

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

**HOME PURCHASE ASSISTANCE PROGRAM
Financial Statements Audit
For the Fiscal Year Ended
September 30, 2010
(With Independent Auditor's Report)**



**CHARLES J. WILLOUGHBY
INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



June 21, 2011

John E. Hall
Director
Department of Housing and Community Development
Anacostia Gateway Government Center
1800 Martin Luther King, Jr. Avenue, SE
Washington, DC 20020

Dear Mr. Hall:

In conjunction with the audit of the District of Columbia's general purpose financial statements, Bert Smith & Co. (Bert Smith) submitted the enclosed final reports, issued under OIG Report No. 11-1-25DB, on the District of Columbia's Home Purchase Assistance Program (HPAP) for the fiscal year ended September 30, 2010.

Bert Smith opined that the financial statements present fairly, in all material respects, the financial position of the HPAP as of September 30, 2010, and the changes in the financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Additionally, Bert Smith issued a report on consideration of the HPAP's internal control over financial reporting and on its tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements.

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

Sincerely,

A handwritten signature in cursive script that reads "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

DISTRIBUTION:

The Honorable Vincent C. Gray, Mayor, District of Columbia
Mr. Allen Y. Lew, City Administrator, District of Columbia (via email)
Mr. Victor L. Hoskins, Deputy Mayor for Planning and Economic Development, District of Columbia
The Honorable Kwame R. Brown, Chairman, Council of the District of Columbia (via email)
The Honorable Mary M. Cheh, Chairperson, Committee on Government Operations and the Environment, Council of the District of Columbia (via email)
The Honorable Michael A. Brown, Chairperson, Committee on Housing and Workforce Development (via email)
Mr. Brian Flowers, General Counsel to the Mayor (via email)
Mr. Paul Quander, Interim Chief of Staff, Office of the Mayor (via email)
Ms. Janene Jackson, Director, Office of Policy and Legislative Affairs (via email)
Dr. Linda Wharton Boyd, Director, Office of Communications
Mr. Eric Goulet, Director, Office of Budget and Finance, Office of the City Administrator
Ms. Nyasha Smith, Secretary to the Council (1 copy and via email)
Mr. Irvin B. Nathan, Attorney General for the District of Columbia (via email)
Dr. Natwar M. Gandhi, Chief Financial Officer (4 copies)
Mr. William DiVello, Executive Director, Office of Integrity and Oversight, Office of the Chief Financial Officer (via email)
Ms. Yolanda Branche, Acting D.C. Auditor
Mr. Phillip Lattimore, Director and Chief Risk Officer, Office of Risk Management (via email)
Ms. Jeanette M. Franzel, Managing Director, FMA, GAO, Attention: Norma J. Samuel (via email)
The Honorable Eleanor Holmes Norton, D.C. Delegate, House of Representatives, Attention: Bradley Truding (via email)
The Honorable Darrell Issa, Chairman, House Committee on Oversight and Government Reform, Attention: Howie Denis (via email)
The Honorable Elijah Cummings, Ranking Member, House Committee on Oversight and Government Reform, Attention: William Miles (via email)
The Honorable Trey Gowdy, Chairman, House Subcommittee on Health Care, the District of Columbia, the Census and the National Archives, Attention: Anna Ready (via email)
The Honorable Danny Davis, Ranking Member, House Subcommittee on Health Care, the District of Columbia, the Census, and the National Archives, Attention: Yul Edwards (via email)
The Honorable Joseph Lieberman, Chairman, Senate Committee on Homeland Security and Governmental Affairs, Attention: Holly Idelson (via email)
The Honorable Susan Collins, Ranking Member, Senate Committee on Homeland Security and Governmental Affairs, Attention: Daniel Jenkins (via email)
The Honorable Daniel K. Akaka, Chairman, Senate Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia, Attention: Christine Khim (via email)
The Honorable Ron Johnson, Ranking Member, Senate Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia

Mr. John Hall
Home Purchase Assistance Program
Financial Statement Audit – FY 2010
OIG No. 11-1-25DB – Final Report
June 21, 2011
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The Honorable Harold Rogers, Chairman, House Committee on Appropriations, Attention:
Julia Casey (via email)

The Honorable Norman D. Dicks, Ranking Member, House Committee on Appropriations,
Attention: Laura Hogshead (via email)

The Honorable Jo Ann Emerson, Chairman, House Subcommittee on Financial Services and
General Government, Attention: John Martens (via email)

The Honorable José E. Serrano, Ranking Member, House Subcommittee on Financial
Services and General Government, Attention: Laura Hogshead (via email)

The Honorable Daniel K. Inouye, Chairman, Senate Committee on Appropriations,
Attention: Charles Houy

The Honorable Thad Cochran, Ranking Member, Senate Committee on Appropriations

The Honorable Richard Durbin, Chairman, Senate Subcommittee on Financial Services and
General Government, Attention: Marianne Upton (via email)

The Honorable Jerry Moran, Ranking Member, Senate Subcommittee on Financial Services
and General Government, Attention: Dale Cabaniss (via email)

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
HOME PURCHASE ASSISTANCE PROGRAM
FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010
*(Together With Independent Auditors' Report)***

**BERTSMITH
& Co.**

Certified Public Accountants and Management Consultants

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
HOME PURCHASE ASSISTANCE PROGRAM
FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

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INDEPENDENT AUDITORS' REPORT

To the Mayor and Council of the
Government of the District of Columbia

We have audited the accompanying financial statements of the Government of the District of Columbia's (the District) Home Purchase Assistance Program (the HPAP) as of and for the year ended September 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on the financial statement based on our audit. The financial statements of the HPAP as of September 30, 2009 were audited by other auditors whose report dated December 13, 2010 expressed an unqualified opinion on those statements.

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. 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 the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, the financial statements present only the HPAP program and do not purport to, and do not present fairly the financial position of the District as of September 30, 2010 and the changes in its financial position for the year then ended 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 respect, the financial position of the HPAP as of September 30, 2010 and the changes in the financial position 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 our report dated May 13, 2011 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of 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 considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 5 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Bert Smith & Co.

May 13, 2011
Washington, D.C.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
HOME PURCHASE ASSISTANCE PROGRAM
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2010**

The following is a discussion and analysis of the Government of the District of Columbia's Home Purchase Assistance Program's (the HPAP) financial performance for the fiscal year ended September 30, 2010. The financial statements and accompanying notes on pages 6 through 10 should be read in conjunction with this discussion.

Basic Financial Statements

The HPAP's basic financial statements are comprised of two components: fund financial statements and notes to the financial statements.

- **Fund financial statements.** The governmental financial statements focus primarily on the sources, uses, and balances of current financial resources. The financial statements consist of a balance sheet and statement of revenues, expenditures, and changes in fund balance.
- **Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements.

Financial Highlights

- Net loans receivable decreased by \$1.8 million or 28.1%.
- Administrative expenses increased by \$534,751 or 288.5%.
- Bad Debts Expense increased by \$784,389 or 1031.6%.

Balance Sheets as of September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>	<u>\$ Variance</u>	<u>% Variance</u>
Assets				
Funds Advance	\$ 156,407	\$ -	\$ 156,407	100%
Receivables	431,472	522,640	(91,168)	-17.4%
Loan Receivable, net	4,680,325	6,509,322	(1,828,997)	-28.1%
Total Assets	<u>\$5,268,204</u>	<u>\$7,031,962</u>	<u>\$(1,763,758)</u>	<u>-25.1%</u>
Liabilities				
Due to General Fund	\$2,198,301	\$2,317,714	\$ (119,413)	-5.2%
Accounts Payable and Accrued Expenses	154,179	253,871	(99,692)	-39.3%
Total Liabilities	<u>2,352,480</u>	<u>2,571,585</u>	<u>(219,105)</u>	<u>-8.5%</u>
Fund Balance	<u>\$2,915,724</u>	<u>\$4,460,377</u>	<u>\$(1,544,653)</u>	<u>-34.6%</u>

GOVERNMENT OF THE DISTRICT OF COLUMBIA
HOME PURCHASE ASSISTANCE PROGRAM
MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)*
SEPTEMBER 30, 2010

Assets

- Funds Advance increased 100% because Greater Washington Urban League (GWUL) which processes the HPAP loan applications for the Department of Housing and Community Development (DHCD) had not spent all of the funds advanced to the organization. GWUL only processed one new loan during the fiscal year.
- Net Loans receivable decreased by \$1,828,997 or 28.1%. The decrease is primarily due to (a) the receipt of loan payments totaling \$975,662; (b) the issuance of only one new loan totaling \$7,088; and (c) the recording of a 100% allowance of amortized loans that have defaulted or have not had any recent payment activity. In 2009, more new loans were issued and a 25% allowance was recorded for all amortized loans.

Liabilities

- The HPAP program had a negative cash balance with the District. Due to General Fund decreased by \$119,413 because total receipts for the fiscal year exceeded actual disbursements.

Statements of Revenues, Expenditures, and Changes in Fund Balance for the year ended September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>	<u>\$</u> <u>Variance</u>	<u>%</u> <u>Variance</u>
Revenue				
Interest Income	\$ 35,871	\$ 31,186	\$ 4,685	15.0%
Expenditures				
Administrative Expenditures	720,102	185,351	534,751	288.5%
Bad Debt Expenditures	860,422	76,033	784,389	1031.6%
Total Expenditures	<u>1,580,524</u>	<u>261,384</u>	<u>1,319,140</u>	<u>504.7%</u>
Net Other Financing Uses	<u>\$ -</u>	<u>\$(2,801,909)</u>	<u>\$2,801,909</u>	<u>-100.0%</u>

Expenditures

- Administrative expenditures increased by \$534,751 or 288.5% because a percentage of DHCD's personnel administrative expenses were allocated to the HPAP program. In 2009, no agency personnel administrative expenses were allocated to the program.
- Bad Debts expenditures increased by \$784,389 or 1031.6% because a 100% allowance was recorded for those amortized loans that had defaulted or had no recent payment activity. In 2009, a 25% allowance was recorded for those loans.

Net Other Financing Uses

- In 2009, the HPAP program received \$765,207 from the District's Office of the Tenant Advocate for its' share of the revenue collected from condominium and cooperative conversions during the fiscal years ended September 30, 2004 through 2008. In the same year, DHCD transferred \$3,567,116 to the District's General Fund pursuant to Fiscal Year 2010 Budget Support Second Emergency Act of 2009 to close a projected budget gap. No similar transactions occurred in 2010.

This report is designed to provide a general financial overview of the Government of the District of Columbia's Home Purchase Assistance Program. If you have any questions regarding this report, please contact Andree Chan-Mann, Agency Fiscal Officer of the Department of Housing and Community Development.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
HOME PURCHASE ASSISTANCE PROGRAM
BALANCE SHEET
SEPTEMBER 30, 2010
(With Comparative Totals for 2009)

	<u>2010</u>	<u>2009</u>
Assets		
Funds Advance	\$ 156,407	\$ -
Due from Service Provider	58,835	71,417
Due from DHCD Local Fund	372,637	451,223
Loan Receivable, Net	<u>4,680,325</u>	<u>6,509,322</u>
Total Assets	<u><u>\$5,268,204</u></u>	<u><u>\$7,031,962</u></u>
Liabilities and Fund Balance		
Liabilities		
Due to District General Fund	\$2,198,301	\$2,317,714
Accounts Payable	121,895	251,987
Accrued Expenses	<u>32,284</u>	<u>1,884</u>
Total Liabilities	<u><u>2,352,480</u></u>	<u><u>2,571,585</u></u>
Fund Balance		
Reserved	<u>2,915,724</u>	<u>4,460,377</u>
Total Liabilities and Fund Balance	<u><u>\$5,268,204</u></u>	<u><u>\$7,031,962</u></u>

The accompanying notes are an integral part of the financial statements.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
HOME PURCHASE ASSISTANCE PROGRAM
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2010
(With Comparative Totals for 2009)

	<u>2010</u>	<u>2009</u>
Revenue		
Interest Income	\$ 35,871	\$ 31,186
Total Revenue	<u>35,871</u>	<u>31,186</u>
Expenditures		
Salaries and Benefits	613,572	185,351
Bad Debt Expenditures	860,422	76,033
Professional Services	84,549	-
Other	21,981	-
Total Expenditures	<u>1,580,524</u>	<u>261,384</u>
Deficiency of Revenue Under Expenditures	(1,544,653)	(230,198)
Other Financing Sources (Uses)		
Transfer to District General Fund	-	(3,567,116)
Transfer from Office of the Tenant Advocate	-	765,207
Total Other Financing Sources (Uses)	<u>-</u>	<u>(2,801,909)</u>
Net Change in Fund Balance	(1,544,653)	(3,032,107)
Fund Balance, Beginning of the Year	<u>4,460,377</u>	<u>7,492,484</u>
Fund Balance, End of the Year	<u>\$ 2,915,724</u>	<u>\$ 4,460,377</u>

The accompanying notes are an integral part of the financial statements.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
HOME PURCHASE ASSISTANCE PROGRAM
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

■ **Organization**

The Home Purchase Assistance Program (the HPAP) was established under the District of Columbia (the 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. The Department of Housing and Community Development (DHCD) is responsible for the administration of the program.

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.

The maximum amount of down payment and closing costs assistance that an eligible participant can receive under the program is \$40,000 and \$4,000, respectively.

■ **Reporting Entity**

The financial statements present only the HPAP program and do not purport to, and do not present fairly the financial position of the District as of September 30, 2010 and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

■ **Basis of Accounting and Measurement Focus**

The 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.

■ Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 FUNDS ADVANCE

DHCD contracts with the Greater Washington Urban League (GWUL) to process and close the HPAP loan applications. DHCD advanced funds to GWUL for reimbursement of administrative expenses and disbursement of HPAP loans. At September 30, 2010, the amount of unused advance totaled \$156,407.

NOTE 3 DUE FROM SERVICE PROVIDER

DHCD has a service provider that receives and tracks the majority of the loan payments and balances. Due from Service Provider represents the September 2010 loan and interest payment of \$58,835 received by the provider but not remitted to DHCD before year-end.

NOTE 4 DUE FROM DHCD LOCAL FUND

DHCD recorded expenditures to the HPAP program that was related to another local fund program. The total amount due from DHCD local fund at year end was \$372,637.

NOTE 5 LOANS RECEIVABLE

The HPAP loans consist of two types: deferred payment and amortized.

- 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 years.
- Amortized mortgages are required to be completely paid-off over a specific period of time at a predetermined interest rate.

In 2010, DHCD disbursed one new loan for \$7,088. Loan and interest repayments received for the fiscal year totaled \$975,662.

Interest received is recorded as interest income. No receivable is recorded for accrued interest.

A 100% allowance for doubtful accounts is recorded for deferred loans, defaulted amortized loans, and amortized loans with no recent payment activity. A 25% allowance is recorded for all other amortized loans. Bad debts expenditures for the fiscal year totaled \$860,422.

NOTE 5 - LOANS RECEIVABLE**(CONTINUED)**

As of September 30, 2010, loans receivable consisted of the following

	<u>Loan Amount</u>	<u>Allowance</u>	<u>Net</u>
Deferred Loans	\$35,164,652	\$(35,164,652)	\$ -
Amortized Loans	9,258,329	(4,578,004)	4,680,325
Total	<u>\$44,422,981</u>	<u>\$(39,742,656)</u>	<u>\$ 4,680,325</u>

NOTE 6 DUE TO DISTRICT GENERAL FUND

The HPAP cash is maintained by the District in a pooled cash account. The District does not allocate any interest to the program. In the prior fiscal year, as required by law to close the District's projected budget gap, the District transferred funds from the HPAP pooled cash account to its General Fund. The HPAP program did not have sufficient funds to cover the transfer, which created a negative cash balance and a Due to the General Fund. At September 30, 2010, the amount owed to the District's General Fund totaled \$2,198,301.

NOTE 7 SUBSEQUENT EVENTS

DHCD has evaluated any subsequent events through the date this report was available for issuance which is May 13, 2011. There are no material events that would have an effect on the financial statements.



**INDEPENDENT AUDITORS' REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Mayor and Council of the
Government of the District of Columbia

We have audited the financial statements of the Government of the District of Columbia (the District) Home Purchase Assistance Program (the HPAP) as of and for the year ended September 30, 2010 and have issued our report thereon dated May 13, 2011. 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 the District's internal control over financial reporting 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 the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* 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, and correct misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting, described below that we consider to be significant deficiencies in internal control over financial reporting.

1. *Some Service Provider HPAP Loans Not Properly Coded*

DHCD assigned a project number to each of its loan programs to identify the agency's different types of loans. In our review of the loan detail report provided by DHCD's service provider, we discovered that a number of the HPAP loans with the service provider were not coded with the HPAP assigned project number. This caused the service provider's records not to agree with the accounting system loan balance. The service provider's loan balance showed a higher amount. Although DHCD maintained internal records that reconciled the two balances, the service provider's records are the primary tracking system for the loan program and should reflect accurate and complete information on the HPAP program.

Recommendation: We recommend that DHCD perform a review of the service provider's loan detail reports to identify those HPAP loans not assigned the proper project number and have the service provider adjust their records accordingly.

Management Response: DHCD concurs with the finding. DHCD will perform periodic reviews of the service provider records, and identify those HPAP loans not assigned the proper number, and adjust the service's records accordingly.

2. *Improper Recording of Another Program Expenditures*

DHCD is not adequately reviewing the expenditures charged to the HPAP program. In the past two fiscal years, DHCD has recorded expenditures of another program to the HPAP program, which has resulted in a receivable being recorded in the financial statements each year. In 2010, the receivable totaled \$372,637.

Recommendation: We recommend that DHCD perform periodic reviews of the HPAP program expenditures to determine whether the expenditures are related to the program. Any unrelated expenditures should be adjusted from HPAP's accounting system records.

Management Response: DHCD concurs with the finding. DHCD will perform periodic reviews of the HPAP program expenditures to ensure that expenditures charged to the program relate to the HPAP program, and any unrelated HPAP expenditures will be adjusted from the HPAP accounting system records.

3. *Review Required of Amortized Loans Allowance Policy*

DHCD's current allowance policy for amortized loans is to reserve 25% of the loan balance as uncollectible. However, we determined based on our review of the amortized loans payment history that the current 25% reserve policy does not accurately reflect the collectibility of some of the loans in the HPAP program portfolio. We identified a number of defaulted loans and loans with no recent payment activity, which totaled approximately \$2.7 million. The likelihood of collectibility is decreased due to the loans inactivity. Since these loans were material to the financial statements, we reserved 100% of the loan balance as uncollectible. DHCD's allowance policy should resemble its actual collection rate to prevent an overstatement in the HPAP loan receivable.

Recommendation: We recommend that DHCD evaluate on an annual basis its current allowance policy for its amortized loans. The agency's policy should be adjusted or changed based on the actual collection rate of the amortized loans.

Management Response: DHCD concurs with this recommendation. A review of the Agency's policy has begun, and the policy will be adjusted or changed based on the actual collection rate of the amortized loans.

4. *Improper Recording of Loan Receivable Accounting Transactions*

DHCD is not properly recording the HPAP loan receivable transactions in the District's accounting system SOAR. In 2010, DHCD established a balance sheet account entitled "credit of deferred account" to use to correct the loan receivable and allowance for doubtful accounts at year-end. The use of the account caused other accounts to be misstated, which are outlined in more detail below. A significant number of adjusting entries had to be recorded during the audit to eliminate the balance in the "credit of deferred account" and correct the other account balances.

- DHCD recorded loan repayments as revenue and not as a reduction to the loan receivable balance.
- DHCD recorded its one new loan as an expenditure instead of as an increase to the loan receivable balance.
- DHCD recorded the changes to the allowance for doubtful accounts to the “credit of deferred account” instead of to bad debts expenditures.

Recommendation: We recommend DHCD delete the account “credit of deferred account” from its accounting system and record the loan receivable transactions to the proper accounts.

Management Response: DHCD will review its loan portfolio recordation process, taking into account the auditor’s recommendation, and revise as necessary.

5. ***Loan Receivable Reconciliation Not Performed Periodically***

DHCD does not periodically reconcile during the fiscal year its accounting system loan records to its service provider loan records. DHCD performs the reconciliation after year-end. The performance of the reconciliation until this time results in a large volume of loans that have to be reconciled. Periodic reconciliations during the fiscal year will enable DHCD to identify and correct errors or misstatements more time.

Recommendation: We recommend that DHCD periodically reconcile its accounting system loan records to its service provider loan records throughout the fiscal year.

Management Response: DHCD concurs with this recommendation. DHCD will periodically reconcile its accounting system loan records to its service provider records throughout the fiscal year.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District’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 District’s responses to the findings identified in our audit are described above. We did not audit the District’s responses and, according, we express no opinion on it.

This report is intended solely for the information and use of the Mayor, the Council of District of Columbia Government, and management and is not intended to be and should not be used by anyone other than these specified parties.

Reef Smith & Co.

May 13, 2011
Washington, D.C.