

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

**HOME PURCHASE ASSISTANCE PROGRAM  
Financial Statement Audit  
and  
Report on Internal Control Over Financial  
Reporting and Compliance  
for the Fiscal Year Ended  
September 30, 2011  
(With Independent Auditors' Report Thereon)**



**CHARLES J. WILLOUGHBY  
INSPECTOR GENERAL**

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

Inspector General



June 1, 2012

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

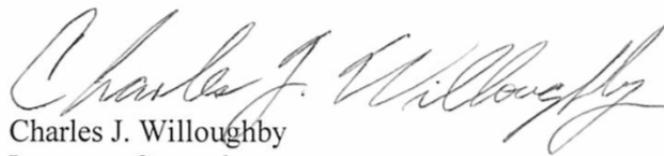
Dear Mr. Hall:

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. 12-1-14DB, on the District of Columbia's Home Purchase Assistance Program Fund (HPAP) for the fiscal year ended September 30, 2011.

BS&C opined that the financial statements present fairly, in all material respects, the financial position of the HPAP Fund as of September 30, 2011, and the results of its operations for the year then ended. Additionally, BS&C issued its report on its consideration of the HPAP's internal control over financial reporting and its tests of HPAP's compliance with laws, regulations, contracts, and grant agreements, noting two material weaknesses and three significant deficiencies.

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

Sincerely,



Charles J. Willoughby  
Inspector General

CJW/ws

Enclosure

**DISTRIBUTION:**

The Honorable Vincent C. Gray, Mayor, District of Columbia (1 copy)  
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 Muriel Bowser, Chairperson, Committee on Government Operations, Council of the District of Columbia (via email)  
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Ms. Yolanda Branche, 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: Yvette Cravins (via email)  
The Honorable Trey Gowdy, Chairman, House Subcommittee on Health Care, the District of Columbia, the Census and the National Archives, Attention: Anna Bartlett (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: Benjamin Rhodeside (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 E. Hall  
Home Purchase Assistance Program  
Financial Statement Audit – FY 2011  
OIG No. 12-1-14DB – Final Report  
June 1, 2012  
Page 3 of 3

The Honorable Harold Rogers, Chairman, House Committee on Appropriations, Attention:  
Kaitlyn Eisner-Poor (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)  
Mr. John E. Reagan, III, CPA, Public Sector Audit Division KPMG LLP (1 copy)

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

**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011  
*(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 YEAR ENDED SEPTEMBER 30, 2011**

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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 Fund (the Fund) as of and for the year ended September 30, 2011, 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 statements based on our audit. The prior year comparative information has been derived from the Fund's September 30, 2010 financial statements and, in our report dated May 13, 2011, we expressed an unqualified opinion on those financial 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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 Fund and do not purport to, and do not present fairly the financial position of the District as of September 30, 2011 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 respects, the financial position of the Fund as of September 30, 2011, 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 April 22, 2012 on our consideration of the Fund'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 consistently 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.

April 22, 2012  
Washington, D.C.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
HOME PURCHASE ASSISTANCE PROGRAM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2011**

The following is a discussion and analysis of the Government of the District of Columbia's (District) Home Purchase Assistance Program Fund (the Fund) financial performance for the fiscal year ended September 30, 2011. 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.

**Financial Highlights**

- Net loans receivables increased by \$9,827,687 or 210%.
- Due to District Appropriated General Fund increased by \$1,303,549 or 59%.
- The District changed its allowance for doubtful accounts methodology for its loans receivable.

**Condensed Balance Sheets as of September 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>	<u>\$ Variance</u>	<u>% Variance</u>
<b>Assets</b>				
Funds Advance	\$ -	\$ 156,407	\$ (156,407)	100%
Receivables	380,203	431,472	(51,269)	-12%
Loan Receivable, net	14,508,012	4,680,325	9,827,687	210%
<b>Total Assets</b>	<u>\$14,888,215</u>	<u>\$5,268,204</u>	<u>\$9,620,011</u>	<u>183%</u>
<b>Liabilities</b>				
Accounts Payable and Accrued Expenses	\$ 84,972	\$ 154,179	\$ (69,207)	-45%
Due to District's Appropriated General Fund	3,501,850	2,198,301	1,303,549	59%
<b>Total Liabilities</b>	<u>3,586,822</u>	<u>2,352,480</u>	<u>1,234,342</u>	<u>52%</u>
<b>Fund Balance</b>	<u>\$11,301,393</u>	<u>\$2,915,724</u>	<u>\$8,385,669</u>	<u>288%</u>

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**HOME PURCHASE ASSISTANCE PROGRAM**  
MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)*  
SEPTEMBER 30, 2011

**Assets**

- Funds advanced decreased by 100% because Greater Washington Urban League (GWUL) which processes the Fund's loan applications expended all of the funds advanced to the organization. GWUL processed nine new loans during the fiscal year.
- Net loans receivables increased by \$9,827,687 or 210%. The loans increase is due mainly to changes in the loans' allowance for doubtful accounts methodology.

**Liabilities**

- Due to District Appropriated General Fund increased by \$1,303,549 or 59%. The increase is attributed to the transfer of funds totaling \$1,303,549 to the General Fund required by law to close the District's budget gap.

**Condensed Statements of Revenues, Expenditures, and Changes in Fund Balance for the year ended September 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>	<u>\$</u> <u>Variance</u>	<u>%</u> <u>Variance</u>
<b>Revenue</b>				
Interest Income	\$ 26,643	\$ 35,871	\$ (9,228)	-26%
<b>Expenditures</b>				
Administrative	795,403	720,102	75,301	10%
Bad Debts	-	860,422	(860,422)	-100%
<b>Total Expenditures</b>	<u>795,403</u>	<u>1,580,524</u>	<u>(785,121)</u>	<u>-50%</u>
<b>Deficiency of Revenue Under Expenditures</b>	(768,760)	(1,544,653)	775,893	-50%
<b>Other Financing Use</b>	(1,325,167)	-	(1,325,167)	100%
<b>Special Item</b>				
Change in Allowance Doubtful Accounts Methodology	10,479,596	-	10,479,596	100%
<b>Changes in Fund Balance</b>	<u>\$8,385,669</u>	<u>\$ (1,544,653)</u>	<u>\$9,930,322</u>	<u>100%</u>

**Expenditures**

- The Fund's overall expenditures decreased by \$785,121 or 50%. The decrease is mainly due to the recording of bad debts expenditures in the prior fiscal year. No bad debts expenditures were recorded in fiscal year 2011.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**HOME PURCHASE ASSISTANCE PROGRAM**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)  
SEPTEMBER 30, 2011

***Other Financing Use***

- The District transferred \$1,303,549 from the Fund to its Appropriated General Fund as required by law.

***Special Item***

- As a result of the change in the Fund's allowance for doubtful accounts methodology, which decreased the allowance for doubtful account, there was an increase to 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. 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 SHEET**  
**SEPTEMBER 30, 2011**  
*(With Comparative Totals for 2010)*

	<b>2011</b>	<b>2010</b>
<b>Assets</b>		
Funds Advance	\$ -	\$ 156,407
Due from Service Provider	31,340	58,835
Due from Other Loan Fund	348,863	372,637
Loan Receivable, Net	14,508,012	4,680,325
<b>Total Assets</b>	<b>\$ 14,888,215</b>	<b>\$ 5,268,204</b>
 <b>Liabilities and Fund Balance</b>		
<b>Liabilities</b>		
Due to District Appropriated General Fund	\$ 3,501,850	\$ 2,198,301
Accounts Payable	63,968	121,895
Accrued Expenses	21,004	32,284
<b>Total Liabilities</b>	<b>3,586,822</b>	<b>2,352,480</b>
 <b>Fund Balance</b>		
Committed	11,301,393	2,915,724
<b>Total Liabilities and Fund Balance</b>	<b>\$ 14,888,215</b>	<b>\$ 5,268,204</b>

*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, 2011  
*(With Comparative Totals for 2010)*

	<b>2011</b>	<b>2010</b>
<b>Revenue</b>		
Interest Income	\$ 26,643	\$ 35,871
<b>Total Revenue</b>	26,643	35,871
<b>Expenditures</b>		
Salaries and Benefits	414,688	613,572
Bad Debt	-	860,422
Professional Services	150,049	84,549
Other	230,666	21,981
<b>Total Expenditures</b>	795,403	1,580,524
<b>Deficiency of Revenue Under Expenditures</b>	(768,760)	(1,544,653)
<b>Other Financing Use</b>		
Transfer to District General Fund	(1,325,167)	-
<b>Total Other Financing Use</b>	(1,325,167)	-
<b>Special Item</b>		-
Change in Allowance for Doubtful Accounts	10,479,596	
<b>Net Changes in Fund Balance</b>	8,385,669	(1,544,653)
<b>Fund Balance, Beginning of the Year</b>	2,915,724	4,460,377
<b>Fund Balance, End of the Year</b>	\$ 11,301,393	\$ 2,915,724

*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, 2011**

**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, 2011 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 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 committed. A committed fund balance are resources which can be only be used for specific purposes pursuant to limitations imposed by formation of the District's government's highest level of decision-making authority. Amounts in this category may be redeployed for other purposes with the appropriate due process. Committed amounts cannot be used for any other purpose unless the District government removes or changes the specified use by taking the same type of action it used to previously commit the amounts. The bodies which have the highest level of decision-making authority are the Executive Office of the Mayor and the Council of the District of Government (the Council).

**NOTE 2 DUE FROM SERVICE PROVIDER**

The District has a service provider that receives and tracks the majority of the loan payments and balances. The September 2011 loan and interest payment of \$31,340 received by the service provider had not been remitted to the District before year end.

**NOTE 3 DUE FROM OTHER LOAN FUND**

The District recorded expenditures related to another loan program to the Fund in the prior fiscal year. The total due from the other loan fund is \$348,863.

**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.

During 2011, the District disbursed loans totaling \$251,418. Loan and interest repayments received totaled \$985,432.

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

In 2011, the District changed its allowance for doubtful accounts methodology to more accurately reflect the loans collectibility. The District established a 75% allowance for amortized loans more than 120 days delinquent and deferred loans issued after 1997 and 100% allowance for deferred loans issued prior to 1997. The change resulted in a decrease to the allowance for doubtful accounts of \$10,479,596.

As of September 30, 2011, loans receivable consisted of the following:

	<u>Loan Amount</u>	<u>Allowance</u>	<u>Net</u>
Deferred Loans	\$ 31,266,466	\$ (25,769,081)	\$ 5,497,385
Amortized Loans	12,544,481	(3,533,855)	9,010,626
Total	<u>\$ 43,810,947</u>	<u>\$ (29,302,935)</u>	<u>\$ 14,508,012</u>

About 94% of the receivable is not expected to be collected in the subsequent period.

#### 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 current and prior two 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 due to the general fund. In 2011, the transfer to the District's General Fund totaled \$1,325,167. At September 30, 2011, the total amount owed to the District was \$3,501,850.

#### NOTE 6 SUBSEQUENT EVENTS

The District has evaluated any subsequent events through the date this report was available for issuance which is April 22, 2012. 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 Fund (the Fund) as of and for the year ended September 30, 2011 and have issued our report thereon dated April 22, 2012. The financial statements present only the Fund program and do not purport to, and do not present fairly the financial position of the District as of September 30, 2011 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. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the subsequent paragraphs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 findings **2011-1** and **2011-4** to be material weaknesses.

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 **2011-2**, **2011-3**, and **2011-5** to be significant deficiencies.

2011-1

### **Proper Coding of the Fund's Loans**

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

**Recommendation:** We recommend that the District perform a review of the service provider records and identify those Fund loans not assigned the proper project number. We also recommend that the District ensure that the service provider records are adjusted accordingly.

**Management's Response:** The District's Department of Housing and Community Development (DHCD) concurs with the finding. It should be noted that DHCD 1<sup>st</sup> received notice of this finding in May 2011. To date, DHCD has substantially cured this finding based on new agency loan program compliance initiatives implemented by Director Hall since his appointment in May 2011. DHCD will continue to perform periodic reviews of the service provider's records and identify HPAP loans not assigned the proper number, and adjust the servicer's records accordingly. Specifically joint agency compliance reviews and reconciliation processes commenced since May 2011 which ensures proper coding of the funds loans moving forward.

2011-2

### **Collection of Outstanding Receivable**

In the prior fiscal year, the District recorded expenditures of another loan program to the Fund, which resulted in a receivable being recorded in the financial statements. At September 30, 2011, the majority of the funds had not been repaid to the Fund. The receivable at year-end totaled approximately \$348,863.

**Recommendation:** We recommend that the District repay to the Fund the non-related expenditures charged to the program in the prior fiscal year.

**Management's Response:** DHCD concurs with finding. DHCD will execute the reimbursement to HPAP during the third quarter 2012 now that the agency has sufficient Non Federal and Non Local Revenue to make the reimbursement.

2011-3

### **Retention of Deferred Loans Allowance Methodology Supporting Documentation**

The District changed its deferred loans allowance methodology during the fiscal year. The new methodology required the use of different allowance percentages based on the age of the loans, but the District was unable to provide any support for the percentages used. During the conduct of the audit, a revised methodology was developed for the audit based on the collection rate of the amortized loans and the overall history of the deferred loans.

**Recommendation:** We recommend that the District perform annual evaluations of portfolio and allowance methodology. Any changes impacting the methodology should be adequately supported with documentation and be based on reasonable estimates of the loans' collectibility.

**Management's Response:** DHCD concurs with finding and will commence documentation of the Deferred Loan Allowance Methodology similar to the analysis on amortized loans.

2011-4

#### **Periodic Reconciliation of Loan Receivables**

The District does not periodically reconcile throughout the fiscal year its accounting system loan records to its service provider loan records. The District performs the reconciliation after year-end. The reconciliation is usually normally not done until after the District's city wide financial audit is completed. Periodic reconciliations during the fiscal year will enable the District to identify and correct errors or misstatements more timely.

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

**Management's Response:** DHCD concurs with the finding. It should be noted that DHCD 1<sup>st</sup> received notice of this finding in May 2011. To date, DHCD has substantially cured this finding based on new agency loan program compliance initiatives implemented by Director Hall since his appointment in May 2011. DHCD concurs with this finding and will specifically continue to conduct joint agency compliance reviews and reconciliation which ensures periodic reconciliation of loans throughout the fiscal year.

2011-5

#### **Posting of Audit Adjustments**

The District is not posting the audit adjustments in the SOAR system. As a result, the fund balance for the Fund is understated in the SOAR system. The audit adjustments should be properly recorded in the accounting system so that the financial data for the Fund is accurately presented.

**Recommendation:** We recommend the District record all audit adjustments in the SOAR accounting system.

**Management's Response:** DHCD concurs with the finding. Going forward all prior year audit adjustments will be properly recorded in SOAR system the following year, so that the financial data for the fund is accurately presented.

#### **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 response to the findings identified in our audit is 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.

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

April 22, 2012  
Washington, D.C.