

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

**HOME PURCHASE ASSISTANCE PROGRAM**

**FINANCIAL STATEMENT AUDIT**

**FOR THE FISCAL YEAR ENDED  
SEPTEMBER 30, 2006**

**(With Independent Auditor's Report Thereon)**



**CHARLES J. WILLOUGHBY  
INSPECTOR GENERAL**

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

Inspector General



August 20, 2007

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

Dear Mr. Greene:

In conjunction with 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. 07-1-29DB(a), summarizing the results of the financial statement audit of the Home Purchase Assistance Program (HPAP) for the fiscal year ended September 30, 2006. The financial statement report includes the *Independent Auditor's Report* and the *Report on Internal Control over Financial Reporting and Compliance Based on an Audit of Financial Statements*. The audit was conducted under the purview of the Office of the Inspector General.

Collectively, the reports provide information about the Department of Housing and Community Development's (DHCD's) compliance with laws and regulations and the adequacy of its internal controls. Specifically, these reports identified three reportable conditions. Reportable conditions involve matters relating to significant deficiencies in the design or operation of internal control over financial reporting that could adversely affect DHCD's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements. The three reportable conditions were repeated from the previous year. As always, we ask that agency managers follow-up on reported deficiencies and implement corrective actions to address all recommendations in a timely manner, especially in light of recent changes to the accounting standards. Prompt actions to reported findings should help to prevent a potential negative impact on future opinions.

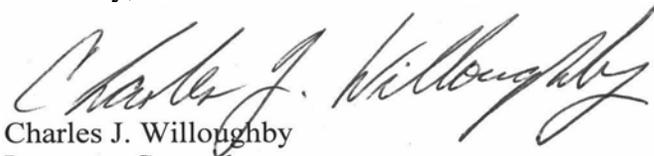
DHCD has reported that they have a new loan service contractor that should be able to provide accurate loan data and reports so that DHCD can timely record loan activity which would address the conditions noted in the financial statement audit.

Mr. Jalal Greene  
Home Purchase Assistance Program  
Financial Statement Audit – FY 2006  
August 20, 2007  
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While the Office of the Inspector General will continue to evaluate the progress of District agencies in implementing corrective actions, it is the responsibility of District government management to ensure that agencies correct the deficiencies noted in audit reports. This Office will work with managers, as appropriate, to help them monitor the implementation of recommendations.

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

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Home Purchase Assistance Program  
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**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
HOME PURCHASE ASSISTANCE PROGRAM  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
SEPTEMBER 30, 2006**

**(With Independent Auditor's Report Thereon)**

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

*Certified Public Accountants and Management, Systems and Financial Consultants*

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**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
HOME PURCHASE ASSISTANCE PROGRAM  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
SEPTEMBER 30, 2006**

**(With Independent Auditor's Report Thereon)**

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**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
HOME PURCHASE ASSISTANCE PROGRAM  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
SEPTEMBER 30, 2006**

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### **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, 2006, and the related statement of revenues, expenditures, and change 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 audit.

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, 2006, 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 April 30, 2007, 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 2006 audit.

Washington, DC  
April 30, 2007

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

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
HOME PURCHASE ASSISTANCE PROGRAM  
BALANCE SHEET  
SEPTEMBER 30, 2006**

**ASSETS**

Cash and investments held by DC Treasurer	\$ 14,960,546
Interest Rrceivable	1,574
Loan advance receivable (note 2)	183,788
Mortgages receivable, net (note 3)	<u>7,558,562</u>
Total Assets	<u>\$ 22,704,470</u>

**LIABILITIES AND FUND BALANCE**

Accounts payable and accrued expenses	\$ 39,343
Fund Balance	<u>22,665,127</u>
Total Liabilities and Fund Balance	<u>\$ 22,704,470</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 CHANGE IN FUND BALANCE  
YEAR ENDED SEPTEMBER 30, 2006**

**REVENUES**

Interest income	\$ <u>93,324</u>
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**EXPENDITURES**

Administrative	864,076
Bad debt expense net of recoveries (note 4)	<u>959,512</u>
Total expenditures	<u>1,823,588</u>
Expenditures in excess of revenues	(1,730,264)
Fund balance, beginning of year	<u>24,395,391</u>
Fund balance, end of year	<u>\$ 22,665,127</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, 2006**

**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.

HPAP mortgages are generally limited to \$70,000 per household.

*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, 2006**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*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 of \$5,937 were allocated to HPAP by DHCD in 2006. DHCD allocates rent to each of its programs based on available budget.

**NOTE 2: LOAN ADVANCE RECEIVABLE**

DHCD contracts with the Greater Washington Urban League (GWUL) to process HPAP loan applications and complete loan settlements. The amount due from GWUL at year-end represents the money which DHCD advanced to GWUL prior to September 30, 2006 for HPAP loans that had not been disbursed.

**NOTE 3: MORTGAGES RECEIVABLE**

HPAP loans consist of four types: principal-only, unsecured, deferred, and amortized mortgages.

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.

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

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
HOME PURCHASE ASSISTANCE PROGRAM  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2006**

**NOTE 3: MORTGAGES RECEIVABLE (Continued)**

DHCD records a 100% allowance for all deferred loans and records a 25% allowance for all amortized loans. At September 30, 2006 DHCD had no outstanding principal only or unsecured mortgages.

As of September 30, 2006, the outstanding mortgage balances and related allowances were as follows.

	<u>Balance</u>	<u>Allowance</u>	<u>Net</u>
Amortized	\$ 10,078,082	\$ 2,519,521	\$ 7,558,562
Deferred	<u>20,010,420</u>	<u>20,010,420</u>	<u>-</u>
Total	<u>\$ 30,088,503</u>	<u>\$ 22,529,941</u>	<u>\$ 7,558,562</u>

During 2006 DHCD, through its agent GWUL, disbursed \$5,089,492 in new HPAP loans. Loan repayments received in 2006 totaled \$4,623,860.

**NOTE 4: BAD DEBT EXPENSE NET OF RECOVERIES**

Bad debt expense is recorded for 100% of all new deferred loans and 25% of all new amortized loans made during the year, adjusted for recoveries of loans collected during year that were previously reserved. The following table provides the bad debt expense calculation for the year ended September 30, 2006.

<u>New Loans</u>	<u>Amount</u>	<u>Required Reserved Percentage</u>	<u>Total Bad Debt Expense</u>
Amortized	\$ 1,638,398	25%	\$ 409,600
Deferred	<u>3,358,559</u>	100%	<u>3,358,559</u>
Total	\$ 4,996,957		\$ 3,768,159
Recoveries from Repayments			<u>(2,808,647)</u>
2006 Bad debt expense net of recoveries			<u>\$ 959,512</u>

**THOMPSON, COBB, BAZILIO & ASSOCIATES, PC**  
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**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 Assistance Program (HPAP) of the Government of the District of Columbia (District) as of and for the year ended September 30, 2006, and have issued our report thereon dated April 30, 2007. 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.

**Internal Control Over Financial Reporting**

In planning and performing our 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 an opinion on internal control over financial reporting. However, we noted certain matters involving the 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 the internal control over financial reporting that, in our judgment, could adversely affect DHCD's ability to initiate, record, process, and report financial data for HPAP consistent with the assertions of management in the financial statements. Reportable conditions are identified below.

1. DHCD contracts 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.

### **Management Response**

The agency's ability to perform the timely recording of loan activity is directly related to receiving timely and accurate information from the agency's loan servicer. The loan servicer has failed to provide DHCD with accurate loan data and reports in a timely basis. As a result, the agency had no choice but to record all changes in loan activity at year's end. In an attempt to respond to prior year's deficiencies, the agency put the loan servicing contract out for bid in FY 2006. The agency now has a new loan servicer for FY 2007 that should ease our ability to post activity on a more regular basis.

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 adjust loan balances. Therefore, it is possible for the loan or cash transactions to be recorded to another program, which has occurred, and balances in the SOAR system may be out-of-balance each month until corrected after completion of the year end reconciliation. The reconciliation procedures in place are not effective to prevent an out-of-balance condition. In past years, DHCD has been unable to reconcile fund balance because of these out-of-balance conditions. While DHCD has been able to reconcile the fund balance in the current year they have not put procedures in place that would prevent or detect these out-of-balance conditions throughout the year.

### **Management Response**

The agency's ability to perform the timely recording of loan activity is directly related to receiving timely and accurate information from the agency's loan servicer. The loan servicer has failed to provide DHCD with accurate loan data and reports in a timely basis. As a result, the agency had no choice but to record all changes in loan activity at year's end. In an attempt to respond to prior year's deficiencies, the agency put the loan servicing contract out for bid in FY 2006. The agency now has a new loan servicer for FY 2007 that should ease our ability to post activity on a more regular basis.

3. Because HPAP records cash activity throughout the year and adjust loan balances only at year end, SOAR cannot be used to produce financial statements without significant adjustments that are identified through the year end reconciliation process. Rather an excel spreadsheet is used to roll forward loan balances based on reports received from the loan servicer and to determine the adjustments that need to be made to SOAR accounts. Revenue and expense accounts in SOAR that require adjustment as a result of activity misposted throughout the year only occur after this year end reconciliation is performed.

### **Management Response**

The agency's ability to perform the timely recording of loan activity is directly related to receiving timely and accurate information from the agency's loan servicer. The loan servicer has failed to provide DHCD with accurate loan data and reports in a timely basis. As a result, the agency had no choice but to record all changes in loan activity at year's end. In an attempt to respond to prior year's deficiencies, the agency put the loan servicing contract out for bid in FY 2006. The agency now has a new loan servicer for FY 2007 that should ease our ability to post activity on a more regular basis.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error 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. 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 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*.

We also noted certain additional items involving the internal control over financial reporting and compliance and other matters which we have reported to the management of DHCD in a separate letter dated April 30, 2007. The status of prior year reportable conditions is presented in Appendix A.

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.

Washington, DC  
April 30, 2007

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

## Status of Prior Year Reportable Conditions

Nature of Comment	Type of Comment in 2005	Current Comment
1. Loan balances in Soar adjusted annually	Reportable Condition – Material Weakness	Repeated. See Current Year Reportable Condition #1
2. Cash activity recorded without adjusting loan balances throughout the year.	Reportable Condition– Material Weakness	Repeated. See Current Year Reportable Condition #2
3. HPAP financials not produced from SOAR	Reportable Condition– Material Weakness	Repeated. See Current Year Reportable Condition #3