

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

HOME PURCHASE ASSISTANCE PROGRAM

FINANCIAL STATEMENT AUDITS

**FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2005**

(With Independent Auditor's Report Thereon)



**CHARLES J. WILLOUGHBY
INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



October 16, 2006

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, Thompson, Cobb, Bazilio & Associates, P.C. submitted the enclosed report, issued under OIG Report No. 06-1-02DB(c), summarizing the results of the financial statement audit of the Home Purchase Assistance Program (HPAP) for the fiscal year ended September 30, 2005. The audit was conducted 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,



Charles J. Willoughby
Inspector General

CJW/cf

Enclosure

DISTRIBUTION:

The Honorable Anthony A. Williams, Mayor, District of Columbia (1 copy)
Mr. Edward D. Reiskin, Interim City Administrator, District of Columbia (1 copy)
Ms. Alfreda Davis, Chief of Staff, Office of the Mayor (1 copy)
Ms. Sharon Anderson, Deputy Chief of Staff, Policy and Legislative Affairs (1 copy)
Mr. Vincent Morris, Director, Office of Communications (1 copy)
The Honorable Linda W. Cropp, Chairman, Council of the District of Columbia (1 copy)
The Honorable Vincent B. Orange, Sr., Chairman, Committee on Government Operations,
Council of the District of Columbia (1 copy)
The Honorable Sharon Ambrose, Chairperson, Committee on Economic Development,
Council of the District of Columbia (1 copy)
Mr. Herbert R. Tillery, Deputy Mayor for Operations (1 copy)
Mr. Stanley Jackson, Deputy Mayor for Planning and Economic Development (1 copy)
Ms. Brenda Donald Walker, Deputy Mayor for Children, Youth, Families,
and Elders (1 copy)
Mr. Edward D. Reiskin, Deputy Mayor for Public Safety and Justice (1 copy)
Mr. Ira Stohlman, Acting Secretary to the Council (13 copies)
Mr. Robert J. Spagnoletti, Attorney General for the District of Columbia (1 copy)
Dr. Natwar M. Gandhi, Chief Financial Officer (5 copies)
Mr. Ben Lorigo, Executive Director, Office of Integrity and Oversight, OCFO (1 copy)
Ms. Deborah K. Nichols, D.C. Auditor (1 copy)
Ms. Kelly Valentine, Interim Chief Risk Officer, Office of Risk Management,
Attention: Monique Labeach Poydras (1 copy)
Mr. Jeffrey C. Steinhoff, Managing Director, FMA, GAO (1 copy)
Ms. Jeanette M. Franzel, Director, FMA, GAO (1 copy)
The Honorable Eleanor Holmes Norton, D.C. Delegate, House of Representatives
Attention: Rosaland Parker (1 copy)
The Honorable Tom Davis, Chairman, House Committee on Government Reform,
Attention: Melissa C. Wojciak (1 copy)
Ms. Shalley Kim, Professional Staff, House Committee on Government Reform (1 copy)
The Honorable Joe Knollenberg, Chairman, House Appropriations Subcommittee on
Transportation, Treasury, and Housing and Urban Development, the Judiciary, District of
Columbia (1 copy)
Ms. Dena Baron, Subcommittee Clerk, House Appropriations Subcommittee on
Transportation, Treasury, and Housing and Urban Development, the Judiciary, District of
Columbia (1 copy)
The Honorable George Voinovich, Chairman, Senate Subcommittee on Oversight of
Government Management, the Federal Workforce, and the District of Columbia (1 copy)
Mr. David Cole, Professional Staff Member, Senate Subcommittee on Oversight of
Government Management, the Federal Workforce, and the District of Columbia (1 copy)
The Honorable Daniel K. Akaka, Senate Subcommittee on Oversight of Government
Management, the Federal Workforce, and the District of Columbia (1 copy)

Mr. Jalal Greene
Home Purchase Assistance Program
Financial Statement Audit – FY 2005
October 16, 2006
Page 3 of 3

Ms. Nanci Langley, Staff Director/Chief Counsel, Senate Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia (1 copy)
The Honorable Sam Brownback, Chairman, Senate Appropriations Subcommittee on the District of Columbia (1 copy)
Ms. Mary Dietrich, Majority Clerk, Senator Sam Brownback (1 copy)
The Honorable Mary Landrieu, Senate Subcommittee on D.C. Appropriations (1 copy)
Ms. Kate Eltrich, Clerk, Senate Subcommittee on D.C. Appropriations (1 copy)
The Honorable Susan M. Collins, Chairperson, Senate Committee on Governmental Affairs
Attention: Johanna Hardy (1 copy)
The Honorable Joseph Lieberman, Ranking Minority Member, Senate Committee on Governmental Affairs, Attention: Patrick J. Hart (1 copy)

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
HOME PURCHASE ASSISTANCE PROGRAM
FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2005**

(with Independent Auditor's Report Thereon)

THOMPSON, COBB, BAZILIO & ASSOCIATES, P.C.

Certified Public Accountants and Management, Systems and Financial Consultants

**Main:
1101 15th Street, N.W.
Suite 400
Washington, D.C. 20005
(202) 737-3300
Fax: (202) 737-2684**

**Regional:
100 Pearl Street
14th Floor
Hartford, CT 06103
(203) 249-7246
Fax: (203) 275-6504**

**Regional:
21250 Hawthorne Boulevard
Suite 500
Torrance, California 90503
(310) 792-7001
Fax: (310) 792-7004**

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
HOME PURCHASE ASSISTANCE PROGRAM
FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2005**

(with Independent Auditor's Report Thereon)

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
HOME PURCHASE ASSISTANCE PROGRAM
FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2005**

TABLE OF CONTENTS

| | <u>PAGE</u> |
|---|--------------------|
| Independent Auditor's Report..... | 1 |
| Balance Sheet..... | 3 |
| Statement of Revenues, Expenditures and Changes in Fund Balance..... | 4 |
| Notes to Financial Statements..... | 5 |
| Report on Internal Control Over Financial Reporting and Compliance Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> | 8 |

THOMPSON, COBB, BAZILIO & ASSOCIATES, PC
Certified Public Accountants and Management, Systems, and Financial Consultants

Main Office:
1101 15th Street, N.W.
Suite 400
Washington, DC 20005
(202) 737-3300
(202) 737-2684 Fax

Regional Office:
100 Pearl Street
14th Floor
Hartford, CT 06103
(860) 249-7246
(860) 275-6504 Fax

Regional Office:
21250 Hawthorne Boulevard
Suite 500
Torrance, CA 90503
(310) 792-7001
(310) 792-7004 Fax

Independent Auditor's Report

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 accompanying balance sheet of the Home Purchase Assistance Program (HPAP) of the Government of the District of Columbia (the District) as of September 30, 2005, and the related statement of revenues, expenditures, and changes in fund balance for the year then ended. These financial statements are the responsibility of the management of the District's Department of Housing and Community Development (DHCD). Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit 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 audit 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 DHCD'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 audit provides 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 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 materials respects, the financial position of the Home Purchase Assistance Program as of September 30, 2005, and the results of its operations for the year 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 May 31, 2006, 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 2005 audit.

May 31, 2006

Rosenson, Cobb, Bazilio & Associates, P.C.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
HOME PURCHASE ASSISTANCE PROGRAM
BALANCE SHEET
SEPTEMBER 30, 2005**

| | <u>2005</u> |
|---|---------------------|
| ASSETS | |
| Cash and investments held by DC Treasurer | \$17,857,700 |
| Due from WUL (Note 2) | - |
| Interest Receivable | 2,750 |
| Mortgages receivable, net of allowance for uncollectible mortgages of \$21,607,886 (Note 3) | <u>8,052,899</u> |
| Total Assets | <u>\$25,913,349</u> |
| LIABILITIES AND FUND BALANCE | |
| Accounts payable and accrued expenses | \$ 745,652 |
| Due to WUL for loan advances (Note 2) | <u>772,306</u> |
| Total Liabilities | 1,517,958 |
| Fund Balance | <u>24,395,391</u> |
| Total Liabilities and Fund Balance | <u>\$25,913,349</u> |

The accompany notes are an integral part of this statement.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
HOME PURCHASE ASSISTANCE PROGRAM
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
YEAR ENDED SEPTEMBER 30, 2005**

| | <u>2005</u> |
|------------------------------------|----------------------------|
| REVENUES | |
| Interest income | \$ 134,947 |
| EXPENDITURES | |
| Administrative | 1,321,223 |
| Bad debt expense (recovery) | <u>(4,337,236)</u> |
| Net expenditures (recoveries) | <u>(3,016,013)</u> |
| Revenues over (under) expenditures | 3,150,960 |
| Fund balance, beginning of year | <u>21,244,431</u> |
| Fund balance, end of year | <u><u>\$24,395,391</u></u> |

The accompany notes are an integral part of this statement.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
HOME PURCHASE ASSISTANCE PROGRAM
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

NOTE 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.

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.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
HOME PURCHASE ASSISTANCE PROGRAM
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

Administrative Expenses

The administrative costs shown are only those for which HPAP local funds were used. Additional costs related to HPAP may be paid using other funds available to DHCD. In addition, rent costs were allocated to HPAP by DHCD of \$425,596 in 2005. DHCD allocates rent to each of its programs based on available budget.

NOTE 2: DUE TO WUL

DHCD contracts with Washington Urban League (WUL) to process HPAP loan applications and complete loan settlements. DHCD reimburses WUL for loans issued under the HPAP program. The amounts due to WUL at year end represent loans issued prior to September 30 for which DHCD has not reimbursed WUL. In addition, \$387,807 of accrued expenses are invoices due WUL for administrative fees under its contract.

NOTE 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.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
HOME PURCHASE ASSISTANCE PROGRAM
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

NOTE 3: MORTGAGES RECEIVABLE

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.

As of September 30, 2005, the following loans were outstanding.

| | Balance | Allowance | Net |
|-----------|----------------------|----------------------|---------------------|
| Amortized | \$ 10,737,199 | \$ 2,684,300 | \$ 8,052,899 |
| Deferred | <u>18,923,586</u> | <u>18,923,586</u> | <u>-</u> |
| Total | <u>\$ 29,660,785</u> | <u>\$ 21,607,886</u> | <u>\$ 8,052,899</u> |

THOMPSON, COBB, BAZILIO & ASSOCIATES, PC
Certified Public Accountants and Management, Systems, and Financial Consultants

Main Office:
1101 15th Street, N.W.
Suite 400
Washington, DC 20005
(202) 737-3300
(202) 737-2684 Fax

□ Regional Office:
100 Pearl Street
14th Floor
Hartford, CT 06103
(860) 249-7246
(860) 275-6504 Fax

□ Regional Office:
21250 Hawthorne Boulevard
Suite 500
Torrance, CA 90503
(310) 792-7001
(310) 792-7004 Fax

**Report on Internal Control
Over Financial Reporting and Compliance 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 Assistant Program (HPAP) of the Government of the District of Columbia (District) as of and for the year ended September 30, 2005, and have issued our report thereon dated May 31, 2006. We conducted our audit 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 DHCD's internal control over financial reporting for the HPAP funds 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 DHCD's ability to record, process, summarize, and report financial data for HPAP consistent with the assertions of management in the financial statements.

1. 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 balances are adjusted only at year-end.

2. Cash activity related to loans, *i.e.*, collections and loan issuances, are recorded during the year. However, because the loan balances are adjusted only at year-end, there is no corresponding balancing entry to loans. Therefore, it is possible for the loan or cash transaction to be recorded to another program, which has occurred. The reconciliation procedures in place are not effective to prevent an out-of-balance condition. For each of the past four years, DHCD has been unable to reconcile fund balance because of these out-of-balance conditions. While DHCD has been able to research and find enough of the mispostings each year to reduce the fund balance difference to an amount that is immaterial enough to result in an opinion that the financial statements are fairly stated, they have not put procedures in place that would prevent or detect these one-sided transactions. For fiscal year 2005, the remaining unreconciled fund balance difference was approximately \$163,000, which has been recorded as bad debt expense.
3. Because HPAP records cash activity throughout the year and loan activity only at year end, the offsets to these entries are revenue and expense accounts. If all transactions properly offset and reconciled, there would be no net effect at year end. However, this has not been the case for the past several years. In addition, the balance sheet activity is being commingled within the general ledger accounts with true revenue and expense activity. 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 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 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.

May 31, 2006

Thompson, Cobb, Bazilio & Associates, P.C.