

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

**HOME PURCHASE ASSISTANCE PROGRAM**

**Financial Statements  
for the Fiscal Years Ended  
September 30, 2013, and 2012  
(With Independent Auditors' Report)**



**CHARLES J. WILLOUGHBY  
INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA  
Office of the Inspector General

Inspector General



May 2, 2014

Michael P. Kelly  
Director  
Department of Housing and Community Development  
Anacostia Gateway Government Center  
1800 Martin Luther King, Jr. Avenue, S.E.  
Washington, D.C. 20020

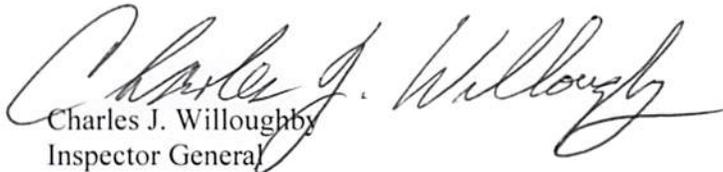
Dear Mr. Kelly:

In conjunction with the audit of the District of Columbia's general purpose financial statements, Bert Smith & Co. (BS&C) submitted the enclosed final report, issued under OIG Report No. 14-1-09DB, on the District of Columbia's Home Purchase Assistance Program Fund (Fund) for the fiscal years ended September 30, 2013, and 2012.

BS&C opined that the financial statements present fairly, in all material respects, the financial position of the Fund as of September 30, 2013, and 2012, and the changes in the financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America. Additionally, BS&C issued its report on its consideration of the Fund's internal control over financial reporting and tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. This report identified one material weakness, 2013-1, Deferred Loans Allowance Methodology Supporting Documentation. Additionally, the report identified two significant deficiencies: 2013-2 – Reconciliation of Fund's Principal and Interest Payments; and 2013-3 – Payroll Allocation Supporting Documentation.

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

Sincerely,

  
Charles J. Willoughby  
Inspector General

CJW/ws

Enclosure

cc: See distribution list

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**Michael P. Kelly**  
**Home Purchase Assistance Program**  
**Financial Statement Audit – FY 2013**  
**OIG No. 14-1-09DB – Final Report**  
**May 2, 2014**  
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**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
HOME PURCHASE ASSISTANCE PROGRAM**

**FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012**  
*(Together With Independent Auditors' Report)*

**BERT SMITH  
& Co.**

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*Certified Public Accountants and Management Consultants*

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
HOME PURCHASE ASSISTANCE PROGRAM**

**FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012**

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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 (the District) Home Purchase Assistance Program Fund (the Fund) as of and for the years ended September 30, 2013 and 2012, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of September 30, 2013 and 2012, and the changes in the financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Boards, who considers it to be an essential part of the financial reporting for placing the basic financial statement in an appropriate operational, economic or historic context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other***

As discussed in Note 1, the financial statements present only the Fund and do not purport to, and do not present fairly the financial position of the District as of September 30, 2013 and 2012 and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2014 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.

A handwritten signature in black ink that reads "BERT Smith" followed by a stylized flourish.

March 20, 2014  
Washington, D.C.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
HOME PURCHASE ASSISTANCE PROGRAM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2013 and 2012**

The following is a discussion and analysis of the Government of the District of Columbia (District) Home Purchase Assistance Program Fund's (the Fund) financial performance for the fiscal years ended September 30, 2013 and 2012. The financial statements and accompanying notes on pages 6 through 10 should be read in conjunction with this discussion.

**Basic Financial Statements**

The Fund'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 balances.
- **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.

**2013 Financial Highlights**

- Net loans receivable increased by \$8,467,832 or 74%.
- There were no new loans in 2013.
- Unearned revenue recorded for the Fund was \$19,943,136.

**2012 Financial Highlights**

- Net loans receivables decreased by \$2,934,383 or 20%.
- New loans recorded for 2012 was \$250,044.
- Unearned Revenue recorded for the Fund was \$11,475,304.
- The District Transferred \$559,713 to the Fund as required by the Fiscal Year 2011 Transfer of Special Purpose Funds Act of 2010.

**Condensed Balance Sheets as of September 30, 2013, 2012, and 2011**

	2013	2012	2011	Variance			
				2013-2012		2012-2011	
<b>Total Assets</b>	\$23,533,934	\$11,953,833	\$14,888,215	\$11,580,101	97%	\$ (2,934,382)	-20%
<b>Total Liabilities</b>	\$25,315,762	\$14,461,153	\$ 3,586,822	\$10,854,609	75%	\$10,874,331	303%
<b>Fund Balance</b>	\$ ( 1,781,828)	\$ (2,507,320)	\$11,301,393	\$ 725,492	-29%	\$ (13,808,713)	-122%

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**HOME PURCHASE ASSISTANCE PROGRAM**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)  
SEPTEMBER 30, 2013 AND 2012

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**2013**

***Assets***

- Net loans receivable increased by \$8,467,832 or 74% primarily because the District changed its allowance methodology to more accurately reflect its collection experience.

***Liabilities***

- Liabilities increased by \$10,854,609 due to a change in the Fund's allowance methodology and an expenditure posting error which resulted in an increase in the amount due to the District's appropriated General Fund.

**2012**

***Assets***

- Nets loans receivable decreased by \$2,934,383 or 20% because the District changed its allowance percentage resulting in an increase to its allowance.

***Liabilities***

- The District changed its accounting presentation of the Fund financial statements in 2012 to be consistent with the presentation of its other loan funds. Deferred revenue, which was not previously shown in the financial statements, was reflected to show the amount of revenue expected to be earned in the future from borrowers. Deferred revenue at year-end was \$11,475,304.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**HOME PURCHASE ASSISTANCE PROGRAM**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)  
SEPTEMBER 30, 2013 AND 2012

**Condensed Statements of Revenues, Expenditures, and Changes in Fund Balance for the years ended September 30, 2013, 2012, and 2011**

	2013	2012	2011	Variance			
				2013-2012		2012-2011	
<b>Revenue</b>							
Principle and Interest	\$1,223,361	\$ 1,090,351	\$ 26,643	\$ 133,010	12%	\$ 1,063,708	3992%
<b>Expenditures</b>							
Administrative	385,558	522,352	570,865	(136,794)	-26%	(48,513)	-8%
Loans	-	250,044	-	(250,044)	100%	250,044	100%
Intradistrict	112,311	178,370	224,718	(66,059)	-37%	(46,348)	-21%
<b>Total Expenditures</b>	<u>497,869</u>	<u>950,766</u>	<u>795,583</u>	<u>(452,897)</u>	<u>-48%</u>	<u>155,183</u>	<u>20%</u>
<b>Excess (Deficiency) of Revenue Over Expenditures</b>	725,492	139,585	(768,940)	585,907	420%	908,525	-118%
<b>Other Financing Sources (Uses)</b>	-	559,713	(1,325,167)	(559,713)	-100%	1,884,880	-142%
<b>Special Item</b>	-	(14,508,011)	10,479,596	14,508,011	-100%	(24,987,607)	-238%
<b>Net Changes in Fund Balance</b>	<u>\$ 725,492</u>	<u>\$ (13,808,713)</u>	<u>\$8,385,489</u>	<u>\$14,534,205</u>	<u>-100%</u>	<u>\$(22,194,202)</u>	<u>-265%</u>

**2013**

**Expenditures**

- Expenditures decreased because the District changed its methodology for allocating indirect administrative costs to the Fund and there were no new loans for 2013.

**2012**

**Revenues and Expenditures**

- Due to the presentation change in the Fund's financial statements, the principal payments of \$1,065,609 were recorded as revenue. Prior to 2012, the principal payments were shown as a reduction to the loans receivable balance. New loans processed during the fiscal year were shown as expenditures. Previously, the new loans were shown as an increase to loans receivable balance.

**Other Financing Sources (Uses)**

- The District transferred \$559,713 to the Fund in 2012 as required by law. In 2011, it transferred \$1,325,167 from the Fund.

**Special Item**

- The accounting presentation change in 2012 resulted in a decrease to revenues of \$14,508,011. The decrease is mainly attributed to the reflection of deferred revenue in the financial statements. In 2011, the District changed the Fund's allowance for doubtful accounts methodology. The change caused a decrease in the allowance for doubtful accounts and an increase to the revenues of \$10,479,596.

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

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**HOME PURCHASE ASSISTANCE PROGRAM**  
 BALANCE SHEETS  
 SEPTEMBER 30, 2013 AND 2012

	<b>2013</b>	<b>2012</b>
<b>Assets</b>		
Due from Service Provider	\$ 92,804	\$ 83,632
Due from Other Loan Fund	3,497,994	394,897
Loan Receivable, Net	19,943,136	11,475,304
<b>Total Assets</b>	<b>\$23,533,934</b>	<b>\$11,953,833</b>
 <b>Liabilities and Fund Balance</b>		
<b>Liabilities</b>		
Due to District Appropriated General Fund	\$ 5,309,563	\$ 2,629,812
Accounts Payable	12,000	306,703
Accrued Expenses	51,063	49,334
Unearned Revenue	19,943,136	11,475,304
<b>Total Liabilities</b>	<b>25,315,762</b>	<b>14,461,153</b>
 <b>Fund Balance</b>		
Unassigned	(1,781,828)	(2,507,320)
 <b>Total Liabilities and Fund Balance</b>	<b>\$23,533,934</b>	<b>\$11,953,833</b>

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

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**HOME PURCHASE ASSISTANCE PROGRAM**  
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<b>Revenue</b>		
Principal and Interest	\$ 1,223,361	\$ 1,090,351
<b>Total Revenue</b>	<u>1,223,361</u>	<u>1,090,351</u>
<b>Expenditures</b>		
Salaries and Benefits	377,818	427,336
Professional Services	7,740	95,016
Loans	-	250,044
Intradistrict	112,311	178,370
<b>Total Expenditures</b>	<u>497,869</u>	<u>950,766</u>
<b>Excess of Revenue Over Expenditures</b>	725,492	139,585
<b>Other Financing Sources</b>		
Transfer From General Fund	-	559,713
<b>Total Other Financing Sources</b>	<u>-</u>	<u>559,713</u>
<b>Special Item</b>		
Change in Accounting Presentation	-	(14,508,011)
<b>Total Special Item</b>	<u>-</u>	<u>(14,508,011)</u>
<b>Net Changes in Fund Balance</b>	725,492	(13,808,713)
<b>Fund Balance, Beginning of the Year</b>	<u>(2,507,320)</u>	<u>11,301,393</u>
<b>Fund Balance, End of the Year</b>	<u><u>\$(1,781,828)</u></u>	<u><u>\$ (2,507,320)</u></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, 2013 AND 2012

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- ***Organization***

The Home Purchase Assistance Program Fund (the Fund) 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 Fund and do not purport to, and do not present fairly the financial position of the District as of September 30, 2013 and 2012 and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

- ***Basis of Accounting and Measurement Focus***

The Fund's 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.

- *Fund Balance*

In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund type Definitions*, the Fund's fund balance is classified as unassigned. At September 30, 2013 and 2012, the cumulative expenditures incurred exceeded the unassigned fund balance.

**NOTE 2 DUE FROM SERVICE PROVIDER**

The District has a service provider that receives and tracks the majority of the loan payments and balances. At September 30, 2013 and 2012, the service provider had not remitted the September loan and interest payments totaling \$92,804 and \$83,632, respectively to the District before year-end.

**NOTE 3 DUE FROM OTHER LOAN FUNDS**

Due from Other Loan Funds represents transactions posted incorrectly to the Fund or to another loan fund. At September 30, 2013 and 2012, Due from Other Loan Funds totaled \$3,497,994 and \$394,897, respectively.

**NOTE 4 LOANS RECEIVABLE**

The Fund's loans consist of two types: deferred 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. Except for employee deferred loans, deferred mortgage 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.

As of September 30, 2013 and 2012, loans receivable consisted of the following:

	<b>Loan Amount</b>	<b>Allowance</b>	<b>2013</b>
Amortized Loans	\$ 28,782,749	\$ (11,329,530)	\$ 17,453,219
Deferred Loans	12,912,758	(10,422,841)	2,489,917
Total	<u>\$ 41,695,507</u>	<u>\$ (21,752,371)</u>	<u>\$ 19,943,136</u>

	<u>Loan Amount</u>	<u>Allowance</u>	<u>2012</u>
Amortized Loans	\$ 13,549,519	\$ (6,194,137)	\$ 7,355,382
Deferred Loans	29,428,015	(25,308,093)	4,119,922
Total	<u>\$ 42,977,534</u>	<u>\$ (31,502,230)</u>	<u>\$ 11,475,304</u>

**NOTE 5 DUE TO DISTRICT APPROPRIATED GENERAL FUND**

The Fund's 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 years, as required by law to close the District's projected budget gap, the District transferred funds from the Fund's pooled cash account. The Fund did not have sufficient funds to cover the transfer, which created a negative cash balance and a due to the appropriated general fund. In 2013, the District incorrectly recorded an expenditure related to another loan program to the Fund, which resulted in an increase in the liability. In 2012, the District transferred to the Fund \$559,713 as required by the Fiscal Year 2011 Transfer of Special Purpose Funds Act of 2010. At September 30, 2013 and 2012, the total amount owed to the District's appropriated general fund was \$5,309,563 and \$2,629,812, respectively.

**NOTE 6 SPECIAL ITEM**

In 2012, the District changed its accounting presentation of the Fund financial statements to be consistent with the presentation of its other loan funds. The presentation involves the recognition of principal payments as revenue, new loans as expenditures, and the reflection of unearned revenue in the balance sheet. Unearned Revenue represents the estimated principal payments expected to be collected in the future. The change resulted in a decrease in the Fund's fund balance of \$14,508,011.

**NOTE 7 SUBSEQUENT EVENTS**

The District has evaluated any subsequent events through the date this report was available for issuance which is March 20, 2014. 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 in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Government of the District of Columbia (the District) Home Purchase Assistance Program Fund (the Fund) as of and for the years ended September 30, 2013 and 2012 and the related notes to the financial statements and have issued our report thereon dated March 20, 2014. The financial statements present only the Fund and do not purport to, and do not present fairly the financial position of the District as of September 30, 2013 and 2012, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the subsequent paragraphs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider finding 2013-1 to be a material weakness.

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. We consider findings 2013-2 and 2013-3 to be significant deficiencies.

2013-1

**Deferred Loans Allowance Methodology Supporting Documentation**

The District changed its deferred loans allowance methodology in 2011. The revised methodology required the use of different allowance percentages based on the age of the loans. Consistent with the prior year, the District was unable to provide any support for the percentages used. The deferred loans allowance has been adjusted in the audit based on documentation available on the amortized loans.

***Recommendation:*** We recommend the District reevaluate its deferred loan portfolio and allowance methodology. The deferred loan methodology should be based on reasonable estimates of the loans' collectibility and be adequately supported with documentation.

***Management's Response:*** As recommended, DHCD is working on a uniform allowance methodology for its deferred loan portfolio that is based on reasonable estimates of the loans' collectibility. DHCD will retain adequate documentation to support the methodology selected.

2013-2

**Reconciliation of Fund's Principal and Interest Payments**

The District prepares a schedule of principal and interest payments received from the loan service provider for each service month. At September 30, 2013, the total amount of the principal and interest on the schedule is more than the amount recorded in the accounting system. An explanation could not be provided for the difference, which resulted in a receivable being recorded at year-end.

***Recommendation:*** We recommend the District perform periodic reconciliations between the Fund principal and interest schedule and its accounting system and to adjust the accounting system accordingly.

***Management's Response:*** DHCD will perform period reconciliations between the HPAP fund principal and interest schedule and its accounting system and will adjust the accounting system accordingly.

2013-3

**Payroll Allocation Supporting Documentation**

The District's payroll system allocates indirect administrative personnel salaries to the Fund based on timesheets completed by employees. Of the five employees tested, two employees' timesheets did not agree with the allocated hours to the Fund. As a result, we were unable to determine the basis for the salary amounts allocated to the Fund for two employees.

***Recommendation:*** We recommend the District document and retain in its records the process used by its payroll system to allocate hours to the Fund.

***Management's Response:*** Concur. DHCD will review the two transactions in question to ascertain the facts as to what exactly happened because DHCD already has procedures in place regarding employee time recordation process in the PeopleSoft payroll system. DHCD will strengthen its internal controls to ensure that time charged to the fund agrees to the timesheets.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Fund'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 response to the findings identified in our audit is described above. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, 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.

A handwritten signature in black ink that reads "Bert Smith & Co." with a small flourish at the end.

March 20, 2014  
Washington, D.C.