

**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, 2008
(With Independent Auditor's Report Thereon)**



**CHARLES J. WILLOUGHBY
INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



December 23, 2009

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

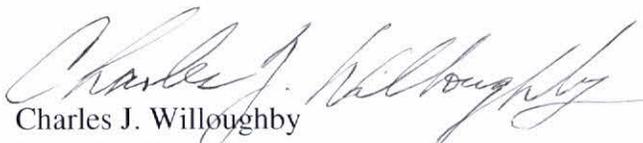
Dear Ms. Edmonds:

In conjunction with the audit of the District of Columbia's general purpose financial statements, RAFFA, P.C. (RAFFA) submitted the enclosed final reports, issued under OIG Report No 10-1-01DB and 10-1-01DB(a), on the District of Columbia's Home Purchase Assistance Program (HPAP) for the fiscal year ended September 30, 2008.

RAFFA opined that the financial statements present fairly, in all material respects, the financial position of the HPAP as of September 30, 2008, and the results of its operations for the year there ended. Additionally, RAFFA also issued a report on consideration of the HPAP's internal control over financial reporting and compliance with laws, regulations, contracts, and grants.

If you have questions or need additional information, please contact William J. DiVello, Assistant Inspector General for Audit, at (202) 727-2540.

Sincerely,


Charles J. Willoughby
Inspector General

CJW/ws

Enclosure

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Ms. Leila Edmonds
Home Purchase Assistance Program
Financial Statement Audit – FY 2008
December 23, 2009
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**GOVERNMENT OF THE DISTRICT OF COLUMBIA
HOME PURCHASE ASSISTANCE PROGRAM**

Financial Statements

For The Year Ended September 30, 2008



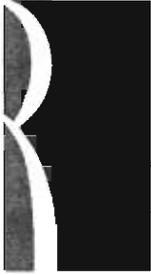
**and
Report Thereon**



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

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RAFFA

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INDEPENDENT AUDITOR'S REPORT

To the Inspector General of the Government of the District of Columbia and
the Management of the Department of Housing and Community Development
of the Government of the District of Columbia

We have audited the accompanying statement of financial position of the Home Purchase Assistance Program (HPAP) of the Government of the District of Columbia as of September 30, 2008, and the related statement of revenues, expenditures, and change in fund balance for the year then ended. These financial statements are the responsibility of the management of the District's Department of Housing and Community Development (DHCD). Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of DHCD's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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.

These financial statements present only the financial activity of the HPAP and are not intended to present fairly the financial position and the results of operations of the Government of the District of Columbia or its Department of Housing and Community Development as a whole in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Home Purchase Assistance Program as of September 30, 2008, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 23, 2009, on our consideration of the HPAP's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing over internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over

financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our 2008 audit.

Raffa, P.C.

RAFFA, P.C.

Washington, DC
November 23, 2009

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

**STATEMENT OF FINANCIAL POSITION
September 30, 2008**

ASSETS

Current Assets

| | |
|----------------------------|------------------|
| Funds held by DC Treasurer | \$ 454,033 |
| Interest receivable | 3,057 |
| Loan advance receivable | 756,026 |
| Mortgages receivable, net | <u>6,309,078</u> |

TOTAL ASSETS \$ 7,522,194

LIABILITIES AND FUND BALANCE

| | |
|---------------------------------------|------------------|
| Accounts payable and accrued expenses | \$ 29,710 |
| Fund balance | <u>7,492,484</u> |

TOTAL LIABILITIES AND FUND BALANCE \$ 7,522,194

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

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

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
For the Year Ended September 30, 2008**

| | |
|-------------------------------------|----------------------------|
| REVENUES | |
| Interest income | \$ 94,137 |
| EXPENDITURES | |
| Bad debt expense, net of recoveries | 11,905,874 |
| Administrative | <u>1,326,353</u> |
| Total Expenditures | <u>13,232,227</u> |
| EXPENDITURES IN EXCESS OF REVENUES | (13,138,090) |
| FUND BALANCE, BEGINNING OF YEAR | <u>20,630,574</u> |
| FUND BALANCE, END OF YEAR | <u><u>\$ 7,492,484</u></u> |

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

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

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended September 30, 2008**

1. Organization and Summary of Significant Accounting Policies

HPAP Operations

The Home Purchase Assistance Program (HPAP) was established under the District of Columbia (the District or DC) Home Purchase Assistance Fund Act of 1978, D.C. law 2-103 (D.C. Code 45-2201 *et seq.*). Title 14 Chapter 25 of the D.C. Municipal Regulations (DCMR) provides rules for loans made under the Home Purchase Assistance Program. Title 14, Chapter 25 of the DCMR states that the administration of HPAP shall be the responsibility of the District of Columbia Department of Housing and Community Development (DHCD). The purpose of the District of Columbia Home Purchase Assistance Program is to:

- Provide financial assistance to lower- and moderate-income residents of the District;
- Enable lower- and moderate-income residents to purchase decent, safe, and sanitary homes within the District;
- Enable lower- and moderate-income residents to make payment toward the purchase of a home within the District; and
- Enable lower- and moderate-income residents to make a share payment or other payment to a housing cooperative to secure occupancy rights to a home within the District as his or her principal place of residence.

Home Purchase Assistance Program mortgages are generally limited to \$70,000 per household.

Basis of Accounting

HPAP activities are accounted for in the District's general fund, a governmental fund type, which is accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (that is when they become both measurable and available). Measurable means the amount of the transaction that 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, which is considered by District to be one year. Expenditures are recorded when the related liabilities are incurred.

Funds Held by DC Treasurer

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

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

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended September 30, 2008**

1. Organization and Summary of Significant Accounting Policies (continued)

Administrative Expenses

The administrative expenses recorded in the statements of revenues, expenditures and changes in fund balance are only those for which HPAP local funds were used. Additional costs related to HPAP may be paid using other funds available to DHCD. There were no rent costs allocated to HPAP by DHCD in 2008.

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.

2. Loan Advance Receivable

DHCD contracts with the Greater Washington Urban League (GWUL) to process HPAP loan applications and complete loan settlements. The amount due from GWUL at year-end represents the amount that DHCD advanced to GWUL for HPAP loans that had not been disbursed by GWUL prior to September 30, 2008.

3. Mortgages Receivable

HPAP loans consist of four types: principal only, unsecured, deferred payment, and amortized.

A principal only mortgage is a loan repaid in regular monthly installments of principal only, without interest, for a period of 30 years. These mortgages are usually secured by a lien or subordinated trust on the property purchased.

Unsecured mortgages require repayments subject to the conditions of the loan agreement for which the recipient has signed a promissory note. The note is not secured by a lien on the purchased property.

A deferred mortgage allows the borrower to defer payment of the principal until the property purchased ceases to be the principal residence of the borrower. Deferred mortgages with a closing date subsequent to March 14, 1997, require repayment to begin after five (5) years.

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

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended September 30, 2008**

3. Mortgages Receivable (continued)

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

DHCD records a 100% allowance for all deferred loans and records a 25% allowance for all amortized loans. As of September 30, 2008, DHCD did not have any principal only or unsecured mortgages.

As of September 30, 2008, the outstanding mortgage balances and related allowance are as follows:

| | <u>Balance</u> | <u>Allowance</u> | <u>Net</u> |
|---------------------|----------------|------------------|--------------|
| Deferred mortgages | \$ 36,733,759 | \$ 36,733,759 | \$ - |
| Amortized mortgages | 8,412,104 | 2,103,026 | 6,309,078 |
| Total | \$ 45,145,863 | \$ 38,836,785 | \$ 6,309,078 |

During 2008 DHCD, through its agent, disbursed \$14,045,425 in new HPAP loans. Loan repayments received in 2008 totaled \$2,139,551.

4. Bad Debt Expense, Net of Recoveries

Bad debt expense is recorded for 100% of all new deferred loans and 25% of all new amortized loans made during the year, adjusted for recoveries of loans collected during the year that were previously reserved. The following table provides the bad debt expense calculated for the year ended September 30, 2008.

| <u>New Loans</u> | <u>Amount</u> | <u>Required Reserved Percentage</u> | <u>Total Bad Debt Expense</u> |
|---|---------------|---|---------------------------------------|
| Deferred Loans | \$ 14,045,425 | 100% | \$ 14,045,425 |
| Total | | | 14,045,425 |
| Recoveries from repayments | | | (2,139,551) |
| Total bad debt expense, net of recoveries | | | \$ 11,905,874 |



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

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To the Inspector General of the Government of the District of Columbia and
the Management of the Department of Housing and Community Development
of the Government of the District of Columbia:

We have audited the financial statements of the Home Purchase Assistance Program (HPAP) of the Government of the District of Columbia (District) as of and for the year ended September 30, 2008, and have issued our report thereon dated November 23, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered DHCD's internal control over financial reporting for the HPAP funds as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of DHCD's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of DHCD's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs listed as item 2008-01 to be a significant deficiency in internal control over financial reporting.

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

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

Continued

Compliance and Other Matters

As part of obtaining reasonable assurance about whether HPAP's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The status of prior year reportable conditions is presented in Appendix B.

DHCD's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit DHCD's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Inspector General of the District of Columbia and Department of Housing and Community Development management, and is not intended to be and should not be used by anyone other than these specified parties.

Raffa, P.C.

RAFFA, P.C.

Washington, DC
November 23, 2009

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2008**

A. FINDINGS – FINANCIAL STATEMENT AUDIT

Finding No. 2008-1

Criteria: The financial statements provided by DHCD for the HPAP program should be supported by the general ledger of DHCD.

Condition: The financial statements provided by DHCD for the HPAP program contained an unreconciled difference of \$245,267, which DHCD was unable to explain. Subsequently, DHCD was able to identify the cause of the majority of the difference and reconcile within \$49,136.

Questioned Costs: \$49,136.

Cause: Year-end adjustments to DHCD's general ledger made at the District level are not communicated to DHCD personnel on a timely basis. DHCD is not always fully aware of the adjustments made to DHCD's general ledger and the impact on the financial statements.

Effect: DHCD was unable to reconcile the HPAP program financial statements to the general ledger, resulting in a financial statement that contained an unreconciled difference in order for the financial statements to balance.

Recommendation: DHCD should monitor the general ledger for adjustments made at the District level and reconcile the general ledger to its financial reporting.

Management's Response: DHCD concurs with this finding. The Agency's Financial Operations team will implement stricter controls and processes to ensure that general ledger reconciliations are a part of the routine, recurring accounting and financial functions we perform. Implementing these processes will enable the team to identify, explain and correct (if necessary) unrecognized variances in the general ledger.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2008**

B. STATUS OF PRIOR YEAR REPORTABLE CONDITIONS

Condition: DHCD contracts with a financial institution to perform the loan servicing function for HPAP. It has also entered into an agreement with a community-based organization to perform the community outreach, loan application and loan approval process. Both of these organizations provide DHCD with monthly reports detailing HPAP activity.

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

Status: Resolved. DHCD is reconciling the loan balances to SOAR on a quarterly basis.