

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

**HOME PURCHASE ASSISTANCE PROGRAM
(SPECIAL REVENUE FUND)**

**Financial Statements
for the Fiscal Year Ended
September 30, 2012
(With Independent Auditors' Report Thereon)**



**CHARLES J. WILLOUGHBY
INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



May 3, 2013

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. 13-1-24DB, on the District of Columbia's Home Purchase Assistance Program Special Revenue Fund (Fund) for the fiscal year ended September 30, 2012.

BS&C opined that the financial statements present fairly, in all material respects, the financial position of the Fund as of September 30, 2012, and the changes in the financial position for the year then ended in conformity with U.S. generally accepted accounting principles. 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 three material weaknesses: (1) 2012-1 – Collection of Outstanding Receivable; (2) 2012-2 – Deferred Loans Allowance Methodology Supporting Documentation; and (3) 2012-4 – Periodic Reconciliation of Loan Receivables. Finally, BS&C identified one significant deficiency: 2012-3 – Loan Reclassifications.

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

Sincerely,

A handwritten signature in black ink that reads "Charles J. Willoughby". The signature is fluid and cursive, with the first and last names being the most prominent.

Charles J. Willoughby
Inspector General

CJW/ws

Enclosure

cc: See distribution list

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Mr. Michael P. Kelly
Home Purchase Assistance Program
Financial Statement Audit – FY 2012
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The Honorable Barbara Mikulski, Chairwoman, Senate Committee on Appropriations,
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GOVERNMENT OF THE DISTRICT OF COLUMBIA
HOME PURCHASE ASSISTANCE PROGRAM
(SPECIAL REVENUE FUND)

FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012
(Together With Independent Auditors' Report)

BERT SMITH
& Co.

Certified Public Accountants and Management Consultants

GOVERNMENT OF THE DISTRICT OF COLUMBIA
HOME PURCHASE ASSISTANCE PROGRAM
(SPECIAL REVENUE FUND)

FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 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's (the District) Home Purchase Assistance Program Special Revenue Fund (the Fund) as of and for the year ended September 30, 2012, 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 financial statements dated April 22, 2012, which expressed an unqualified opinion, were audited by us.

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, 2012 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, 2012, 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 March 29, 2013 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.

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 and 4 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 Board that consider it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical 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.

Bert Smith & Co.

March 29, 2013
Washington, D.C.

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

The following is a discussion and analysis of the Government of the District of Columbia's (District) Home Purchase Assistance Program Special Revenue Fund (the Fund) financial performance for the fiscal year ended September 30, 2012. The financial statements and accompanying notes on pages 5 through 9 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 decreased by \$2,934,383 or 20%.
- New loans recorded for 2012 was \$250,044.
- Deferred 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, 2012 and 2011

	<u>2012</u>	<u>2011</u>	<u>\$ Variance</u>	<u>% Variance</u>
Total Assets	\$ 11,953,833	\$ 14,888,215	\$ (2,934,382)	-20%
Total Liabilities	\$ 14,461,153	\$ 3,586,822	\$ 10,874,331	303%
Fund Balance	\$ (2,507,320)	\$ 11,301,393	\$(13,808,713)	-122%

Assets

- Nets loans receivable decreased by \$2,934,383 or 20% because the District changed its allowance percentage from 80% to 86%, resulting in an increase to its allowance.

Liabilities

- The District changed in 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
(SPECIAL REVENUE FUND)
MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)*
SEPTEMBER 30, 2012

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

	<u>2012</u>	<u>2011</u>	<u>\$</u> <u>Variance</u>	<u>%</u> <u>Variance</u>
Revenue				
Principal and Interest	\$ 1,090,351	\$ 26,643	\$ 1,063,708	3992%
Expenditures				
Administrative	522,352	570,685	(48,333)	-8%
Loans	250,044	-	250,044	100%
Intradistrict	178,370	224,718	(46,348)	-21%
Total Expenditures	<u>950,766</u>	<u>795,403</u>	<u>155,363</u>	<u>20%</u>
Excess (Deficiency) of Revenue Over Expenditures	139,585	(768,760)	908,345	-118%
Other Financing Sources (Uses)	559,713	(1,325,167)	1,884,880	-142%
Special Item	<u>(14,508,011)</u>	<u>10,479,596</u>	<u>(24,987,607)</u>	<u>-238%</u>
Net Changes in Fund Balance	<u><u>\$(13,808,713)</u></u>	<u><u>\$8,385,669</u></u>	<u><u>\$ (22,194,382)</u></u>	<u><u>-265%</u></u>

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 fiscal year were shown as expenditures. Previously, the new loans were shown as an increase to loans receivable balance.

Other Financing Use

- The District transferred \$559,713 to the Fund in 2012 as required by law. In 2011, it transferred \$1,303,549 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
(SPECIAL REVENUE FUND)
BALANCE SHEET
SEPTEMBER 30, 2012

	2012
Assets	
Due from Service Provider	\$ 83,632
Due from Other Loan Fund	394,897
Loan Receivable, Net	11,475,304
Total Assets	\$11,953,833
 Liabilities and Fund Balance	
Liabilities	
Due to District Appropriated General Fund	\$ 2,629,812
Accounts Payable	306,703
Accrued Expenses	49,334
Deferred Revenue	11,475,304
Total Liabilities	14,461,153
 Fund Balance	
Unassigned	(2,507,320)
Total Liabilities and Fund Balance	\$11,953,833

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

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
HOME PURCHASE ASSISTANCE PROGRAM
(SPECIAL REVENUE FUND)**
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	2012
Revenue	
Principal and Interest	\$ 1,090,351
Total Revenue	1,090,351
 Expenditures	
Salaries and Benefits	427,336
Professional Services	95,016
Loans	250,044
Intradistrict	178,370
Total Expenditures	950,766
Excess of Revenue Over Expenditures	139,585
 Other Financing Sources	
Transfer From General Fund	559,713
Total Other Financing Sources	559,713
 Special Item	
Change in Accounting Presentation	(14,508,011)
Total Special Item	(14,508,011)
Net Changes in Fund Balance	(13,808,713)
Fund Balance, Beginning of the Year	11,301,393
Fund Balance, End of the Year	\$ (2,507,320)

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

GOVERNMENT OF THE DISTRICT OF COLUMBIA
HOME PURCHASE ASSISTANCE PROGRAM
(SPECIAL REVENUE FUND)
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- ***Organization***

The Home Purchase Assistance Program Special Revenue 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, 2012 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 as a special revenue 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, 2012, the cumulative expenditures incurred exceeded the committed 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. The September 2012 loan and interest payment of \$83,632 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 and incorrectly recorded the Fund's principal and interest to another program. The total due from District's local fund is \$394,897.

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.

The District established an 86% allowance for deferred loans and amortized loans more than 120 days delinquent.

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

	<u>Loan Amount</u>	<u>Allowance</u>	<u>Net</u>
Deferred Loans	\$ 29,428,015	\$ (25,308,093)	\$ 4,119,922
Amortized Loans	13,549,519	(6,194,137)	7,355,382
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 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 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, 2012, the total amount owed to the District was \$2,629,812.

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 deferred revenue in the balance sheet. Deferred 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 29, 2013. 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 Special Revenue Fund (the Fund) as of and for the year ended September 30, 2012 and have issued our report thereon dated March 29, 2013. 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, 2012 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 the Fund's 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 the Fund's 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, 2011-2, 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 finding 2012-3 to be a significant deficiency.

2012-1 Collection of Outstanding Receivable

In 2010, the District recorded expenditures of another loan program totaling \$348,863 to the Fund, which resulted in a receivable being recorded in the financial statements. At September 30, 2012, the receivable was still outstanding.

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

Management's Response: Management will review the transaction, and will mitigate the finding accordingly.

2012-2 Deferred Loans Allowance Methodology Supporting Documentation

The District changed its deferred loans allowance methodology in the 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.

Recommendation: We recommend that 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: Management will reevaluate its deferred loan portfolio and allowance methodology to ensure that the estimates are reasonable.

2012-3 Loan Reclassifications

In reviewing the Fund's loan receivable schedule, a difference was identified between the net loans receivable and deferred revenue. The two accounts balance should agree.

According to GASB 33, for *revenue* recognition to occur on the modified accrual basis, the revenues should be available. "Available" means that the government has collected the revenues in the current period or expects to collect them soon enough after the end of the period to use them to pay liabilities of the current period. A significant adjusting entry was made to agree net loans receivable and deferred revenue account balances.

Recommendation: We recommend the District institute policy and procedures that addresses the reconciliation of the net loans receivable to deferred revenue.

Management's Response: Management will ensure that the net loans are reconciled to the deferred revenue account.

2012-4 Periodic Reconciliation of Loan Receivables

The District does not periodically reconcile during 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 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: Management will perform quarterly reconciliation of its accounting system loan records to its service provider loan records.

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. 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.

Bert Smith & Co.

March 29, 2013
Washington, D.C.