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**Letter Report: Responses to Specific Questions
Regarding the Department of Housing
and Community Development's Home Purchase
Assistance Program**

August 25, 2009



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The Honorable Vincent C. Gray
Chairman
Council of the District of Columbia
1350 Pennsylvania Avenue, NW, Suite 504
Washington, D.C. 20004

Letter Report: Responses to Specific Questions Regarding the Department of Housing and Community Development's Home Purchase Assistance Program

Dear Chairman Gray:

Pursuant to your November 20, 2008 request, and in accordance with section 455 of Pub. L. No. 93-198,¹ the District of Columbia Auditor (Auditor) conducted an examination of the Home Purchase Assistance Program (HPAP).

OBJECTIVES, SCOPE, AND METHODOLOGY

This letter report presents the Office of the District of Columbia Auditor's responses to the specific questions raised in your November 20, 2008 letter.² The objectives of the examination, as requested, were to include a delineation of the following:

¹ See section 455 (b) of the District of Columbia Home Rule Act, approved December 24, 1973 (Pub. L. No. 93-198, 87 Stat. 803); D.C. Code §1-204.55 (b) (2001) which states: "The District of Columbia Auditor shall each year conduct a thorough audit of the accounts and operations of the government of the District in accordance with such principles and procedures and under such rules and regulations as he [she] may prescribe." See also, section 455 (c) of the District of Columbia Home Rule Act, as amended, approved December 24, 1973, (87 Stat. 803, D.C. Code §1-204.55 (c) (2001) which states: "The District of Columbia Auditor shall have access to all books, accounts, records, reports, findings and all other papers, things, or property belonging to or in use by any department, agency, or other instrumentality of the District government and necessary to facilitate the audit."

² See letter dated November 20, 2008, from Chairman, Council of the District of Columbia regarding the Home Purchase Assistance Program.

1. The expenditures from HPAP in both Fiscal Year 2008 and Fiscal Year 2009, to date;
2. The expenditures and performance measures from the \$8 million contract with the Urban League and whether the Urban League met their legal obligations under the contract;
3. The number of people served by HPAP in Fiscal Year 2008 and Fiscal Year 2009, to date;
4. How many persons are at each stage of the HPAP process, and the capacity for the program for the remainder of Fiscal Year 2009 at both a \$34,299,000 and \$23,299,000 budget;
5. Why the Urban League decided to ignore the directive of the Department of Housing and Community Development (DHCD) and block HPAP participants with approved purchase contracts from proceeding to closing and settlement; and
6. The impact of this decision on HPAP participants with approved purchase contracts.

The examination covered the period from October 1, 2007 to November 17, 2008.

The Auditor's analysis was based upon HPAP participant, budget, grant agreement, and expenditure data provided by DHCD and the Greater Washington Urban League (Urban League). Additionally, the Auditor conducted interviews with current and former key DHCD and Urban League officials.

The Auditor is continuing a review of HPAP to determine whether:

1. HPAP policies, procedures, and practices utilized by DHCD and the Urban League complied with applicable rules, regulations, and laws;
2. HPAP expenditures in Fiscal Years 2008 and 2009 complied with applicable rules, regulations, and laws; and
3. The Urban League's performance under their Fiscal Year 2008 and Fiscal Year 2009 grants complied with applicable rules, regulations, and laws.

The findings and recommendations from this further examination will be contained in a separate report.

The Auditor conducted this examination in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the examination to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our examination objectives. The Auditor believes that the evidence obtained provides a reasonable basis for our findings and conclusions based on the examination objectives.

BACKGROUND

HPAP provides homeownership opportunities to District of Columbia residents and employees through interest-free and low-interest loans. The HPAP budget supports all of the following sub-programs:

- **Home Purchase Assistance Program (HPAP):** HPAP is described in 14 DCMR Chapter 25 as a program to provide financial assistance through deferred payment loans

to enable lower- and moderate-income residents of the District to purchase decent, safe, and sanitary homes. According to DHCD regulations, eligible applicants who obtained approved home purchase contracts by November 14, 2008 could receive up to \$70,000 in HPAP loans and up to \$7,000 in closing cost assistance. All new and existing eligible applicants who obtained approved home purchase contracts after November 14, 2008 may receive up to \$40,000 in HPAP loans and up to \$4,000 in closing cost assistance.

- **Employer-Assisted Housing Program (EAHP) and Metropolitan Police Housing Assistance Program (MPHAP):** EAHP and MPHAP are described in 14 DCMR Chapter 36 as programs to provide financial assistance to District of Columbia government employees to purchase decent, safe, and sanitary homes through down payment matching funds and/or a deferred payment loan. EAHP and MPHAP loans may not exceed \$10,000. EAHP and MPHAP grants, which employees do not pay back, provide \$500 for every \$2,500 saved by the employee, up to \$1,500.
- **EAHP/HPAP Combo:** DHCD issues EAHP/HPAP Combo loans when a District of Columbia government employee also meets the income eligibility limits for a HPAP loan. Eligible applicants who obtained approved home purchase contracts by November 14, 2008 could receive up to \$80,000 in EAHP/HPAP Combo loans and up to \$7,000 in closing cost assistance. All new and existing eligible applicants who obtained approved home purchase contracts after November 14, 2008 may receive up to \$50,000 in EAHP/HPAP Combo loans and up to \$4,000 in closing cost assistance. The EAHP/HPAP Combo program also provides grants of \$500 for every \$2,500 saved by the employee, up to \$1,500.
- **Home Purchase Assistance Step Up Program:** The Home Purchase Assistance Step Up Program, as described in 14 DCMR Chapter 37, provides one-time financial assistance of up to \$10,000 for residents of the District of Columbia who own a home purchased with assistance from one of the District's home purchase assistance programs, but wish to purchase a new home in the District that is larger or otherwise more appropriate for their households. This program was not utilized in Fiscal Years 2008 and 2009.

The FY09 approved budget for HPAP was \$34,299,000 and 7 FTEs. Of this, \$19 million was new local funds. As of November 10, 2008, the District's CFO reported that DHCD had encumbered \$8 million of HPAP's \$19 million in new local funds. DHCD had awarded this \$8 million to the Urban League under a grant to manage HPAP for the first three months of Fiscal Year 2009, October 1, 2008 through December 31, 2008. On November 10, 2008, the Council of the District of Columbia froze the unencumbered \$11 million in new local HPAP funds.

On November 14, 2008, the Director of DHCD directed the Urban League to proceed to closing and settlement for participants with approved home purchase contracts as of November 14, 2008. However, DHCD instructed the Urban League to discontinue all other operations, such as application processing, issuance of Notices of Eligibility, and approval of purchase contracts, as of November 17, 2008.

Eligible applicants who had obtained approved home purchase contracts by November 14, 2008 received up to \$77,000 in financial assistance based upon household income, need, the availability of funds, and prevailing trends in the real estate market. As a result of the HPAP Temporary Act of 2009, enacted by the Council of the District of Columbia in January 2009, all new and existing applicants who had not obtained an approved home purchase contract by November 14, 2008 can receive up to \$44,000 in financial assistance.

The following sections provide detailed results of the Auditor's examination of HPAP.

RESULTS OF THE AUDITOR'S EXAMINATION

QUESTION 1: THE EXPENDITURES FROM HPAP IN BOTH FISCAL YEARS 2008 AND 2009, TO DATE.

AUDITOR'S RESPONSE: Table I on page 7 details HPAP expenditures for Fiscal Years 2008 and 2009, through November 30, 2008. The bulk of DHCD's expenditures were reimbursements to the Urban League for HPAP loans and administrative costs. These totals also include advances that DHCD made to the Urban League at the beginning of Fiscal Years 2008 and 2009 to provide start-up funding to avoid an interruption in operations.

The Auditor found that DHCD made several payments to the Urban League for HPAP expenses using funding from an inappropriate program account. DHCD made these payments to the Urban League in October 2008 for services rendered in Fiscal Year 2008. DHCD used the Development Finance Division (DFD) Project Financing program account³ rather than the HPAP program account for the following payments, totaling \$2,059,366.70:

- \$63,446.51
- \$264,521.10
- \$573,666.86
- \$154,868.98
- \$173,989.60
- \$208,424.68
- \$233,908.27
- \$386,540.70

³ As stated on DHCD's website, "DHCD's Development Finance Division provides funding to assist the development of community and commercial facilities that serve District of Columbia neighborhoods. These facilities include community office buildings, clinics, day care centers and recreation centers."

Table I
DHCD HPAP Expenditures for Fiscal Years 2008 and 2009,
through November 30, 2008

Month	Payments to Urban League for HPAP Loans & Admin Costs ⁴	Payments to Amerinational Community Service (HPAP Loan Servicer)	Payments to Mi Casa, Inc.	Payments to Jubilee Housing, Inc.	Banking Fees paid to the Independence Fed Savings Bank by the Treasury	Payroll Expenses	D.C. Metro Expenses	Reclassification of Funds	Total
Fiscal Year 2008									
1-Oct	\$3,409,128	\$203,379	\$0	\$0	\$0	\$69,789	\$25	\$0	\$3,682,321
2-Nov	\$5,995,838	\$0	\$0	\$0	\$0	\$73,195	\$0	\$0	\$6,069,032
3-Dec	\$2,006,774	\$0	\$0	\$0	\$0	\$116,300	\$0	\$0	\$2,123,073
4-Jan	\$3,791,317	\$65,813	\$0	\$0	\$0	\$74,477	\$0	\$0	\$3,931,606
5-Feb	\$1,759,339	\$0	\$0	\$0	\$0	\$74,741	\$0	\$0	\$1,834,080
6-Mar	\$1,454,849	\$194,858	\$0	\$0	\$0	\$48,115	\$0	\$0	\$1,697,822
7-Apr	\$3,760,869	\$0	\$0	\$0	\$0	\$49,021	\$0	\$0	\$3,809,890
8-May	\$1,243,598	\$43,720	\$0	\$0	\$0	\$48,329	\$250	\$0	\$1,335,897
9-Jun	\$1,804,424	\$0	\$0	\$0	\$0	\$47,730	(\$75)	\$0	\$1,852,079
10-Jul	\$1,613,383	\$102,941	\$0	\$0	\$0	\$72,913	\$0	\$0	\$1,789,237
11-Aug	\$4,351,809	\$20,500	\$0	\$0	\$0	\$47,659	\$0	\$0	\$4,419,968
12-Sep	\$218,177	\$22,148	\$0	\$0	\$72,819	\$54,230	\$175	(\$1,798,796)	(\$1,431,247)
FY2008	\$31,409,505	\$653,359	\$0	\$0	\$72,819	\$776,496	\$375	(\$1,798,796)	\$31,113,758
Fiscal Year 2009									
1-Oct	\$2,294,782 ⁵	\$158,215	\$107,033	\$222,495	\$0	\$80,046	\$50	\$0	\$803,254
2-Nov	\$2,567,142	\$0	\$0	\$0	\$0	\$37,461	\$50	\$0	\$2,604,653
FY2009	\$4,861,924	\$158,215	\$107,033	\$222,495	\$0	\$117,507	\$100	\$0	\$3,407,907

⁴ In Fiscal Years 2007 and 2008, the Urban League did not spend all of the advance funds and sent a refund check of the unspent funds to DHCD several months after the end of the Fiscal Year. The Fiscal Year 2007 unspent advance totaled \$1,256,974.62 and appeared in DHCD's accounts on March 20, 2008. The Fiscal Year 2008 unspent advance totaled \$794,264.73 and appeared in DHCD's accounts on January 2, 2009. DHCD deposited most of these funds into the HPAP Repay account.

⁵ This total includes the \$2,059,366.70 paid from the DFD Project Financing program account.

QUESTION 2: THE EXPENDITURES AND PERFORMANCE MEASURES FROM THE \$8 MILLION CONTRACT WITH THE URBAN LEAGUE AND WHETHER THE URBAN LEAGUE MET THEIR LEGAL OBLIGATIONS UNDER THE CONTRACT.

AUDITOR'S RESPONSE: The Auditor's examination found that DHCD awarded an \$8 million grant, rather than a contract, to the Urban League for the period of October 1, 2008 through December 31, 2008. On December 5, 2008, DHCD extended the Urban League's grant agreement to January 31, 2009.

Table II details DHCD's expenditures to the Urban League for the \$8 million grant for Fiscal Year 2009, through December 31, 2008. DHCD had additional expenditures to the Urban League in October 2008, however those expenditures were for the Fiscal Year 2008 grant, not the \$8 million grant for Fiscal Year 2009. This accounts for the differences between Table I on page 7 and Table II below.

**Table II
DHCD Expenditures to the Urban League for the FY 2009 Grant,
through December 31, 2008**

Expenditure Date	HPAP Loans	Loan Advance	Administrative Advance	Total
30-Oct-08	\$231,806.23			\$231,806.23
10-Nov-08		\$2,000,000.00		\$2,000,000.00
10-Nov-08	\$127,920.20			\$127,920.20
10-Nov-08	\$439,222.11			\$439,222.11
01-Dec-08	\$224,761.94			\$224,761.94
01-Dec-08	\$656,393.10			\$656,393.10
12-Dec-08	\$96,032.09			\$96,032.09
12-Dec-08	\$266,771.67			\$266,771.67
12-Dec-08		\$1,350,000.00	\$150,000.00	\$1,500,000.00
12-Dec-08	\$942,068.28			\$942,068.28
Total	\$2,984,975.62	\$3,350,000.00	\$150,000.00	\$6,581,822.79

The loan advances made to the Urban League on November 10, 2008 and December 12, 2008 were issued in order “to allow continued and uninterrupted operations for the administration of the Home Purchase Assistance Program for fiscal year 2009.”⁶

The December 12, 2008 Administrative Advance totaling \$150,000 consisted of the following elements:

- \$ 100,000 - Personnel
- \$ 50,000 - Consultant & Contract Services

The Auditor found that the primary performance measure for the Urban League was a goal for the number of loans closed during each period of performance on the grant. For example, from October 1, 2008 through December 31, 2008, the Urban League had a goal of closing 125 loans. Through December 31, 2008, the Urban League closed 127 loans totaling \$6,242,301.85. When DHCD extended the grant until January 31, 2008, DHCD did not adjust the funding level or the goal, however, the Urban League closed 20 additional loans totaling \$1,004,798.93. In Fiscal Year 2008, the Urban League closed 508 loans totaling \$27,091,550.57 and met its goal of closing 500 loans.

The Urban League is also subject to the following program monitoring and quality assurance initiatives by DHCD and the Federal government:

Program monitoring performed by the DHCD HPAP Program Manager and Staff:

The HPAP Program Manager and staff monitor the Urban League’s administration of HPAP to ensure compliance with local and Federal rules and regulations. Prior to January 2009, DHCD’s HPAP Program Manager and staff monitored the Urban League’s HPAP operations twice per fiscal year. In January 2009, the DHCD Director instructed HPAP staff to begin monitoring the Urban League monthly. The Auditor found that

⁶ From an October 17, 2009 memorandum from Janice Blessingame to Donald Sink regarding the November 10, 2008 advance.

HPAP staff successfully monitored the Urban League's operations twice in Fiscal Year 2008. However, as of May 19, 2009, HPAP staff had not released a monitoring report for Fiscal Year 2009.

Program monitoring performed by DHCD's Office of Program Monitoring (OPM):

OPM also monitors the Urban League's administration of HPAP to ensure compliance with local and Federal rules and regulations. The OPM review is more in-depth than that of the HPAP Program Manager and staff. OPM monitors the Urban League's HPAP operations twice per fiscal year. The Auditor found that OPM successfully monitored the Urban League's operations twice in Fiscal Year 2008. As of May 19, 2009, OPM had not yet released a monitoring report for Fiscal Year 2009.

A-133 audits required by the Department of Housing and Urban Development: The United States Office of Management and Budget requires recipients of Federal grants, such as nonprofit organizations and state and local governments, to conduct annual A-133 audits. A-133 audits ensure that grant recipients maintain proper internal controls over Federally funded programs; comply with laws, regulations, and the provisions of contracts or grant agreements; prepare appropriate financial statements; document audit findings; and follow up and take corrective action on audit findings.

The Urban League hired an independent auditor to conduct an A-133 audit for their Federally funded programs.⁷ The Urban League's auditor released the most recent report on January 12, 2009 for Fiscal Year 2008. The independent auditor did not identify any material deficiencies in internal control over financial reporting.

⁷ The firm of Thompson, Cobb, Bazilio & Associates, PC performed the Urban League's A-133 Audit for Fiscal Year 2007

Financial statement audits: The same independent auditor also conducted the Urban League's financial statement audit. The Urban League's auditor released the most recent report on January 12, 2009 for Fiscal Year 2008. The independent auditor found no material deficiencies.

The Auditor found that the reports listed above cited several issues including the following operational concerns, some of which the Urban League has already corrected:

- Failure to promptly send letters to out-of-state applicants notifying them that they are not currently eligible for HPAP funds.
- Failure to follow federal procurement guidelines when hiring a consultant to assist program operations (The Urban League implemented the necessary corrective action).
- Failure to promptly forward all outstanding loan packages to DHCD.
- Occasional submission of inaccurate requisitions with missing documentation, causing delays in reimbursements.
- Occasional failure to include underwriting details in loan files.
- Occasional failure to maintain complete and accurate loan files.
- Failure to promptly submit a Cost Allocation Plan in Fiscal Years 2005, 2006, and 2007.

Despite these issues, and based upon the audits conducted by DHCD and independent auditors, it appears that the Urban League met the obligations of their grant. There is no evidence that the Urban League violated District of Columbia or Federal laws, rules, or regulations relevant to HPAP.

QUESTION 3: THE NUMBER OF PEOPLE SERVED BY HPAP IN FISCAL YEAR 2008 AND FISCAL YEAR 2009, TO DATE.

AUDITOR’S RESPONSE: The Auditor found that DHCD provided the following housing purchase assistance loans in Fiscal Year 2008 and Fiscal Year 2009, through November 17, 2008:

**Table III
Applicants Served by HPAP**

	HPAP	EAHP	MPHAP	EAHP/HPAP Combo	Step Up Program	Total Loans
FY08	423	21	5	59	0	508
FY09 through 11/17/2008	38	7	2	9	0	56

QUESTION 4: HOW MANY PERSONS ARE AT EACH STAGE OF THE HPAP PROCESS, AND THE CAPACITY FOR THE PROGRAM FOR THE REMAINDER OF FISCAL YEAR 2009 AT BOTH A \$34,299,000 AND \$23,299,000 BUDGET.

AUDITOR’S RESPONSE: The HPAP loan process is intensive and includes many steps. The following is an overview of the process:

- HPAP applicants go to one of six Community Based Organizations and complete an application package.
- The Community Based Organization then sends the application to the Urban League for processing.
- The Urban League reviews the application and assesses the applicant’s income in order to determine the maximum amount of assistance needed by the applicant.
- If the application is complete and meets HPAP criteria, the Urban League issues a Notice of Eligibility (NOE) to the applicant. This letter includes a limit on the amount of

assistance for which the applicant is eligible, the maximum amount they may spend on a property, and instructions for the applicant on the required next steps.

- The applicant must then attend a counseling session on homeownership.
- The applicant searches for a home and if successful, enters into a purchase contract.
- The applicant forwards their purchase contract to the Urban League for approval.
- If approved, the applicant arranges for a home inspection and submits a completed inspection form to the Urban League. Once completed, the Urban League sends another housing quality inspector to examine the property for a second time.
- The applicant's primary lender then sends the complete lending package to the Urban League's closing and underwriting divisions for processing.
- The Urban League completes the loan and the applicant is typically able to go to settlement in about 72 hours.
- The Urban League finalizes the loan amount at settlement in order to protect the borrower from predatory lending practices by the primary lender.⁸

The Auditor's examination found that as of May 4, 2009:

- 127 people received a Notice of Eligibility from the Urban League and have approved purchase contracts pending settlement.
- 272 people received a Notice of Eligibility from the Urban League but have not obtained an approved purchase contract.
- 57 people submitted HPAP applications and are awaiting a response from the Urban League on eligibility.

To determine the capacity of the program, the Auditor examined the prevalence and maximum amount of each loan type. This information is presented in Table IV.

⁸ Janice Blassingame and Rhonda Willingham of DHCD and Kimberly Henderson of the Urban League provided details of the HPAP loan process during interviews with the Auditor.

**Table IV
Prevalence and Amount of Different Loan Types and
Projected Number of Loans**

	HPAP	EAHP	MPHAP	EAHP/HPAP Combo	Step Up Program	Total
Prevalence of loans from 10/1/07 through 11/17/08	82%	5%	1%	12%	0%	-
Maximum loan amount of each loan type	\$44,000	\$11,500	\$11,500	\$55,500	\$10,000	-
Number of projected loans with \$34,299,000 budget	646	39	10	95	0	791
Amount of projected loans with \$34,299,000 budget	\$28,442,629	\$451,515	\$112,879	\$5,291,978	\$0	\$34,299,000
Number of projected loans with \$23,299,000 budget	439	27	7	65	0	537
Amount of projected loans with \$23,299,000 budget	\$19,320,820	\$306,710	\$76,677	\$3,594,793	\$0	\$23,299,000

Note: The Auditor used the maximum possible loan amount for these projections. If applicants are awarded less than the maximum amount, the number of loans could be greater.

Note: Minor discrepancies are due to rounding.

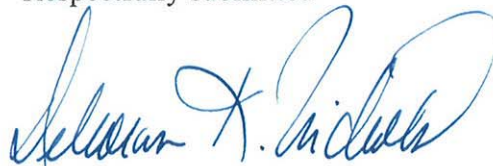
The program could issue at least 791 loans with a budget of \$34,299,000. The program could issue at least 537 loans with a budget of \$23,299,000.

QUESTIONS 5 AND 6: WHY THE URBAN LEAGUE DECIDED TO IGNORE THE DIRECTIVE OF DHCD AND BLOCK HPAP PARTICIPANTS WITH APPROVED PURCHASE CONTRACTS FROM PROCEEDING TO CLOSING AND SETTLEMENT. WHAT WAS THE IMPACT OF THIS DECISION ON HPAP PARTICIPANTS WITH APPROVED PURCHASE CONTRACTS?

AUDITOR'S RESPONSE: The Auditor found that the Urban League did not block HPAP participants with approved purchase contracts from proceeding to closing and settlement. Many HPAP participants incorrectly assumed that the issuance of the Notice of Eligibility guaranteed HPAP funding. However, the Notice of Eligibility clearly states that the loan is contingent upon the availability of funds from the government of the District of Columbia. Also, the letter

indicates that the final amount of the loan will not be determined until the participant has been approved for their primary (first trust) mortgage. The Urban League followed the DHCD directive⁹ and processed loans for HPAP participants with approved purchase contracts as of November 17, 2008.

Respectfully submitted



Deborah K. Nichols
District of Columbia Auditor

⁹ See letter dated November 14, 2008, from Leila Finucane Edmonds, DHCD Director, to Maudine Cooper, President and CEO of the Greater Washington Urban League, regarding the discontinuation of HPAP application processing.