

**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, 2009
(With Independent Auditor's Report Thereon)**



**CHARLES J. WILLOUGHBY
INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



January 31, 2011

Robert L. Trent
Director
Department of Housing and Community Development
Anacostia Gateway Government Center
1800 Martin Luther King, Jr. Avenue, SE
Washington, DC 20020

Dear Mr. Trent:

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 11-1-02DB and 11-1-02DB(a), on the District of Columbia's Home Purchase Assistance Program (HPAP) for the fiscal year ended September 30, 2009.

RAFFA opined that the financial statements present fairly, in all material respects, the financial position of the HPAP as of September 30, 2009, and the results of its operations for the year then ended. Additionally, RAFFA issued a report on consideration of the HPAP's internal control over financial reporting and compliance with 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,


Charles J. Willoughby
Inspector General

CJW/ws

Enclosure

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Mr. Robert Trent
Home Purchase Assistance Program
Financial Statement Audit – FY 2009
January 31, 2011
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**GOVERNMENT OF THE DISTRICT OF COLUMBIA
HOME PURCHASE ASSISTANCE PROGRAM**

Financial Statements

For the Year Ended September 30, 2009



**and
Report Thereon**



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

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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

CONSULTING
ACCOUNTING
TECHNOLOGY

*Certified Public
Accountants*

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, 2009, and the related statement of revenues, expenditures and changes 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 the purpose of 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 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, 2009, 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 our report dated December 13, 2010, on our consideration of HPAP's internal control over financial reporting and on our tests of 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 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 assessing the results of our audit.

Raffa, P.C.

RAFFA, P.C.

Washington, DC
December 13, 2010

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

STATEMENT OF FINANCIAL POSITION

September 30, 2009

ASSETS

Current Assets

Interest receivable	\$ 1,983
Accounts receivable	520,657
Mortgages receivable, net	<u>6,509,322</u>

TOTAL ASSETS	<u><u>\$ 7,031,962</u></u>
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LIABILITIES AND FUND BALANCE

Accounts payable and accrued expenses	\$ 253,871
Due to General Fund	2,317,714
Fund balance	<u>4,460,377</u>

TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 7,031,962</u></u>
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The accompanying notes are an integral part of these financial statements.

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

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
For the Year Ended September 30, 2009**

REVENUES	
Interest income	\$ 31,186
EXPENDITURES	
Administrative	185,351
Bad debt expense, net of recoveries	<u>76,033</u>
Total Expenditures	<u>261,384</u>
OTHER FINANCING SOURCES (USES)	
Funds transferred to the General Fund	(3,567,116)
Funds received from the Office of the Tenant Advocate	<u>765,207</u>
Total Other Financing Sources (Uses)	<u>(2,801,909)</u>
EXPENDITURES IN EXCESS OF REVENUES	(3,032,107)
FUND BALANCE, BEGINNING OF YEAR	<u>7,492,484</u>
FUND BALANCE, END OF YEAR	<u><u>\$ 4,460,377</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 FINANCIAL STATEMENTS
For the Year Ended September 30, 2009**

1. Organization and Summary of Significant Accounting Policies

Home Purchase Assistance Program 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 payments 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. As of September 30, 2009, all funds held by the DC Treasurer were transferred to the DC General Fund (see Note 5).

Continued

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

**NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2009**

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

Administrative Expenses

The administrative expenses recorded in the statement 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 was no rent cost allocated to HPAP by DHCD in 2009.

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. 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.

An unsecured mortgage requires 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 years.

An amortized mortgage is 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, 2009, DHCD did not have any principal-only or unsecured mortgages.

Continued

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

**NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2009**

2. Mortgages Receivable (continued)

As of September 30, 2009, the outstanding mortgage balances and related allowances are as follows:

	<u>Balance</u>	<u>Allowance</u>	<u>Net</u>
Deferred mortgages	\$ 36,861,239	\$ 36,861,239	\$ -
Amortized mortgages	<u>8,679,095</u>	<u>2,169,773</u>	<u>6,509,322</u>
Total	<u>\$ 45,540,334</u>	<u>\$ 39,031,012</u>	<u>\$ 6,509,322</u>

During 2009, DHCD disbursed \$1,194,137 in new HPAP loans through its agent. Loan repayments received in 2009 totaled \$927,862. Additionally, during 2009, \$840,071 of deferred loans were reclassified to amortized loans upon reaching the five-year repayment date.

3. 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, 2009:

<u>New Loans, Net of Reclassifications</u>	<u>Amount</u>	<u>Required Reserved Percentage</u>	<u>Total Bad Debt Expense</u>
Deferred loans	\$ 354,067	100%	\$ 354,067
Amortized loans	850,070	25%	<u>212,518</u>
Total			566,585
Recoveries from Repayments			<u>(490,552)</u>
Total Bad Debt Expense, Net of Recoveries			<u>\$ 76,033</u>

Continued

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

**NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2009**

4. Receivable from the Tenant Purchase Technical Assistance Program

In June 2009, DHCD entered into an agreement with the University Legal Services, Inc. (ULS) for ULS to provide organizational and development services to low-and moderate-income residents residing in the District of Columbia, pursuant to D.C. Law 3-86, The Rental Housing Conversion and Sale Act of 1980. D.C. Law 3-86 regulates, among other things, tenant opportunity to purchase rights, tenant first rights of refusal, offer of sale notices, notices of transfer and the conversion of property to cooperatives or condominiums. The act gives DC residents of residential rental property the first right to purchase a property when the property owners put the property up for sale. Under the agreement, ULS shall assist tenants of multi-family buildings who have received a notice to sell from the owners of the building and want to exercise their right of first refusal by helping tenants organize and providing them with options on which type of property development they wish to undertake, whether a cooperative or a condominium development. HPAP paid expenses on behalf of the Tenant Purchase Technical Assistance Program (TPTAP), and as of September 30, 2009, TPTAP owed HPAP \$451,224, which amount is included in accounts receivable in the accompanying statement of financial position.

5. Funds Transferred to the General Fund

Pursuant to the enactment of the District's Fiscal Year 2010 Budget Support Second Emergency Act of 2009, the Office of the Chief Financial Officer of the District transferred \$3,567,116 of HPAP funds held by the DC Treasurer to the District's General Fund to provide sufficient funds to close the District's projected budget gap for the fiscal year 2009 stemming from the estimated spending pressures and the revised revenue estimates released by the District on June 22, 2009. The transfer of funds to the General Fund, along with other activities in the fund during the fiscal year, created a negative cash balance of \$2,317,714, which represents over utilization of the District's General Fund pooled cash in the HPAP fund. For financial statement presentation purposes, an adjustment was made to reclassify the negative cash balance to a liability in order to recognize the short-term loan to replenish the District-pooled cash. As of September 30, 2009, this liability is shown as "Due to General Fund" in the accompanying statement of financial position.

6. Funds Received from the Office of the Tenant Advocate

Funds received from the District's Office of the Tenant Advocate (OTA) amounting to \$765,207 represent a one-time transfer of funds from the OTA's fund balance to HPAP representing HPAP's share of the revenue collected from condominium and cooperative conversions during the fiscal years ended September 30, 2004 through 2008, in accordance with D.C. Official Code Section 42-3403.07.



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

CONSULTING
ACCOUNTING
TECHNOLOGY

*Certified Public
Accountants*

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, 2009, and have issued our report thereon dated December 13, 2010. 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 Department of Housing and Community Development's (DHCD) internal control over financial reporting for HPAP funds as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of DHCD's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of DHCD's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and 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 accompanying schedule of findings and questioned costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

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 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 the deficiency described in the accompanying schedule of findings and questioned costs listed as item 2009-1 to be a significant deficiency in internal control over financial reporting.

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 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 the 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
December 13, 2010

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2009**

A. FINDINGS – FINANCIAL STATEMENT AUDIT

Finding No. 2009-1

Criteria: The general ledger accounts for the HPAP program should be reconciled and adjusted on a monthly basis.

Condition: Many of the general ledger accounts were not reconciled on a monthly basis during the year ended September 30, 2009. As a result, management provided a number of closing adjustments during our audit fieldwork to adjust the general ledger account balances. These adjustments affected the expenditures, mortgages receivable, allowance for bad debts, accounts receivable, beginning fund balance and cash accounts.

Questioned Costs: None.

Cause: A number of accounts were not accurately reconciled during the year and several reconciliations had not been performed prior to starting the year-end close process. In addition, DHCD is not always fully aware of the adjustments made at the District level to DHCD's general ledger and their impact on the financial statements.

Effect: The general ledger for the HPAP program was misstated during the year.

Recommendation: DHCD should take steps to ensure that all accounts are reconciled on at least a quarterly basis and the general ledger is properly updated for all adjustments.

Management's Response: HPAP's Financial Operations team will implement stricter controls and processes to ensure that general ledger reconciliations are performed quarterly. Implementing these controls will enable the team to identify, explain and correct (if necessary) unrecognized variances in the general ledger.

Continued

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2009**

B. STATUS OF PRIOR YEAR REPORTABLE CONDITIONS

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.

Status: While the majority of the unreconciled difference from September 30, 2008 was resolved, the financial statements provided by DHCD for the HPAP program for the year ended September 30, 2009 were not fully supported by accurate account balances in the general ledger, as described in the current year finding No. 2009-1.