



*Date:* December 5, 2008  
*To:* Mitchell Johnson, City Manager  
*From:* Internal Audit Division  
*Subject:* R.S. King Limited Partnership

The Internal Audit Division has completed our annual review of The R.S. King Limited Partnership in conjunction with a Programmatic Review by the Housing & Community Development Department for the 2006-2007 grant year. Attached you will find our review report; the agency response; the departmental response and our replies to their responses. We feel that sufficient corrective actions have been implemented to our recommendations as we move forward. If you have any questions or need additional information, please let us know. Thanks.

A handwritten signature in black ink, appearing to read 'Len Lucas'.

Len Lucas  
Internal Audit Director

Cc: Bob Morgan, Deputy City Manager  
Jim Westmoreland, Acting Assistant City Manager for Economic Development  
Andy Scott, Director of Housing & Community Development



# City of Greensboro

Date: September 11, 2008  
To: Andy Scott, Director of Housing & Community Development  
From: Internal Audit Division  
Subject: R. S. King Apartments Limited Partnership 2006-2007

The Internal Audit Division has performed our compliance review of the year ended December 31, 2007 of R. S. King Apartment Limited Partnerships. This property received a loan provided by the City of Greensboro in the amount of \$758,170, which is non-interest bearing to help in the rehabilitation of 24 apartments located at 1004 through 1028 John Dimrey Drive. These apartments are designed as transitional housing for homeless individuals or families to achieve independent living within 24 months or within a longer period, determined by HUD, as necessary to facilitate the transition. There was also a purchase money note from the Redevelopment Commission of Greensboro in the amount of \$24,000. These apartments are being managed by Wynnefield Properties, Inc.

The City's loan is due to be repaid on an annual basis beginning on July 1, 1997 and continuing each July 1<sup>st</sup> thereafter. The payment is based on 50% of gross receipts after deducting all normal and reasonable operating and capital expenses actually incurred by R. S. King Apartments. There are no payments due on the mortgage as of December 31, 2007 which had a balance of \$781,939 as of this date. The balance on the City loan is due in full on December 1, 2025 along with the Purchase Money Note of \$24,000.

We accompanied Mr. Jim Teele, Housing Rehabilitation Specialist of the Department of Housing & Community Development, as he inspected approximately 15 percent of the units and some repairs were noted for the property. These issues were given to the Property Director after the inspection to address before they escalate into costly problems.

We examined selected financial transactions maintained by the entity for compliance with the loan agreements. Based on our review, it appears that the funds have been spent according to the terms of the loan agreements except for the findings described below:

**FINDING:**

In regards to the Partnership's audited financials for fiscal year ended December 31, 2006, we need to point out the following findings:

The working capital/Restricted Asset/Liabilities at 2007 was a negative (\$33,420) versus (\$25,749) for 2006.

**RECOMMENDATION:**

The Partnership should notify the City on its plans to improve their working capital financial position.

**FINDING:**

The Partnership per the City Loan Agreement was required to place \$4,400 per annum in the Replacement Reserve account for 2007 but actually only placed \$4,224.

**RECOMMENDATION:**

The Partnership should contribute the correct amount to the Replacement Reserve annually as required by the loan agreement.

We request a written and signed response from Wynnefield Management, Inc. and HCD which should be received by September 25, 2008 and mailed to the Internal Audit Division at address, P. O. Box 3136, Greensboro, NC 27401.

We would like to thank Ms. Denise Lockhart Regional Property Manager; Mr. Donald Friend, Regional Maintenance Manager; Mr. Jim Blakely, Director of Property Management and Ms. Joanie Duley, Corporate Management of Wynnefield Properties, Inc. for their courtesy and cooperation shown to us during this visit. If there are any questions or comments concerning the details of this visit, we can be reached at 373-2821.



Mickey Kerans  
Internal Auditor



Len Lucas  
Internal Audit Director

Cc: Bob Moran, Deputy City Manager  
Jim Westmoreland, Acting Assistant Manager for Economic Development  
I. Norwood Stone, President of Wynnefield Properties, Incorporated



**Date:** September 10, 2008  
**To:** Norwood Stone, Wynnefield Properties  
**From:** Michael Blair, City of Greensboro HCD  
**RE:** FY07/08 RS King Apartments Programmatic Evaluation

On August 13, 2008 HCD and Internal Audit (IA) staff conducted an on-site monitoring visit of the Raymond S. King Apartments. Wynnefield Properties Inc. manages the property and in this capacity is responsible to the City of Greensboro Department of Housing and Community Development for HOME Program and contractual compliance.

The purpose of the monitoring review is to determine whether the property is meeting applicable HOME Program and contractual requirements.

The period under review, along with current conditions, was from July 1, 2006 to June 30, 2007. In addition to examining various program materials, a physical inspection, and financial files, in the course of the review HCD and IA staff met with Ms. Denise Lockhart, Regional Property Manager, Mr. Jim Blakely, Director of Property Management, Mr. Donald Friend, Regional Maintenance Manager and Ms. Joanie Duley, Corporate Manager of Wynnefield Properties.

The property is located at 1004-1028 John Dimrey Dr., Greensboro, NC and was rehabilitated in 1995 with \$378,694 in Federal HOME dollars and \$363,750 in Community Development Block Grant funds. LIHTC funds provided by the NCHFA were also utilized. This resulted in 23 two-bedroom transitional housing units (and one administrative unit) to provide appropriate housing with supportive services for homeless persons, with a purpose of facilitating the movement of residents to independent living within 24 months, or a longer period approved by HCD if necessary.

According to the December 1995 agreement 100% of the units would be affordable (Monthly Housing Expense – Rent plus Utilities) to tenants at 40% of the AMI for a two person household (\$18,000) which is \$450/month.

Guilford AMFI 4 person:	\$56,100	
Guilford AMFI 2 person:	\$44,900	( $\$56,100 \times .8 = \$44,880$ rounded to nearest \$50 which is \$44,900)
Guilford County 40% AMFI:	\$18,000	( $\$44,900 \times .4 = \$17,960$ rounded to nearest \$50 which is \$18,000)

Rents for all eligible units in the complex fell below this figure according to file documentation and rent rolls; they are \$345/month with a \$97.30/month utility expectation (2007). The total housing cost is (with the 2007 UA) \$442.30/month. This meets temporarily the contractual requirements of rents being affordable to those at 40% of the AMI (\$450/month rent plus utilities).

	Rent	2007 Utility	Total Rent + UA
RS King	\$345	\$97.30	\$442.30

The most recent available utility allowance is \$97.30 from February 15, 2007. The utility estimates should be **updated and provided to HCD staff for approval by September 30, 2008.**

Resident incomes appear to be certified annually according to the HCD file review. The tenant files reviewed were in good condition and contained required back-up documentation.

Occupancy at the time of the site visit was 78% (see finding below). The reported occupancy from July 1, 2007 through August 13, 2008 was 89.7%. This was calculated with the vacancy report provide by management. This is better than the April 2008 area occupancy rate of around 83%. While it is better than the area average 89.7% is not a recommended occupancy rate.

Section 8 housing vouchers are accepted however none of the tenants are reported to be supported by these vouchers.

Wynnefield Properties has a fair marketing plan that meets the City Affirmative Marketing Requirements. The Tenant Selection Policy is understandable.

HCD staff inspected four (4) units on August 13, 2008 and reported certain minor deficiencies that need attention in all of the units. The grounds were in overall good condition and the buildings were as well except for gutters and downspouts. Please refer to the inspection report for details.

As a result of this review HCD staff is making zero (0) findings and two (2) concerns and one (1) observation. A *finding* is defined by HCD as a project element that does not comply with a local, federal, or contractual, rule or regulation whereas a *concern* is either a potential finding or management weakness that should be improved to avoid future problems. An *observation* can be either a positive comment about the agency, a clarification of policy interpretation, or a suggestion that may improve a service or element of operations.

#### Concern 1 – Occupancy

The occupancy was 78% at the time of the visit which is very low for the property. The 2007 economic occupancy (gross rent received divided by total possible rent) was 89.7% which is still just below 90%.

The HCD calculated occupancy from July 1, 2007 through August 13, 2008 was 89.7%. This number is calculated from the move in move out report and does not take into account rent collected or lost through vacancy.

#### Requested Action

HCD requests a written reply to this concern **by October 10, 2008** that explains the low occupancy and management's plans to improve occupancy.

Concern 2 – Average Vacancy Turnaround

The HCD calculated vacancy turnaround time from July 1, 2007 through August 13, 2008 is 71 days.

Requested Action

To include in the reply to concern #1 the reason for this high average. HCD staff understands that RS King is a transitional property with management difficulties that differ from traditional affordable housing developments however 71 days is a high average nonetheless and exceeds all published desirable averages.

Of note - units 1028-E (314 days) and 1028-M (101 days) both exceeded 100 days vacant which suggests that they may have been off-line for rehabilitation or significant repair. This was again calculated from the move-in move-out report provided to staff.

Observation - Tenant Files

The tenant files reviewed were in good condition and income certifications and inspections were current and all were signed by both management and the tenant.

Requested Action

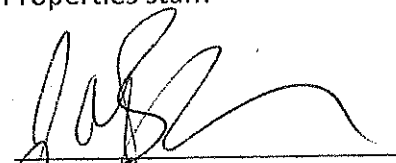
None. It was a noticeable improvement from the last file review and appreciated by HCD.

HCD staff requests that management review the Internal Audit report and reply to it as requested. The draft Internal Audit report is dated August 20, 2008.

The concerns in this review, in our view, do not reflect negatively on property management staff and their work ensuring continued affordability compliance. The intent of the first concern is to encourage higher occupancy. The intent of the second concern is to make management aware of above average vacancy turnaround times. The intent of the observation is to acknowledge much improved tenant file maintenance.

It is HCD staff opinion that the RS King Apartments are contractually compliant concerning affordability requirements when using the 2007 utility estimate but the UA needs to be updated by September 30, 2008. Once the utility allowance is updated HCD staff will determine 2008 affordability compliance.

HCD staff appreciates the assistance provided during the monitoring visit by Wynnefield Properties staff.



Michael Blair  
Specialist Grants Compliance



Andy Scott  
Director HCD

City of Greensboro  
North Carolina

September 26, 2008

Mr. Bill Cashatt  
Controller  
Wynnefield Properties  
5614 Riverdale Road  
Jamestown, NC 27282

Re: R. S. King Apartments-2006-2007

Dear Bill:

Thank you for your response dated September 24, 2008 in reference to the R. S. King Apartments review for 2006-200 per our letter of September 11, 2008. We are in agreement with your procedures to improve R. S. King's working capital financial position. We are in receipt of the copy of your check dated 9/24/08 in the amount of \$176.00 which complete the total contribution to your RSK Reserve for 2007.

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If you should have any questions, please let us know at telephone number 373-2821.

Sincerely,



Mickey Kerans  
Internal Auditor



Len Lucas  
Internal Audit Director

Cc: Bob Morgan, Deputy City Manager  
Jim Westmoreland, Acting Assistant Manager for Economic Development  
Andy Scott, Director of Housing & Community Development

R-9/24/08

**Wynnefield Properties**

5614 Riverdale Dr. Jamestown NC, 27282 Phone: 336-454-6134 Fax: 336-454-6226

September 24, 2008

Mickey Kerans  
Internal Auditor  
City Of Greensboro  
P.O. Box 3136  
Greensboro, NC 27402

RE: Raymond S. King Apartments Limited Partnership Audit, 2008

Dear Mickey,


In reference to your letter dated September 11, 2008, I am responding to your findings.

**Finding #1:** As the property continues to increase the Occupancy and the collections, we anticipate that the working capital will improve the financial position at Raymond S. King. This is being accomplished with continuing the Marketing Flyer campaign, involvement in the community, utilizing the Greensboro Housing Coalition, and continued correspondence with the local PHA.

**Finding #2:** Please see the attached copy of the re-imbursement check for the amount of \$176.00 for the \$4,400.00 per annum full contribution to the Replacement Reserve at RS King.

Should any further questions arise, please feel free to contact me.

Respectfully Submitted,



Bill Cashatt  
CFO, Wynnefield Properties  
336-454-6134, xt. 23

cc: Joanie Duley  
Jim Blakeley  
Norwood Stone



Raymond S. King Apartments  
General Fund Checking

P.O. Box 566  
Jamestown, NC 27282  
336-454-6134

Carolina Bank  
Greensboro, NC

2270

66-7401  
531

9/24/2008

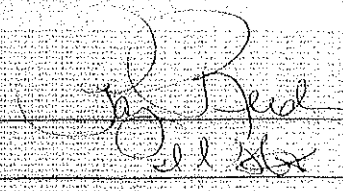
Pay to the  
Order of

RSK RESERVE

\$176.00

One Hundred Seventy-Six and 00/100 \*\*\*\*\* DOLLARS

RSK RESERVE



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Raymond S. King Apartments General Fund Checking

2270

RSK RESERVE  
1320 Reserve for Replacement -

9/24/2008

176.00

Operating Fund

176.00

Raymond S. King Apartments General Fund Checking

2270

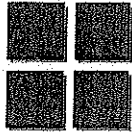
RSK RESERVE  
1320 Reserve for Replacement -

9/24/2008

176.00

Operating Fund


176.00



# HCD

Department of Housing & Community Development

## MEMO

**Date:** November 25, 2008  
**To:** Len Lucas, Internal Audit Director  
**From:**  Michael Blair, Specialist Grants Compliance  
**RE:** HCD Review of the RS King Audit Report

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After review of the Internal Audit report of the R. S. King Apartment Limited Partnerships, for 2006-2007, HCD submits the following:

### IA Finding 1:

In regards to the Partnership's audited financials for fiscal year ended December 31, 2006, we need to point out the following findings:

- a. The working capital at 2007 decreased by (\$8,660) to (\$41,944) from 2006.
- b. The Management fees for 2007 and 2006 were 13% of the total gross income. However, per the loan agreement, Management Fees are limited to 10% of the gross income.

### IA Recommendation 1:

The Partnership should notify the City on its plans to improve their working capital financial position.

- HCD reply to Finding/Recommendation 1: Concur.

### IA Finding 2:

The Partnership per the City Loan Agreement was required to place \$4,400 per annum in the Replacement Reserve account for 2007 but actually only placed \$4,224.

### IA Recommendation 2:

The Partnership should contribute the correct amount to the Replacement Reserve annually as required by the loan agreement.

- HCD reply to Finding/Recommendation 2: Concur.



*Date:* December 2, 2008  
*To:* Andy Scott, Director of Housing & Community Development  
*From:* Internal Audit Division  
*Subject:* HCD Reply to IA Report-R. S. King 2006-2007

Thank you for your response of November 25, 2008 regarding Internal Audit's report for R. S. King covering period 2006-2007. Internal Audit agrees with Housing & Community Development's response to IA' subject report dated September 11, 2008.

A handwritten signature in black ink, appearing to read 'M. Kerans'.

Mickey Kerans  
Internal Auditor

A handwritten signature in black ink, appearing to read 'L. Lucas'.

Len Lucas  
Internal Audit Director

Cc: Bob Morgan, Deputy City Manager  
Jim Westmoreland, Acting Assistant City Manager for Economic Development