

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

**HOME PURCHASE ASSISTANCE PROGRAM**

**FINANCIAL STATEMENT AUDITS**

**FOR THE FISCAL YEARS ENDED  
SEPTEMBER 30, 2004, 2003, and 2002  
(With Independent Auditor's Report Thereon)**



**CHARLES J. WILLOUGHBY  
INSPECTOR GENERAL**

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

Inspector General



November 30, 2005

Jalal Greene  
Director  
Department of Housing and Community Development  
801 North Capitol Street, N.E., Suite 835  
Washington, D.C. 20002

Dear Mr. Greene:

As part of our contract for the audit of the District of Columbia's general purpose financial statements, KPMG LLP submitted the enclosed reports (OIG Nos. 06-1-02DB, 02DB(a), and 02DB(b)) summarizing the results of the financial statement audits of the Home Purchase Assistance Program (HPAP) for the years ended September 30, 2002, 2003, and 2004, respectively. These audits were conducted by contract under the purview of the Office of the Inspector General.

If you have questions or need additional information, please contact William J. DiVello, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,

A handwritten signature in black ink, appearing to read "Charles J. Willoughby", is written over a light blue horizontal line.

Charles J. Willoughby  
Inspector General

CJW/cf

Enclosure

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Mr. Jalal Greene  
Home Purchase Assistance Program  
Financial Statement Audits  
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**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
HOME PURCHASE ASSISTANCE PROGRAM**

Financial Statements

September 30, 2004, 2003 and 2002

(With Independent Auditors' Report Thereon)

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

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**KPMG LLP**  
2001 M Street, NW  
Washington, DC 20036

## **Independent Auditors' Report**

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 accompanying balance sheets of the Home Purchase Assistance Program (HPAP) of the Government of the District of Columbia (the District) as of September 30, 2004, 2003 and 2002, 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 of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of HPAP's internal control over financial reporting. Accordingly, we express no such opinion. 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 or its Department of Housing and Community Development (DHCD) as a whole in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 4 to the financial statements, DHCD was unable to provide documentation to support the various fund balance adjustments posted during fiscal year 2002.

In our opinion, except for the effects of the fiscal year 2002 fund balance adjustments discussed in the previous paragraph, the fiscal year 2002 financial statements referred to above present fairly, in all materials respects, the financial position of the Home Purchase Assistance Program as of September 30, 2002, 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 our opinion, the fiscal year 2004 and 2003 financial statements referred to above present fairly, in all materials respects, the financial position of the Home Purchase Assistance Program as of September 30, 2004 and 2003, 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 a report dated September 15, 2005, 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. The purpose of that report is to describe the scope of our testing over internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting and or on compliance. 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 fiscal year 2004 audit.

KPMG LLP

September 15, 2005

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

Balance Sheets

September 30, 2004, 2003 and 2002

<b>Assets</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
	<u>          </u>	<u>          </u>	<u>          </u>
Cash and investments held by			
DC Treasurer	\$ 13,899,206	9,642,913	6,309,010
Due from WUL (Note 2)	—	—	448,574
Interest Receivable	2,172	3,262	24,632
Mortgages receivable, net of allowance for uncollectible mortgages of \$26,107,872, \$28,509,657 and \$27,536,826 for 2004, 2003, and 2002 respectively (Note 3)	<u>7,952,415</u>	<u>9,884,871</u>	<u>14,080,538</u>
	<u>\$ 21,853,793</u>	<u>19,531,046</u>	<u>20,862,754</u>
<b>Liabilities and Fund Balance</b>			
Accounts payable and accrued expenses	\$ 431,923	362,889	86,288
Due to WUL	<u>177,439</u>	<u>340,912</u>	<u>—</u>
Total Liabilities	609,362	703,801	86,288
Fund Balance	<u>21,244,431</u>	<u>18,827,245</u>	<u>20,776,457</u>
Total Liabilities and Fund Balance	<u>\$ 21,853,793</u>	<u>19,531,046</u>	<u>20,862,745</u>

See accompanying notes to financial statements.

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

Statements of Revenues, Expenditures and Changes in Fund Balance

Years ended September 30, 2004, 2003 and 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Revenues:</b>			
Interest income	\$ 103,661	117,022	169,312
<b>Expenditures:</b>			
Administrative	487,007	1,021,460	826,035
Bad debt expense (recovery)	(2,800,532)	1,044,774	1,808,314
Total expenditures	<u>(2,313,525)</u>	<u>2,066,234</u>	<u>2,634,349</u>
Revenues over (under) expenditures	2,417,186	(1,949,212)	(2,465,037)
Fund balance, beginning of year	18,827,245	20,776,457	23,812,867
Fund balance adjustment (Note 4)	<u>—</u>	<u>—</u>	<u>(571,373)</u>
Fund balance, end of year	<u>\$ 21,244,431</u>	<u>18,827,245</u>	<u>20,776,457</u>

See accompanying notes to financial statements.

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

Notes to Financial Statements

September 30, 2004, 2003 and 2002

**(1) Summary of Significant Accounting Policies**

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 45-2201 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 payment toward the purchase of a home within the District; and*

*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 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 DCMR, Title 14, Section 2503.

**(a) Basis of Accounting**

HPAP activities are accounted for in the District's general fund, a governmental fund type, which is accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. 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 transaction 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 District to be one year. Expenditures are recorded when the related liabilities are incurred.

**(b) Cash and Investments held by D.C., Treasurer**

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.

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

Notes to Financial Statements

September 30, 2004, 2003 and 2002

*(c) Administrative Expenses*

The administrative costs shown are only those for which HPAP local funds were used. Additional costs related to HPAP were paid using other funds available to DHCD.

**(2) Due From (To) WUL**

HPAP has advanced funds to a contractor, Washington Urban League, who processes loan applications and completes loans at settlement. The advances are used to pay for mortgage loans and administrative expenses. The amounts due from WUL at year end represent the balance of unused advanced funds.

**(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 to begin after five (5) years. DHCD records a 100% allowance against deferred loans. Repayment of these loans results in a recovery of bad debt expense.

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, 2004, 2003 and 2002

As of September 30, 2004, 2003, and 2002 the following loans were outstanding.

2004		<u>Balance</u>	<u>Allowance</u>	<u>Net</u>
Amortized		\$ 13,840,716	5,888,301	7,952,415
Deferred		<u>20,219,571</u>	<u>20,219,571</u>	<u>—</u>
	Total	<u><u>34,060,287</u></u>	<u><u>26,107,872</u></u>	<u><u>7,952,415</u></u>
2003		<u>Balance</u>	<u>Allowance</u>	<u>Net</u>
Amortized		\$ 16,417,324	6,532,453	9,884,871
Deferred		<u>21,977,204</u>	<u>21,977,204</u>	<u>—</u>
	Total	<u><u>38,394,528</u></u>	<u><u>28,509,657</u></u>	<u><u>9,884,871</u></u>
2002		<u>Balance</u>	<u>Allowance</u>	<u>Net</u>
Amortized		\$ 18,774,051	4,693,513	14,080,538
Deferred		<u>22,843,313</u>	<u>22,843,313</u>	<u>—</u>
	Total	<u><u>41,617,364</u></u>	<u><u>27,536,826</u></u>	<u><u>14,080,538</u></u>

**(4) Fund Balance Adjustment**

The financial statements reflect an adjustment of (\$571,373) required to adjust for the effect of prior year unreconciled differences not posted to the accounting books and records of HPAP.



**KPMG LLP**  
2001 M Street, NW  
Washington, DC 20036

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

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 Assistant Program (HPAP) of the Government of the District of Columbia (District) as of and for the years ended September 30, 2004, 2003, and 2002, and have issued our report thereon dated September 15, 2005. 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.

**Internal Control Over Financial Reporting**

In planning and performing our 2005 audit, 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 matters, described below, involving internal control over financial reporting and its operation that we consider to be reportable conditions. 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.

The Department of Housing and Community Development (DHCD) has contracted with a financial institution to perform the loan servicing function for HPAP. 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. HPAP personnel do not use these reports to record information in the general ledger timely. The loans receivable balance and related activity is recorded in the general ledger only at year-end.

HPAP does not maintain the general ledger in accordance with generally accepted accounting principles. For instance, loan activity, i.e. issuances and repayments, are recorded through offsetting revenue and expense accounts. As a result, the general ledger cannot be used to produce financial statements without significant adjustments that are identified through the financial statement audit process.

A local community bank provides loan servicing on behalf of DHCD. There was a Statement on Auditing Standards No. 70, "Service Organizations", (SAS 70) audit requirement in the contract between DHCD and this service organization; however, no SAS 70 report was provided by the service provider for 2003 and 2002. A SAS 70 audit report was received for 2004.



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 consider the first two reportable conditions described above to be material weaknesses.

### **Compliance and Other Matters**

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 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 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.

KPMG LLP

September 15, 2005