

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

**AUDIT OF COMPLIANCE WITH
HOME PURCHASE ASSISTANCE
PROGRAM REQUIREMENTS**



**CHARLES J. WILLOUGHBY
INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



February 7, 2007

Victor L. Selman
Interim Director
Department of Housing and Community Development
801 North Capitol St., N.E., Suite 835
Washington, D.C. 20002

Dear Mr. Selman:

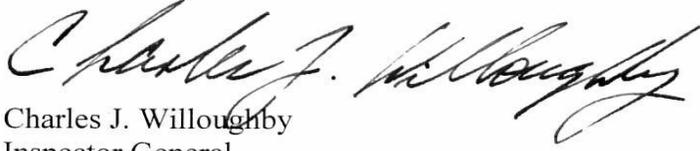
Enclosed is our final audit report SP-06-014 summarizing the results of our review of a request received from the Consumer Service Advocate, Neighborhood Stabilization Program (NSP), Department of Consumer and Regulatory Affairs (DCRA), regarding properties located on Martin Luther King, Jr. Avenue, S.E., Washington, D.C. DCRA asked that a review be conducted into the ownership of those homes. Neighbors of those addresses claimed that the homes were bought using Home Purchase Assistance Program (HPAP) loans, but that the owners did not maintain the properties as their principal places of residence. Furthermore, it was alleged that one property was being used as a daycare center.

Our report contains five recommendations for necessary action to correct deficiencies. Recommendation 1 is moot since the Department of Housing and Community Development (DHCD) subsequently informed us in their response to our draft report that the HPAP loan in question was actually paid off in October 1997. DHCD's responses to recommendations two through five, when implemented fully, should bring about needed improvement in administering HPAP. In DHCD's response to the draft, DHCD raised concerns as to whether our draft report was based solely on DHCD's inability to locate one document. We address DHCD's concerns in the "Other Comments – OIG" section of the final report.

Mr. Selman, Interim Director, DHCD
Final Report – OIG No. SP-06-014
February 7, 2007
Page 2 of 4

We appreciate the cooperation of DHCD with this special project. 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, reading "Charles J. Willoughby". The signature is written in a cursive style with a large, sweeping "C" at the beginning and a long, trailing flourish at the end.

Charles J. Willoughby
Inspector General

CJW/rj

Enclosure

cc: See Distribution List

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Mr. Robert Mulderig, Deputy Director, Residential and Community Services, Department of
Housing and Community Development (1 copy)

**AUDIT OF COMPLIANCE WITH
HOME PURCHASE ASSISTANCE PROGRAM
REQUIREMENTS**

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EXECUTIVE DIGEST

OVERVIEW

The District of Columbia Office of the Inspector General (OIG) has completed a limited scope audit of compliance with the requirements of the Home Purchase Assistance Program (HPAP). The audit was requested by the Consumer Service Advocate, Neighborhood Stabilization Program (NSP), Department of Consumer and Regulatory Affairs (DCRA). The DCRA request referred to properties located at 3328, 3330, and 3332 Martin Luther King, Jr. Avenue, S.E., Washington, D.C. Specifically, neighbors of those addresses complained to DCRA officials that the homes were bought using HPAP loans, but that the owners did not maintain the properties as their principal places of residence, and that, one property was being used as a daycare center.

CONCLUSIONS

The report contains one finding that includes details supporting the conditions we reviewed and documented. Our review of the properties located at 3330 and 3332 Martin Luther King, Jr. Avenue, S.E., disclosed that HPAP loans were not outstanding, and use of these properties was therefore not in violation of HPAP provisions. Information provided to us by DHCD in DHCD's response to the draft report indicated that the HPAP loan for the property at 3328 Martin Luther King, Jr. Avenue, S.E., was not outstanding but had actually been paid off in October 1997. Therefore the owner, who operates a child care center at the address, is not in violation of HPAP provisions. However, deficiencies in administering HPAP, which the OIG and contract audit firms have noted in past audits, still apparently exist and were considered in formulating the recommendations cited in the draft report.

SUMMARY OF RECOMMENDATIONS

We directed five recommendations to the Director, Department of Housing and Community Development which focused on: (1) making a determination with regard to an HPAP loan recipient to ensure that the owner pay-off the loan in full or maintain the address as his/her principal place of residence, as well as cease using the address as a business; (2) requiring that HPAP loan portfolio documents are properly safeguarded and managed; (3) maintaining accurate and up-to-date databases and subsidiary ledgers; (4) verifying periodically the actual physical loan agreements and subsidiary ledgers; and (5) circularizing confirmations periodically to HPAP recipients as to whether they still maintain the HPAP homes as their principal place of residence.

A summary of the potential benefits resulting from the audit is shown at Exhibit A.

INTRODUCTION

BACKGROUND

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, codified at D.C. Code §§ 46-2601 thru -2626. Title 14, Chapter 25 of the D.C. Municipal Regulations (DCMR) provides rules for loans made under the Home Purchase Assistance Program. Title 14 DCMR § 2500.2 states that “[t]he administration of . . . [HPAP] shall be the responsibility of the District of Columbia Department of Housing and Community Development (DHCD). Title 14 DCMR § 2500.1 states that the purpose of the District HPAP is to:

1. provide financial assistance to lower and moderate income residents of the District;
2. enable lower and moderate income residents to purchase decent, safe, and sanitary homes within the District;
3. enable lower and moderate income residents to make a down payment toward the purchase of a home within the District; or
4. 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.¹

OBJECTIVES, SCOPE, AND METHODOLOGY

Our audit objective was to determine if certain property owners were in violation of HPAP provisions. The scope of our audit was limited to properties located at 3328, 3330, and 3332 Martin Luther King, Jr. Avenue, S.E., Washington, D.C. To accomplish our objectives, we conducted interviews with responsible personnel at DHCD, the Department of Consumer and Regulatory Affairs (DCRA), and the Department of Health (DOH) to determine specifics

¹ A share payment is the payment for one unit or “share” of a co-op building or multi-unit building.

INTRODUCTION

relative to the properties located on Martin Luther King, Jr. Avenue, S.E. Additionally, we examined and analyzed documents and reviewed relevant sections of the D.C. Code and the DCMR.

The audit was conducted in accordance with generally accepted government auditing standards and included such tests as were considered necessary for this limited scope audit.

FINDING: HPAP RESIDENCY REQUIREMENT

SYNOPSIS

The owner of 3328 Martin Luther King, Jr. Avenue, S.E., Washington, D.C. may have violated the HPAP residency requirement. As a result, HPAP funds that were lent to the owner were not available to lend to other District residents to aid in purchasing homes as a principal place of residence. Additionally, the DHCD needed to improve file maintenance of its HPAP loan portfolios.

DISCUSSION

D.C. Code § 42-2603 states:

The [Home Purchase Assistance] Fund shall be available without fiscal year limitation for the purpose of providing financial assistance for down payments or interim financing to recipients for the purpose of purchasing or securing housing, including single family homes, condominium units, or occupancy rights to cooperative housing in the District of Columbia as their principal place of residence

In regard to the HPAP, 14 DCMR § 2501.15 provides:

To be eligible for purchase or for securing occupancy rights, a property shall be located in the District of Columbia and shall be a single-family, condominium or cooperative dwelling unit, to be used as the applicant's primary residence.

The DCRA stated in its letter to the OIG that citizens believed three houses on Martin Luther King, Jr. Avenue, S.E. had been purchased using HPAP loans, but were not the owners' principal place of residence, and one of the three properties was being used to operate a daycare center. The DOH had issued a license to the owners of 3328 Martin Luther King, Jr. Avenue, S.E. (3328) to be used as a child development center. The DHCD confirmed that the owner of that house had an HPAP loan. Therefore, the owner appeared to be in violation of D.C. law and regulations pertaining to the HPAP residency requirement. The DHCD informed the OIG that the loan for 3328 may have been a long-term deferred loan and subject to the residency requirement for only a 5-year period. However, the DHCD also stated that it could not locate the loan agreement/promissory note for 3328 and, therefore, did not know the exact terms of the loan.

Given that: (1) the owner of 3328 has an HPAP loan; (2) the owner has been issued a child development center license and operates a child care center at the address; and

FINDING: HPAP RESIDENCY REQUIREMENT

(3) there are provisions in the D.C. Code and the DCMR that require the HPAP loan recipient to apply the HPAP loan toward the purchase of a principal place of residence, the OIG opines that the owner of 3328 is in an apparent violation of HPAP regulations, and may therefore be required to pay in full the remaining balance of the loan.

With regard to the other two subject addresses, 3330 and 3332 Martin Luther King, Jr. Avenue, S.E., the DHCD stated that HPAP loans were not outstanding.

During the course of our inquiry, DHCD could not timely provide us with definitive information as to whether or not HPAP loans existed for all three addresses. As stated above, the actual loan portfolio could not be located for at least one of the notes. The OIG did not conduct a full audit, and therefore did not review DHCD's controls, processes, systems, and databases for tracking loans and managing loan portfolio files. However, because DHCD had over \$29 million in District-funded HPAP loans outstanding alone as of September 30, 2005, we believe the DHCD needs to: (1) adequately safeguard physical custody of the loan portfolios; and (2) maintain accurate databases and subsidiary loan ledgers. To improve its internal controls over loans, the DHCD should also periodically match its database of loans against the actual loan agreements and periodically circularize confirmations to a sample of homeowners whereby the owners would be required to state that they maintain the HPAP homes as their principal place of residence.

RECOMMENDATIONS

We recommend that the Director, Department of Housing and Community Development:

1. Make a determination with regard to the HPAP loan recipient for 3328 Martin Luther King, Jr. Avenue, S.E., to require and ensure that the owner pay-off the loan in full or maintain the address as his/her principal place of residence and cease using the address as a business;
2. Require that HPAP loan portfolio documents are properly safeguarded and managed;
3. Maintain accurate and up-to-date databases and subsidiary ledgers;

FINDING: HPAP RESIDENCY REQUIREMENT

4. Verify periodically the actual physical loan agreements and subsidiary ledgers; and
5. Circularize confirmations periodically to HPAP recipients as to whether they still maintain the HPAP homes as their principal place of residence.

MANAGEMENT REPSPONSE

Recommendation 1

DHCD stated that the HPAP loan for 3328 Martin Luther King, Jr. Avenue, S.E. was not outstanding, as DHCD originally stated, but actually had been paid off in October 1997.

OIG COMMENT

Because the loan has already been paid off, the condition cited -- for this particular loan - - no longer exists.

Recommendations 2 and 3

DHCD stated that it is instituting a revised records management function for all of its housing program files including HPAP.

OIG COMMENT

DHCD did not state specifics regarding the revised records management function but the revised function should include: (1) having in custody documents (promissory notes, loan agreements, and deeds of trusts) for all HPAP loans and (2) maintaining up-to-date and accurate loan ledgers.

Recommendation 4 and 5

DHCD stated that it will institute a portfolio management function to monitor DHCD investments and that it has added a new position, Manager of Homebuyer Assistance Programs, whose responsibilities include affirming use of homebuyer-assisted properties as principle residences of the purchasers.

FINDING: HPAP RESIDENCY REQUIREMENT

OIG COMMENT

The actions taken and planned should bring about needed improvement addressed in the recommendations.

OTHER COMMENTS - OIG

In DHCD's response, DHCD asked whether OIG Recommendations 2-5 were based solely on the inability of DHCD to locate the loan agreement for the 3328 Martin Luther King, Jr. Avenue, S.E. address. The OIG did not base the recommendations or report solely on DHCD's inability to locate one document. D.C. Code § 42-2622 states that an annual audit of the Home Purchase Assistance Program Fund shall be conducted by the OIG. Pursuant to that law, the OIG has conducted audits of HPAP or contracted with audit firms to conduct the required audits. After performing the audits, the OIG or contract auditors have repeatedly noted similar internal control and/or compliance conditions or deficiencies in DHCD's administration of HPAP.

For example, in our July 31, 1989, HPAP management letter [OIG No. 8911-16 (M)], two of the conditions which we cited were the need to establish program monitoring procedures and the need to improve loan records. In response to the monitoring finding, DHCD wrote:

DCLDC,² in response to HUD³ concerns, implemented post-settlement procedures which have been in effect since October, 1988. We have now sent letters to all HPAP loan holders to verify their continued residence in the HPAP assisted home. DHCD will continue to monitor the operations of DCLDC and the status of outstanding loans to ensure that these procedures are followed.

In regard to the need to improve loan records, the OIG wrote that DHCD could not locate documents in DHCD's files for 13 out of 64 loans OIG selected for testing. DHCD responded by stating that it would establish procedures to ensure that it has complete and accurate information and loan files.

² DCLDC is the acronym for the D.C. Local Development Corporation, the grantee which processed loan applications for DHCD.

³ HUD is the acronym for the U.S. Department of Housing and Urban Development.

FINDING: HPAP RESIDENCY REQUIREMENT

In our March 20, 1991, HPAP audit report (OIG No. 9111-17) and April 30, 1991 HPAP management letter [OIG No. 9111-17(M)] we cited the need for DHCD to improve controls over custody of original promissory notes, deeds of trusts, and security agreements. We noted in the management letter that DHCD's post-loan monitoring had resulted in the pay-off of several loans by beneficiaries who no longer used their HPAP homes as their primary residences.

In our March 24, 1992, HPAP audit report (OIG No. 9211-12), we again cited the need to improve controls over loan documents. In our November 5, 1995, HPAP management letter [OIG No. 9510-16(M)], we noted that there were \$425,000 in loans which DHCD identified as "suspense loans" because it could not locate loan documents for these loans. This suspense loan finding was a repeat finding from the prior year. We also recommended that periodic inventories of files be taken to ensure that loan files and loan database (subsidiary ledgers) are in agreement. We also noted in the November 1995 management letter the need for DHCD to prepare quarterly financial statements to aid in preparing accurate fiscal year-end statements.

In our December 20, 1999, management letter (OIG-2a-99DB) (which covered fiscal years 1995, 1996, and 1997), we cited findings regarding custody of loan documents, suspense loans, preparation of financial statements, and other findings which were repeat conditions from the November 1995 management letter.

The OIG has contracted with independent audit firms to audit HPAP for fiscal years subsequent to fiscal year 1997. The audit firms have cited similar findings or reportable conditions for fiscal years 1998 through 2005. For example, in a report (OIG No. 02-1-14DB), dated December 16, 2002, the independent auditors presented a matrix of audit findings indicating that four findings from the December 20, 1999, management letter, which covered fiscal years 1995 through 1997, existed in fiscal years 1998, 1999, and 2000.

Additionally, the fact that DHCD informed the OIG in July 2006 that the loan for 3328 Martin Luther King, Jr. Avenue, S.E. had not been paid off, but informed us in their January 2007 response to the draft report that the loan was paid off 9 years ago, in October 1997, indicates that deficiencies which auditors identified in the past still exist. For example, in the fiscal year 2005 audit report issued September 29, 2006, the independent auditors noted that DHCD adjusts loan receivable balances only at year-end.

FINDING: HPAP RESIDENCY REQUIREMENT

The auditors further noted that “it is possible for the loan or cash transaction[s] to be recorded to another program, which has occurred.” In our November 1995 management letter, we stated:

[p]roblems which DHCD experiences in maintaining mortgage receivable balances could be reduced if reconciliations of the mortgage receivable control account to the subsidiary ledgers are done. Sound accounting practice dictates that the control account be reconciled to the subsidiary ledgers on a regular basis.

Perhaps if DHCD had posted and reconciled loan transactions timely, then it would not have carried a paid-off loan as outstanding for so many years.

Finally, this assignment started off as a special project which the OIG thought could be handled simply and in a short period of time. The OIG contacted the office of the director of DHCD in May 2006 and explained the nature of the complaint we had received from DCRA. The director’s office gave us the names of two DHCD financial analysts to contact. However, the analysts did not provide the OIG information in writing (email, memo, and facsimile) concerning the status of the three loans in question. Therefore, the OIG again contacted the director’s office and was referred to a deputy director. We faxed a copy of DCRA’s complaint to the deputy director who was helpful but could not provide us with a definitive reply until July 2006. Even then, he informed us that DHCD was still doing research concerning the 3328 Martin Luther King, Jr. Avenue, S.E. address.

The entire DHCD response to the draft report is included at Exhibit B.

**EXHIBIT A. SUMMARY OF POTENTIAL BENEFITS
 RESULTING FROM AUDIT**

Recommendation	Description of Benefit	Amount and/or Type of Monetary Benefit	Status⁴
1	Economy/Compliance. Make a definitive determination as to whether or not the owner of 3328 Martin Luther King, Jr. Avenue, S.E. is in violation of HPAP regulations.	Monetary/ Non-Monetary	Closed
2	Internal Control. Safeguard and properly manage loan portfolio.	Non-Monetary	Open
3	Internal Control. Maintain accurate and up-to-date databases and subsidiary ledgers.	Non-Monetary	Open
4	Internal Control. Verify/match periodically actual physical loan agreements and subsidiary ledger records.	Non-Monetary	Open

⁴This column provides the status of a recommendation as of the report date. For final reports, “**Open**” means management and the OIG are in agreement on the action to be taken, but action is not complete. “**Closed**” means management has advised that the action necessary to correct the condition is complete. “**Unresolved**” means that management has neither agreed to take the recommended action nor proposed satisfactory alternative actions to correct the condition.

**EXHIBIT A. SUMMARY OF POTENTIAL BENEFITS
RESULTING FROM AUDIT**

5	Internal Control/ Compliance/Economy. Circularize confirmations to HPAP loan recipients to verify that their HPAP homes are their principal place of residence.	Monetary/ Non-Monetary	Open
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EXHIBIT B. MANAGEMENT RESPONSE

GOVERNMENT OF THE DISTRICT OF COLUMBIA
DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT



2007 JAN -5 PM 5:09



FAXCOVER

1st of 8 pages

TO: Charles J. Willoughby, Inspector General
c/o [REDACTED]
Office of the Inspector General

AT FAX: (202) 727-9846

DATE: January 5, 2007

RE: Attached Letter

FROM: Bob Mulderig *REMSA*
Deputy Director for Residential and Community Services
Department of Housing and Community Development
Phone: 202/442-7292
FAX: 202/442-7090

Comments:

At the request of Bob Mulderig, I am faxing a copy of the attached letter from Victor Selman, Interim Director, Department of Housing and Community Development.

If you have any problems with the fax transmission or have questions, you may reach me at (202) 442-7162.

Thank you.

[REDACTED]

Staff Assistant
Department of Housing and Community Development
Division of Residential and Community Services

EXHIBIT B. MANAGEMENT RESPONSE

GOVERNMENT OF THE DISTRICT OF COLUMBIA
DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT



Office of the Director

January 5, 2007

Mr. Charles J. Willoughby, Inspector General
Government of the District of Columbia
Office of the Inspector General
717 14th Street, N.W.
Washington, D.C. 20005

Dear Mr. Willoughby:

I am writing in response to the draft audit report SP-06-014, "Audit of Compliance with Home Purchase Assistance Program (HPAP) Requirements," sent to the Department of Housing and Community Development (DHCD) on November 30, 2006. Your letter of that date indicates that this review of HPAP was conducted in response to a request received from the Consumer Service Advocate, Neighborhood Stabilization Program (NSP), Department of Consumer and Regulatory Affairs, related to the purchases of certain properties located on Martin Luther King, Jr. Avenue SE, with assistance through HPAP.

In the past, OIG addressed third party complaints in connection with DHCD's programs by sending a formal letter to the Department and providing DHCD a reasonable opportunity to respond accordingly. Similarly, in the event of a compliance audit by OIG, OIG has notified DHCD of its review to offer DHCD an opportunity to prepare the appropriate responses and documentations.

On May 24, 2006, OIG Director [REDACTED] contacted DHCD Deputy Director for Residential and Community Services Robert Mulderig with inquiries regarding the properties at 3328, 3330, and 3332 Martin Luther King, Jr. Avenue SE.

Mr. Mulderig responded promptly and completely to the inquiries of Mr. Johnson. Upon the last exchange of e-mails (July 5-6, 2006), Mr. Mulderig indicated that the Department had not been able to discern the precise status of the continuing residency requirements for the homebuyer-assisted property at 3328 Martin Luther King, Jr. Avenue SE, although available information suggested that those requirements had expired. Mr. Mulderig would have gladly provided further follow-up had Mr. Johnson indicated that it was necessary to do so. DHCD is always willing to provide any information that may be needed to assist the preparation of an OIG compliance audit, including meeting with the

EXHIBIT B. MANAGEMENT RESPONSE

2

OIG staff. In this instance, DHCD would have appreciated the opportunity to discuss this matter in depth on a formal basis.

In keeping with information provided Mr. Johnson on July 5, 2006, it appeared that the HPAP-restricted use of the property at 3328 Martin Luther King, Jr. Avenue SE exclusively as a principal place of residence had expired prior to the opening of a child care center at that location. This property, with HPAP assistance, was purchased on August 11, 1982, covered by an HPAP Deed of Trust, a Loan Agreement, and a Promissory Note (together, the "Loan Documents").

The recorded Deed of Trust provides that "for the life of the Loan Agreement, [emphasis added]...the Grantor covenants and agrees to...occupy the property hereinafter mentioned as his/her principal residence, and utilize said property exclusively as a single family residence..." The original Loan Agreement for this property cannot be located, but the pertinent use restrictions are included in the recorded Deed of Trust. However, the Department has the original Loan Agreement for the property at 3330 Martin Luther King, Jr. Avenue SE, dated July 16, 1981, which contains identical language related to the residency requirements. In the executed Loan Agreement for that property, an automatic termination of the residency requirement is included which reads, "This Agreement shall terminate without notice to either party five (5) years from the date first written except that the obligation to repay the unpaid amount of the Promissory Note shall continue in force and effect."¹ Since this Loan Agreement is dated a year prior to the missing Agreement for the transaction transferring the property at 3328 Martin Luther King, Jr. Avenue SE, we can safely contend that the terms of the Loan Agreement for the HPAP-assisted purchase at 3328 Martin Luther King, Jr. Avenue SE are the same. Therefore, the residency requirements under HPAP expired on August 11, 1987.

Resulting from a refinancing of the purchase monies for the subject matter property, the HPAP loan was satisfied in full on October 27, 1997.² DHCD is investigating why it is that the loan was not closed by the Department's loan contract servicer at that time, and why the Deed of Trust was not subsequently released. We will ensure that the loan is closed and the Deed of Trust lien released immediately. Due to the expiration of the residency requirement covenant and the satisfaction of the HPAP loan, the property has not been encumbered by the HPAP requirements for some time, prior to conversion of the property to a child care center.

The draft audit report notes furthermore that "the OIG did not conduct a full audit, and therefore did not review DHCD's controls, processes, systems, and databases for tracking loans and managing loan portfolios." Are Recommendations 2-5 of the draft audit report based solely on the Department's inability to locate the Loan Agreement for the original HPAP loan at 3328 Martin Luther King, Jr. Avenue SE? If so, consideration should be given to the fact that (i) the HPAP Program is more than 25 years old; (ii) the HPAP loan portfolio includes more than 10,000 loans; and (iii) the loan documents in question were from among the earliest years of the Program.

¹ Enclosed is a copy of that Loan Agreement for your information.

² Enclosed is a copy of the HUD-1 Settlement Sheet for the refinancing.

EXHIBIT B. MANAGEMENT RESPONSE

3

In an attempt to improve the management process of HPAP, however, DHCD has recently undertaken three actions that will respond to the OIG's Recommendations 2 through 5:

- DHCD is instituting a revised records management function for all physical, image, file retention, and electronic copies of files for all DHCD housing programs, including HPAP.
- DHCD is instituting a Portfolio Management function for the Department, which will eventually include monitoring the entire portfolio of DHCD investments to ensure that beneficiaries are meeting all obligations stemming from those investments.
- DHCD recently added to the staff a new Manager of Homebuyer Assistance Programs, including HPAP, who has within her charge the assignment to develop in calendar year 2007 regular and cyclical mechanisms to affirm use of homebuyer-assisted properties as the principal residences of their purchasers, as appropriate, under the HPAP documents governing those transactions. This activity will specifically address Recommendation 5 of the draft audit report.

I hope these comments are helpful. DHCD is prepared, as always, to assist your staff in any way in addressing issues concerning DHCD programs, as it is our primary objective to ensure that these programs make the best use of public funds to address the needs of affordable housing in the District of Columbia.

If there is anything in this correspondence that you would like to address further, or if there is any further information you require from the Department of Housing and Community Development, please do not hesitate to contact Deputy Director Robert Mulderig on 202/442-7292 or me on 202/442-7287.

Sincerely,



Victor L. Selman
Interim Director

Enclosures

VS/rem

cc: Robert E. Mulderig, Deputy Director
[REDACTED] Chief of Staff
[REDACTED], Compliance Officer
[REDACTED] Agency Fiscal Officer
[REDACTED] Assistant Attorney General

EXHIBIT B. MANAGEMENT RESPONSE

HOME PURCHASE ASSISTANCE PROGRAM

LOAN AGREEMENT

THIS AGREEMENT ("the Agreement") entered into this 16th day of July, 19 81, by and between the District of Columbia Local Development Corporation, (hereinafter "DCLDC"), a District of Columbia non-profit corporation with offices at 1420 New York Ave., N.W., Suite 400, (hereinafter the "Borrower(s)") residing at [REDACTED], Washington, D.C.

WHEREAS, DCLDC has been selected by the District of Columbia Department of Housing and Community Development ("DHCD") to develop and operate a Home Purchase Assistance Program (the Program) for lower income families which will provide eligible program recipients with downpayment loans and counseling; and

WHEREAS, the Program will facilitate the ownership of housing by eligible residents who desire to own their homes but are unable to keep pace with the steadily rising housing cost in the District of Columbia; and

WHEREAS, the Program will select certain qualified applicants for participation in the Program and provide those selected with downpayment loans, provided the loan recipients meet certain program requirements; and

WHEREAS, the Borrower has been selected by DCLDC to participate in the Program and the Borrower has selected a home for purchase within the District that has been approved for purchase by DCLDC; and

WHEREAS, the Carey Winston Company has agreed to provide the Borrower with the necessary mortgage money to complete purchase of said dwelling; and

WHEREAS, DCLDC desires to make funds available to Borrower to serve as part or all of the downpayment for the home and the Borrower is willing to accept said loan subject to the conditions contained herein.

NOW THEREFORE, in consideration of the mutual covenants and representations contained herein the parties hereto do hereby agree as follows:

1. Loan Amount and Terms

(a) DCLDC agrees to lend the Borrower [REDACTED] (\$15,103.34) dollars and as a condition of said loan Borrower agrees to:

(i) execute at closing a Promissory Note as evidence of the indebtedness, payable to the order of the D.C. Local Development Corporation and a Deed of Trust securing the payment of said Promissory Note.

(ii) within thirty days of the execution of this Agreement and thereafter for the life of this Agreement as specified in Section 4 hereof, occupy as his or her principal residence the property for which the downpayment loan was advanced. Furthermore, utilize said property exclusively as a single family residence.

EXHIBIT B. MANAGEMENT RESPONSE

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(iii) allow at a reasonable time a housing code inspection of the property by the D.C. Department of Housing and Community Development during the twelfth month from the date of execution of this Agreement, and thereafter annually within that month for the life of this Agreement as specified in Section 4 hereof. Furthermore, correct any and all housing code violations as a result of said inspection within sixty days of written notice to do so.

(iv) not transfer the property by sale, gift or otherwise except to person(s) (a) who are members of the Borrower's family as evidenced by the loan application for this Program, (b) who meet the income eligibility standards of the Program, and (c) who have resided in the property for more than one year.

(b) In the event of default of any of the provisions of subsection ii, iii, iv, of this Section 1, the unpaid amount of the Promissory Note and applicable penalties as specified in Section 2(ii) of this Agreement become immediately due and payable.

2. Restrictions and Penalties

(i) no portion of the principal amount of the loan shall be waived at any time; and

(ii) a pre-payment penalty shall be charged to the loan recipient if the property purchased with the loan is transferred to anyone other than a member of the recipient's family by sale, gift or otherwise as specified in Section 1, subsection iv above during the first five years following the purchase of the property. If the property is sold or transferred during the first two years following settlement on the property, the pre-payment penalty shall be equal to the interest on the principal amount of the loan from the date of settlement to the date of sale or transfer at the maximum legal rate payable on second mortgages at the time of settlement. If the property is sold or transferred during the third, fourth, or fifth year following settlement, the pre-payment penalty shall be equal to the interest on the principal amount of the loan from the date of settlement to the date of transfer at the same interest rate as that on the first mortgage on the property. Provided however, that the pre-payment penalty may be waived by the Department of Housing and Community Development upon a showing that the sale or transfer of the property is bonafide and will not yield the loan recipient a profit in excess of what is needed to pay off the first mortgage, the principal amount of the HPAP loan, a reasonable brokerage fee and whatever personal equity the recipient has in the property.

3. Counterparts

This Agreement is executed in four (4) counterparts, each of which shall constitute one and the same instrument.

EXHIBIT B. MANAGEMENT RESPONSE

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4. Termination

[REDACTED] except that the obligation to repay the unpaid amount of the Promissory Note shall continue in force and effect.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year above written.

ATTEST:

Barbara J. Bouzge

DISTRICT OF COLUMBIA LOCAL DEVELOPMENT CORPORATION

BY [Signature]
Abraham Beaton, Jr.
TITLE President

(SEAL)

WITNESS:

BORROWER:

[REDACTED]

For value received, receipt of which is hereby acknowledged, I hereby assign all my rights, title, interest and obligations in the annexed Agreement to the District of Columbia.

DATE: July 16, 1981

D. C. LOCAL DEVELOPMENT CORPORATION

BY [Signature]
Abraham Beaton, Jr.
TITLE President

(SEAL)

EXHIBIT B. MANAGEMENT RESPONSE

SETTLEMENT STATEMENT
Optional Form for
Transactions without Sellers

U.S. Department of Housing
and Urban Development

CASE Approval No. 7509 0001

Name and Address of Lender
National Bk. of Wash.,
P.O. Box 21041
Greenbelt, MD 21040

Name and Address of Borrower
304 Martin L. King, Jr. Avenue SE
Washington, D.C. 20032

Property Location (if different from above)
[Redacted]

Settlement Agent
Cash & Bowry, P.A.
Pair of Settlement 1460 Ritchie Hwy., Suite 212
Arnold, Maryland 21012

Settlement Date
10/27/77

Loan Number
04190

1. Settlement Charges

101 Loan Origination Fee	5		
102 Loan Discount	5		
103 Appraisal Fee	in PITTSBURGH, PA.	755.00	
104 Cash Bond	in		
105 Lender's Inspection Fee	in		
106 Title Insurance Fee	in		
107 Mortgage Service Fee	in		
108 Flood Fee	Nationwide, PA.	8.00	
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116 Items Requested by Lender to be Paid in Advance			
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II. Disbursement to Others

1501 Payoff 1st	Midland Mortgage	41,456.00
1502 Payoff 2nd		
1503 Payoff 3rd	Wells & Pictorius	2,675.00
1504 Mortgage Payoff	Cash & Bowry, P.A.	45.00
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III. NET SETTLEMENT

1600 Loan Amount

Plus P.O.E. Credit

1601 Plus Cash/Check from Borrower

1602 Minus Total Settlement Charges (See 100)

1603 Minus Total Disbursements to Others (See 150)

1604 Equity Disbursements to Borrower (After deduction of any applicable recording fees collected by LHA)

Signature: [Redacted]

Date: 10/27/77

Settlement Agent: Cash & Bowry P.A.

Form HUD-1 (2-75) of 2-78
SEE FPA 100-
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