

**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, 2007**

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



**CHARLES J. WILLOUGHBY  
INSPECTOR GENERAL**

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

Inspector General



April 10, 2009

Leila Finucane Edmonds  
Director  
Department of Housing and Community Development  
Anacostia Gateway Government Center  
1800 Martin Luther King, Jr. Avenue, SE  
Washington, DC 20020

Dear Ms. Edmonds:

In conjunction with the audit of the District of Columbia's general purpose financial statements, Thompson, Cobb, Bazilio & Associates, PC submitted the enclosed report, issued under OIG Report No. 09-1-18DB, summarizing the results of the financial statement audit of the Home Purchase Assistance Program (HPAP) for the fiscal year ended September 30, 2007. 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*.

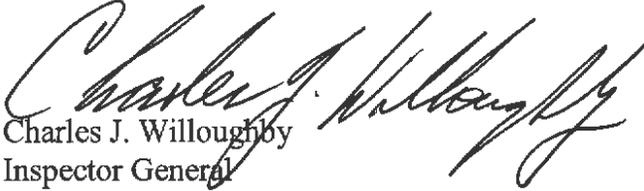
The report provides information about the Department of Housing and Community Development's (DHCD's) compliance with laws and regulations and the adequacy of its internal controls. Specifically, this report identified a material weakness relative to loan reconciliations. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by DHCD's internal control. This material weakness was 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.

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.

Ms. Leila Edmonds  
Home Purchase Assistance Program  
Financial Statement Audit – FY 2007  
April 10, 2009  
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If you have questions or need additional information, please contact William J. DiVello,  
Assistant Inspector General for Audit, at (202) 727-2540.

Sincerely,

A handwritten signature in cursive script, reading "Charles J. Willoughby". The signature is written in black ink and is positioned above the printed name and title.

Charles J. Willoughby  
Inspector General

CJW/ws

Enclosure

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Ms. Leila Edmonds  
Home Purchase Assistance Program  
Financial Statement Audit – FY 2007  
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**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
HOME PURCHASE ASSISTANCE PROGRAM  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
SEPTEMBER 30, 2007**

**(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, 2007**

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

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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 as of September 30, 2007, and the related statements 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 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 material respects, the financial position of the Home Purchase Assistance Program as of September 30, 2007, 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 December 2, 2008, on our consideration of the HPAP's internal control over financial reporting and on our tests of 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 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 2007 audit.

Washington, DC  
December 2, 2008

*Danzen, Cobb, Byfield & Associates, P.C.*

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
HOME PURCHASE ASSISTANCE PROGRAM  
BALANCE SHEET  
SEPTEMBER 30, 2007**

**ASSETS**

Funds held by DC Treasurer	\$ 12,819,475
Interest Receivable	2,308
Loan advance receivable (note 3)	1,253,467
Mortgages receivable, net (note 4)	<u>6,599,022</u>
Total Assets	<u><u>\$ 20,674,272</u></u>

**LIABILITIES AND FUND BALANCE**

Accounts payable and accrued expenses	\$ 43,698
Fund Balance	<u>20,630,574</u>
Total Liabilities and Fund Balance	<u><u>\$ 20,674,272</u></u>

*The accompanying notes are an integral part of these financial statements.*

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
HOME PURCHASE ASSISTANCE PROGRAM  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE  
YEAR ENDED SEPTEMBER 30, 2007**

**REVENUES**

Interest income	<u>\$ 47,497</u>
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**EXPENDITURES**

Administrative	1,324,799
Bad debt expense, net of recoveries (note 5)	<u>757,251</u>

Total expenditures	<u>2,082,050</u>
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Expenditures in excess of revenues	(2,034,553)
Fund balance, beginning of year	<u>22,665,127</u>

Fund balance, end of year	<u><u>\$ 20,630,574</u></u>
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*The accompanying notes are an integral part of these financial statements.*

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
HOME PURCHASE ASSISTANCE PROGRAM  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2007**

**NOTE 1: 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.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***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 the 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, 2007**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Funds held by D.C. Treasurer*

Funds held by the D.C. Treasurer represent principal repayments and interest payments held by the District on behalf of the HPAP local program. These amounts are designated for the HPAP local program to be disbursed in future years. The District does not allocate any interest income on the HPAP funds held.

*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. There were no rent costs allocated to HPAP by DHCD in 2007.

**NOTE 3: 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 amount which DHCD advanced to GWUL prior to September 30, 2007 for HPAP loans that had not been disbursed by GWUL.

**NOTE 4: 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, 2007**

**NOTE 4: MORTGAGES RECEIVABLE (Continued)**

DHCD records a 100% allowance for all deferred loans and records a 25% allowance for all amortized loans. At September 30, 2007 DHCD had no outstanding principal-only or unsecured mortgages.

As of September 30, 2007, the outstanding mortgage balances and related allowances were as follows:

	<b>Balance</b>	<b>Allowance</b>	<b>Net</b>
Amortized	\$ 8,798,696	\$ 2,199,674	\$ 6,599,022
Deferred	22,082,280	22,082,280	-
<b>Total</b>	<u>\$ 30,880,976</u>	<u>\$ 24,281,954</u>	<u>\$ 6,599,022</u>

During 2007 DHCD, through its agent, disbursed \$3,337,666 in new HPAP loans. Loan repayments received in 2007 totaled \$2,545,608.

**NOTE 5: 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 the year that were previously reserved. The following table provides the bad debt expense calculation for the year ended September 30, 2007.

<b>New Loans</b>	<b>Amount</b>	<b>Required Reserved Percentage</b>	<b>Total Bad Debt Expense</b>
Amortized	\$ 46,411	25%	\$ 11,604
Deferred Loan	3,291,255	100%	3,291,255
<b>Total</b>	<u>\$ 3,337,666</u>		3,302,859
Recoveries from Repayments			(2,545,608)
2007 Bad debt expense, net of recoveries			<u>\$ 757,251</u>

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

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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, 2007, and have issued our report thereon dated December 2, 2008. 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 audit, we considered DHCD's internal control over financial reporting for the HPAP funds as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of DHCD's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of DHCD's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects DHCD's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of HPAP's financial statements that is more than inconsequential will not be prevented or detected by the DHCD's internal control. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting. The significant deficiency follows:

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 DHCD with monthly reports detailing HPAP activity.

As in the prior years, DHCD personnel record cash activity related to loans (i.e., collections and loan disbursements) each month as they occur in the District-wide accounting system (SOAR). However, loan balances are only reconciled to SOAR and adjusted at year-end. As a result, it is possible for cash collection and disbursement transactions to be incorrectly recorded to another program in the SOAR system and not be detected, which has occurred. Therefore balances in SOAR may be out-of-balance each month until corrected after completion of the year-end reconciliation.

### **Management Response**

HPAP/DHCD is processing quarterly loan reconciliations for FY 2008 effective April 1, 2008.

*A material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by DHCD's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency as reported above to be a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether DHCD'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*.

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  
December 2, 2008

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

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
HOME PURCHASE ASSISTANCE PROGRAM  
SEPTEMBER 30, 2007**

**APPENDIX A**

**Status of Prior Year Reportable Conditions**

<u>Nature of Comment</u>	<u>Type of Comment in 2006</u>	<u>Current Comment</u>
Loan balances in SOAR adjusted only annually.	Significant Deficiency - Material Weakness	Repeated. See Current Year Significant Deficiency -- Material weakness