracts in a timely manner. As a result of not closing the contracts timely, the contractor retained funds which DHCD had advanced it in order to settle loans expeditiously. DHCD's management stated that contracts normally should be closed out within 90 days of the expiration of the contract.

The contractor submitted the closeout documents for fiscal year 1995, in January 1997, and for fiscal year 1996, in April 1997. For fiscal year 1997, the contractor submitted the closeout documents in April 1998.

Recommendation

We recommend that the Director, DHCD:

7. Take action to ensure that contracts with the loan originator are timely closed out and that advances related to those contracts are returned.

DHCD Response

During discussions with the agency, the CFO of DHCD stated that appropriate action will be taken to ensure that the 90-day closeout period is closely adhered to, and that advances on contracts are returned.

OIG's Comments

The proposed actions by DHCD are considered responsive to the recommendation.

CUSTODIAL RESPONSIBILITY

In the prior management letter dated November 1994, OIG stated that DHCD needed improvement in executing the custodial function. DHCD's Accounting Division should have been able to readily check its records against the files and database of the Homeownership Opportunities Division to resolve the issue of the "suspense" loans. In the opinion of OIG, the Homeownership Opportunities Division needs to develop an updated database of all outstanding loans.

Recommendation

We recommend that the Director, DHCD

8. Develop and maintain a database of all outstanding mortgages and conduct periodic inventories of the files to ensure that the database and actual files are in agreement.

DHCD Comments

During discussions of the HPAP financial statements, the CFO of DHCD stated that they will obtain a complete listing of all outstanding mortgages from the Controller's Office and the loan servicer and reconcile these listing to Homeownership Opportunities Division files on a monthly basis. Also, DHCD stated that the Homeownership Opportunities Division would conduct an annual inventory of its files and reconcile them to the year-end listing received from the Comptroller's Office and the loan servicer.

Status

DHCD's Homeownership Opportunities Division Manager informed the OIG that an independent accounting firm, performed a "due diligence" test of the files held with the Comptroller's Office, the loan servicer and Homeownership Opportunities Division.

OIG's Comments

We consider DHCD's actions to be responsive to our recommendation.

BAD DEBT EXPENSE AND ALLOWANCE FOR UNCOLLECTIBLES

DHCD determined bad debt expense and the corresponding allowance for uncollectible loans to be \$2,890,382 in FY 1995; \$797,430 in FY 1996; and \$13,689,246 in FY 1997. These amounts represent a significant increase over the bad debt and allowance, which for previous years had been determined to be about 3.5 percent of outstanding loans.

According to DHCD officials, the independent certified public accounting firm for the District government based the FY 1997 amount on the present value of deferred loans. Deferred loans are loans for which the beneficiary pays no interest and does not have to pay the principal unless the house is sold or ceases to be the primary residence of another eligible beneficiary.

However, the OIG notes that DHCD does receive funds from payoffs of deferred loans. For example, during FY 1997 DHCD received \$329,019 in deferred payoffs; in FY 1996 \$323,387; and in FY 1995 \$261,280. This is over \$900,000 in deferred payments. Therefore, the OIG concludes that further analysis needs to be made of the bad debt expense and allowance.

Recommendation

We recommend that the Director, DHCD

9. Take action to ensure that the staff does additional analyses of the allowance for uncollectible loans and bad debt expense to determine whether the current allowance is reasonable.

DHCD Response

DHCD stated that the independent auditors questioned the carrying value of the loan portfolio in both FY 1997 and 1998. The portfolio was consequently reduced by the loan balance that exceeded 120 day delinquent, and had been sent to collection. This adjustment met the objective of the auditors, since it appeared the District was moving closer to the net realizable value of the portfolio. The agency is engaged in on-going research and independent due diligence efforts and no increase to the allowance is anticipated for FY 1999. (See **Attachments.**)

OIG's Comments

We consider the DHCD's actions to be responsive to our recommendation.

Other Items Noted in the Financial Statements

We spoke with the DHCD staff in regards to other items that came to our attention in the preparation of the Financial Statements. The DHCD staff responded as follows:

Land Acquisition for Housing Development Opportunities cash will be reclassified to the proper organization code within the SOAR by DHCD. The DHCD has agreed to record the adjustment in the SOAR.

Account Receivables will be adjusted according to the activity presented in the Financial Statements. The adjustment will be recorded in the SOAR.

**Department of Housing and Community Development
Home Purchase Assistance Program
Weaknesses in Financial Reporting/
Maintenance of Loan Documents**

Description of Findings From 1994	Problem continued in 1997
Mortgages Receivable balances were not current and and/or properly maintained.	X
Financial Statements were not prepared or not accurately prepared.	X
New loans were not timely recorded or book in the loans subsidiary ledgers. Suspense loans were not timely resolved.	X
Contracts for loan application processing and loan awards were not closed out in a timely manner (within 90 days of the end of the contract).	X
The Homeownership Division could not readily locate loan documents or files.	X



District of Columbia Government
Department of Housing and Community Development

MEMORANDUM

To: Willa Tolmachoff
Office of the Inspector General

From: Henry W. Mosley
Chief Financial Officer

Date: December 2, 1999

Subject: Management Letter Comment Revision

Upon review of the draft audit report for the HPAP Program for FY 1995 - 1997, I would like to revise the agency response to the Management Letter as follows:

PREPARATION OF FINANCIAL STATEMENTS**DHCD Response**

The financial statements for FY 1996 and 1997 were prepared by the agency subsequent to the completion of the audit fieldwork. These statements were utilized in resolving differences between auditors work papers and agency financial records. DHCD will prepare financial statements for FY 1998 and 1999, and on a quarterly basis thereafter beginning in FY 2000.

BAD DEBT EXPENSE AND ALLOWANCE FOR UNCOLLECTIBLES**DHCD Response**

The independent auditors questioned the carrying value of the loan portfolio in both FY 1997 and 1998. The portfolio was consequently reduced by the loan balance that exceeded 120 day delinquent, and had been sent to collection. This adjustment met the objective of the auditors, since it appeared the District was moving closer to the net realizable value of the portfolio. The agency is engaged in on-going research and independent due diligence efforts and no increase to the allowance is anticipated for FY 1999.

Should you have question, please contact me at 442-7261.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Chief Financial Officer

Valerie Holt
Chief Financial Officer



December 10, 1999

Charles C. Maddox, Esq.
Inspector General
Office of the Inspector General
717 14th Street, N.W.
Washington, D.C. 20005

Dear Mr. Maddox:

I have reviewed the audited financial statements and Management Letter for the Home Purchase Assistance Program as maintained by the Department of Housing and Community Development for the fiscal years ended September 30, 1997, 1996 and 1995

I concur with the response to the issues addressed in the Management Letter by the Department of Housing and Community Development (DHCD) financial staff. I am aware that certain matters will require attention from the program staff at DHCD, and will work with the interim director to coordinate a comprehensive approach in implementing the OIG recommendations.

It is our intent that the District will maintain processes and procedures that are appropriate and consistently applied from year to year. My office will conduct a review of the department during FY 2000 to monitor their progress in meeting this objective.

Sincerely,

A handwritten signature in black ink, appearing to read 'Valerie Holt', written over a horizontal line.

Valerie Holt
Chief Financial Officer

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Department of Housing and Community Development

Othello Mahone
 Interim Director

**MEMORANDUM**

To: Charles C. Maddox, Esq.
 Inspector General

DEC 10 1999

From: Othello Mahone 
 Interim Director

Subject: Management Letter for the Home Purchase Assistance Program

I have reviewed the audited financial statements and Management Letter for the Home Purchase Assistance Program as maintained by the Department of Housing and Community Development for the fiscal years ended September 30, 1997, 1996 and 1995.

I concur with the response to the issues addressed in the Management Letter by the Department of Housing and Community Development (DHCD) financial staff, as well as comments submitted by Henry Mosley to Willa Tolmachoff of your staff. DHCD is working with the D.C. Office of the Chief Financial Officer to maintain processes and procedures that are appropriate and consistently applied from year to year.

If there are any further questions, please feel free to contact me at (202) 442-7210.