

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL**

**AUDIT OF THE
HOME PURCHASE
ASSISTANCE PROGRAM
For the Years Ended
September 30, 2000, 1999, and 1998**



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

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



December 16, 2002

Stanley Jackson
Director
Department of Housing and Community Development
801 North Capitol St., N.E., Suite 835
Washington, D.C. 20002

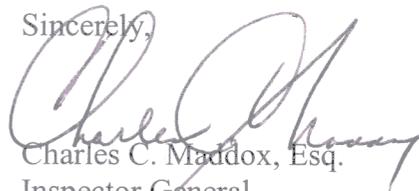
Dear Mr. Jackson:

Enclosed is our final report (OIG No. 02-1-14DB) summarizing the results of the Office of the Inspector General's (OIG) Audit of the Government of the District of Columbia Home Purchase Assistance Program for the years ended September 30, 2000, 1999, and 1998. The audit was conducted by contract under the purview of the OIG.

The Independent Auditor's Report identified a reportable condition involving internal control over financial reporting that is considered to be a material weakness. A management letter was also prepared which contains comments and recommendations we believe will improve the management of both the Home Purchase Assistance Fund and Program. The management letter does not modify the auditor's opinion as expressed in the Independent Auditor's Report. DHCD did not respond to Recommendation 3 in the Management Letter, that the Department of Housing and Community Development (DHCD) continue to focus on resolving findings from the fiscal Year (FY) 1997 audit which were repeated in FY's 1998, 1999, and 2000. However, we request that DHCD respond to Recommendation 3 and provide us with revised comments that identify target completion dates for planned corrective actions. Generally, audit recommendations should be resolved within 6 months of the date of the final report. Accordingly, we will continue to work with DHCD to reach final agreement on this unresolved recommendation.

If you have questions or need additional information, please contact William J. DiVello, Assistant Inspector General for Audits, at (202) 727-8279.

Sincerely,



Charles C. Maddox, Esq.
Inspector General

CCM/ws

Enclosure

cc: See Distribution List

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**GOVERNMENT OF THE DISTRICT OF COLUMBIA
HOME PURCHASE ASSISTANCE PROGRAM
For the Years Ended
September 30, 2000, 1999, and 1998**

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Independent Auditors' Report

To the Inspector General of the Government of the District of Columbia
The Management of the Department of Housing and Community
Development of the Government of the District of Columbia:

We have audited the accompanying balance sheets of the Home Purchase Assistance Program (HPAP) of the Government of the District of Columbia (the District) as of September 30, 2000, 1999, and 1998 and the related statements of revenues, expenditures, and changes in fund balance for the years then ended. These financial statements are the responsibility of the management of the District's Department of Housing and Community Development. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, these financial statements present only the financial activity of the HPAP and are not intended to present fairly the financial position and the results of operations of the Government of the District of Columbia as a whole in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Home Purchase Assistance Program as of September 30, 2000, 1999, and 1998, and the results of its operations for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2002 on our consideration of the HPAP's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
HOME PURCHASE ASSISTANCE PROGRAM**

**Notes to Financial Statements
September 30, 2000, 1999, and 1998**

(1) Summary of Significant Accounting Policies

(a) HPAP Operations

The Home Purchase Assistance Program (HPAP) was established under the District of Columbia (District) Home Purchase Assistance Fund Act of 1978, D.C. Law 2-103 (D.C. Code §§ 3345-2201 *et seq.*). Title 14, Chapter 25 of the D.C. Municipal Regulations (DCMR) provides rules for loans made under the Home Purchase Assistance Program. Title 14, Chapter 25 of the DCMR states that the administration of HPAP shall be the responsibility of the District of Columbia Department of Housing and Community Development (DHCD). The purpose of the District of Columbia Home Purchase Assistance Program is to:

Provide financial assistance to lower and moderate income residents of the District

Enable lower and moderate income residents to purchase decent, safe, and sanitary homes within the District

Enable lower and moderate income residents to make a down payment toward the purchase of a home within the District, or

Enable lower and moderate income residents to make a share payment or other payment to a housing cooperative to secure occupancy rights to a home within the District as his or her principal place of residence

Home Purchase Assistance Program mortgages are generally limited up to \$25,000 per household. However, the Director of the DHCD has the authority to increase a mortgage up to \$30,000 under special circumstances delineated in the 14 DCMR § 2503. Employer-Assisted Housing mortgages are deferred loans on amounts up to \$10,000.

(b) Basis of Accounting

HPAP activities are accounted for in the District's general fund, a governmental fund type, which is accounted for under the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (that is when they become both measurable and available). Measurable means the amount of the transactions can be determined, and available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, considered by the District to be one

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
HOME PURCHASE ASSISTANCE PROGRAM**

**Notes to Financial Statements
September 30, 2000, 1999, and 1998**

year. Expenditures are recorded when the related liability is incurred, except for the provision for bad debts which represents the change in the allowance for uncollectible mortgages receivable during the year.

(c) Cash and Investments

All HPAP cash and investments are pooled in the District's general fund. Cash balances maintained by the District's Treasurer were insured or collateralized with securities held by the District or by its agent in the District's name. Investments maintained by the District's Treasurer include those that are insured or registered, or for which securities are held by the District or its agent in the District's name.

(2) Accounts Receivable

HPAP has advanced funds to a contractor who processes loan applications and completes loans at settlement. The advances are used to pay for mortgage loans and administrative expenses. The accounts receivable balances outstanding represent unused advanced funds due to HPAP.

(3) Mortgages Receivable

Mortgages receivable are presented at the face value of promissory notes. Home Purchase Assistance loans consist of four types: principal-only, unsecured, deferred mortgages, and amortized.

A principal-only mortgage is a loan repaid in regular monthly installments of principal only, without interest for a period of 30 years. These mortgages are usually secured by a lien or subordinated trust on the property purchased.

Unsecured mortgages require repayments subject to the conditions of the loan agreement for which the recipient has signed a promissory note. The note is not secured by a lien on the purchased property.

A deferred mortgage allows the borrower to defer payment of the principal until the property purchased ceases to be the principal residence of the borrower. Deferred mortgages with a closing date subsequent to March 14, 1997 require repayment after five (5) years.

Amortized mortgages are required to be completely repaid over a specific period of time at a predetermined interest rate.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
HOME PURCHASE ASSISTANCE PROGRAM**

**Notes to Financial Statements
September 30, 2000, 1999, and 1998**

(4) Bad Debts

In 1998, DHCD contracted with independent consultants to evaluate the realizability of the mortgages receivable balances. As a result of the study, it was recommended that the realizable value of mortgages receivable be reduced by approximately \$8.4 million dollars. In addition, in 1999 the mortgages receivable balances were written down by approximately \$4.7 million. In 2000, DHCD recovered approximately \$1.4 million previously written off.

(5) District Appropriation

In fiscal year 1998, the District's general fund appropriated \$1,150,904 to fund HPAP operations.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
HOME PURCHASE ASSISTANCE PROGRAM**

**For the Years Ended
September 30, 2000, 1999, and 1998**

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

To the Inspector General of the Government of the District of Columbia and the Management of the Department of Housing and Community Development of the Government of the District of Columbia:

We have audited the financial statements of the Home Purchase Assistance Program (HPAP) of the Government of the District of Columbia (District) as of and for the years ended September 30, 2000, 1999 and 1998, and have issued our report thereon dated June 10, 2002. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether HPAP's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered HPAP's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control over financial reporting. However, we noted a matter, described below, involving internal control over financial reporting, and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over financial reporting that, in our judgment, could adversely affect HPAP's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
HOME PURCHASE ASSISTANCE PROGRAM**

**For the Years Ended
September 30, 2000, 1999, and 1998**

HPAP has contracted with a financial institution to perform the loan servicing function. It has also entered into an agreement with a community based organization to perform the community outreach, loan application, and loan approval process. Both of these organizations provide HPAP with monthly reports detailing activity. Prior to fiscal year 2000, HPAP personnel did not use these reports to record information in the general ledger timely. During fiscal year 1998 and much of 1999, no general ledger activity was recorded until the year-end District-wide financial statement audit process. Consequently, the loans receivable balance maintained in the general ledger was not properly updated until the end of the fiscal year. During fiscal year 2000, HPAP instituted procedures to use these reports to record general ledger activity monthly.

A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is a material weakness.

This report is intended solely for the information and use of the Inspector General of the District of Columbia and Department of Housing and Community Development management, and is not intended to be and should not be used by anyone other than these specified parties.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
HOME PURCHASE ASSISTANCE PROGRAM**

**For the Years Ended
September 30, 2000, 1999, and 1998**

June 10, 2002

To the Inspector General of the
Government of the District of Columbia
The Management of the Department of Housing and
Community Development of the Government of the District of Columbia:

We have audited the financial statements of the Home Purchase Assistance Program (HPAP) as of September 30, 2000, 1999, and 1998, and have issued our report thereon dated June 10, 2002. In planning and performing our audits, we considered internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control.

However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions are matters coming to our attention that, in our judgment, relate to significant deficiencies in the design or operation of internal control and could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions.

A material weakness is a reportable condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted a matter involving internal control and its operation that we consider to be a material weakness, which is presented in Appendix A along with our recommendation.

Other internal control matters coming to our attention are presented in Appendix B, all of which have been discussed with the appropriate members of management. These are less significant matters presented to assist HPAP in improving its operations, but are not considered to be reportable conditions. The status of audit findings from the fiscal year 1997 audit of HPAP are presented in Appendix C.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
HOME PURCHASE ASSISTANCE PROGRAM**

**For the Years Ended
September 30, 2000, 1999, and 1998**

These findings were considered in determining the nature, timing, and extent of the audit tests applied in our audits of the 2000, 1999, and 1998 financial statements, and this report does not affect our report on those financial statements dated June 10, 2002. We have not considered internal control since the date of our report.

This report is intended solely for the information and use of the Inspector General of the District of Columbia and Department of Housing and Community Development management, and is not intended to be and should not be used by anyone other than these specified parties.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
HOME PURCHASE ASSISTANCE PROGRAM**

**For the Years Ended
September 30, 2000, 1999, and 1998**

**APPENDIX A
REPORTABLE CONDITION**

Recording of Mortgage Receivables and General Ledger Activity

HPAP contracts with a financial institution to perform the loan servicing function. It has also entered into an agreement with a community-based organization to perform the community outreach, loan application, and loan approval process. Both of these organizations provide HPAP with monthly reports detailing activity. Prior to fiscal year 2000, HPAP personnel did not use these reports to record information in the general ledger timely. During fiscal year 1998 and much of 1999, no general ledger activity was recorded until the year-end District-wide financial statement audit process. During fiscal year 2000, HPAP instituted procedures to use these reports to record general ledger activity monthly.

RECOMMENDATION 1

We recommend that management include the recording of general ledger activity in the design of their internal controls, including the recording of mortgage receivable balances. Management should utilize the reports provided by its loan servicer and the community based organization to ensure the timely recording of all transactions in the general ledger.

DHCD Response

DHCD concurred with this finding. In its response, DHCD stated that it has taken and will continue to take steps to minimize delays in the receipt of information from service providers. The full text of DHCD's response is at APPENDIX D.

Auditor's Comment

The actions taken by DHCD, as outlined in the response, clearly meet the intent of our recommendation. No further action is needed for this recommendation.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
HOME PURCHASE ASSISTANCE PROGRAM**

**For the Years Ended
September 30, 2000, 1999, and 1998**

**APPENDIX B
OTHER MATTERS**

Reporting over Internal Controls by Service Organizations

HPAP has contracted with a financial institution to perform the loan servicing function. Contractually, the loan servicer is required to provide monthly reports to DHCD. These reports are used to record monthly loan activity. However, outside of receiving these reports, DHCD exercises little consistent oversight of the loan servicer activities.

RECOMMENDATION 2

We recommend that DHCD establish a policy to conduct on-site reviews of the loan servicer on at least a semi-annual basis. This will provide DHCD with assurance that the loan servicer's controls over transactions processed for DHCD are operating effectively. It will also provide assurance that the information provided by the servicer is being accurately prepared. Further, we recommend that DHCD request a SAS 70 report from its loan servicer. This will provide further support for the operating effectiveness of the loan servicer's controls.

DHCD Response

DHCD concurred with this finding. In its response, DHCD stated that it has planned for periodic reviews of the loan servicer. The full text of DHCD's response is at APPENDIX D.

Auditor's Comment

The actions taken by DHCD, as outlined in the response, clearly meet the intent of our recommendation. No further action is needed for this recommendation.

**APPENDIX C
HOME PURCHASE ASSISTANCE PROGRAM
STATUS OF FISCAL YEAR 1997 AUDIT FINDINGS**

Description of Findings From 1997	Finding present during audit for fiscal year ended:		
	9/30/2000	9/30/1999	9/30/1998
Financial Statements were not prepared timely or not accurately prepared.	Yes	Yes	Yes
New loans were not timely recorded or booked in the loans subsidiary ledgers. Suspense loans were not timely resolved.	Yes	Yes	Yes
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).	Yes	Yes	Yes
Reconciliation of Loan Portfolio was not performed timely	Yes	Yes	Yes
Insufficient analysis of Bad Debt Expense and Allowance for uncollectible accounts.	No	No	No

RECOMMENDATION 3

We recommend that DHCD continue to focus on resolving the comments detailed above to ensure that it complies with its stated policies and procedures.

DHCD Response

DHCD officials did not provide a response to this recommendation.

Auditor's Comment

While DHCD did not directly respond to this recommendation, the identification of repeat findings is a signal that priority needs to be given to ensure that adequate attention is given to these issues so that they are timely and properly addressed. As such, we request that DHCD reconsider its position on this recommendation and respond favorably to this final report on how they plan to resolve these findings.

APPENDIX D
Department of Housing and Community Development
Office of the Chief Financial Officer
Response to Management Letter
Audit of Home Purchase Assistance Program
For the Years Ended
September 30, 2000, 1999, 1998

Recording of Mortgage Receivables and General Ledger Activity

HPAP contracts with a financial institution to perform the loan servicing function. It has also entered into an agreement with a community-based organization to perform the community outreach, loan application and loan approval process. Both of these organizations provide HPAP with monthly reports detailing activity. Prior to fiscal year 2000, HPAP personnel did not use these reports to record information in the general ledger timely. During Fiscal year 1998 and much of 1999, no general ledger activity was recorded until the year-end District wide financial statement audit process. During fiscal year 2000, HPAP instituted procedures to record general ledger activity monthly.

We recommend that management include the recording of general ledger activity in the design of the internal controls, including the recording of mortgage receivable balances. Management should utilize the reports provided by its loan servicer and the community based organization to ensure the timely recording of all transactions in the general ledger.

Response:

DHCD concurs with this finding. Management utilizes reports from both Independence Federal Savings Bank and the Greater Washington Urban League to update mortgage receivable balances within the accounting system. DHCD has worked with these groups to minimize delays in the receipt of information from these service providers that could affect the accurate and timely updating of mortgage receivable information.

Reporting Over Internal Controls by Service Organizations

HPAP has contracted with a financial institution to perform the loan servicing function. Contractually, the loan servicer is required to provide monthly reports to DHCD. These reports are used to record monthly loan activity. However, outside of receiving these reports, DHCD exercises little consistent oversight of the loan servicer activities.

We recommend that DHCD establish a policy to conduct on-site reviews of the loan servicer on at least a semi-annual basis. This will provide DHCD with assurance that the loan servicer's controls over transactions processed for DHCD are operating effectively. It will also provide assurance that the information provided by the servicer is being

accurately prepared. Further, we recommend that DHCD request a SAS 70 report from its loan servicer. This will provide further support for the operating effectiveness of the loan servicer's controls.

Response:

DHCD concurs with this comment. DHCD will plan for the internal auditor to initiate periodic reviews of the loan servicer. The regularity of this review, semi-annual or annual will be determined by October 2002. DHCD recognizes the importance of the acquisition of a SAS 70 report from our loan servicer. The requirement for the provision of a SAS 70 report is not included in the current loan servicing contract agreement ending September 30, 2002. In order to comply with this recommendation for the FY ending September 30, 2001, DHCD would have had to incur an additional cost of approximately \$30,000.00. This amount was available in the FY 2001 budget for use of HPAP funds. The requirement for provision of the SAS 70 has been included in RFP for new loan servicing contract beginning October 1, 2002.



APPENDIX E

2001 M Street, NW
Washington, DC 20036

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Telephone 202 533 3000
Fax 202 533 8500

October 31, 2002



Mr. Charles Maddox, Esq.
Inspector General
Government of the District of Columbia
717 14th Street, NW
5th floor
Washington, DC 20005

Dear Mr. Maddox:

We have read the response prepared by the District of Columbia Department of Housing and Community Development (DHCD) to our September 30, 1998, 1999, and 2000 audit report for the Home Purchase Assistance Program of the District of Columbia.

We believe that DHCD's letter is responsive to our audit report.

Very truly yours,

Karyn L. Molnar
Partner

