



*Date:* December 5, 2008  
*To:* Mitchell Johnson, City Manager  
*From:* Internal Audit Division  
*Subject:* Richardson Hospital Limited Partnership

The Internal Audit Division has completed our annual review of The Richardson Hospital 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', with a long horizontal flourish extending to the right.

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: July 14, 2008  
To: Andy Scott, Director of Housing & Community Development  
From: Internal Audit Division  
Subject: Richardson Hospital Limited Partnership 2006-2007

The Internal Audit Division has performed our compliance review of the year ended December 31, 2007 of Richardson Hospital Limited Partnership. This property received a loan provided by the City of Greensboro in support of Affordable Housing in Greensboro and is managed by Beacon Management Corporation.

**RICHARDSON HOSPITAL APARTMENTS** are comprised of 32 units located at 603 South Benbow Road. The City provided a loan to help in the acquisition and rehabilitation in the amount of \$150,000 on March 14, 2002. This loan bears interest at one-half (1/2%) percent per annum and is to be repaid to the City based upon a percentage of cash flow which starts on the first day of May 2025, and continuing on each May 1 thereafter. This loan is due in full May 1, 2044. No payments are due at this time. The current balance and accrued interest is \$154,348.

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 have been forwarded to the Property Director 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:**

The Partnerships' Management Letter for year ended December 31, 2007 was due to the City on March 31, 2008, however, we did not receive the letter until June 18, 2008.

**RECOMMENDATION:**

The Management Letter of the Partnership is due within 90 days of their fiscal year end. The Partnership should make every effort to provide the letter to the City within the due date.

**FINDING:**

The Partnership has overfunded the Replacement Reserve by \$26,612 as of fiscal year ended December 31, 2007.

**RECOMMENDATION:**

As per the City's Loan Agreement, the Partnership should maintain the correct reserve balances at all times.

We request a written signed response from Beacon Management Corporation and the department of Housing & Community Development which should be received by July 28, 2008 and mailed to the City of Greensboro, Internal Audit Division, P. O. Box 3136, Greensboro, NC 27401.

We would like to thank Ms. Ann Costner, On-Site Manager; Ms. Cathy Mitchell, Regional Asset Manager and the staff of Beacon Management Corporation 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 Morgan, Deputy City Manager  
George Carr, President of Beacon Management Corporation



RECEIVED  
JUL 15 2008  
BEACON MGMT.

ROUTING	
Original	<input type="checkbox"/> <u>RH Mgmt Review</u>
CC:	<input type="checkbox"/> <u>RH</u>
CC:	<input type="checkbox"/> <u>CM</u>
CC:	<input type="checkbox"/> <u>GEC</u>

Date: July 8, 2008  
To: George Carr, Beacon Management  
From: Michael Blair, City of Greensboro HCD  
RE: FY08/09 Richardson Hospital Programmatic Evaluation

On June 18, 2008 HCD and Internal Audit (IA) staff conducted an on-site monitoring visit of L. Richardson Hospital Apartments. Beacon Management Corporation manages the property and in this capacity is responsible to the City of Greensboro Department of Housing and Community Development for contractual compliance.

The purpose of the monitoring visit is to determine whether the property is meeting applicable program and contractual requirements. In this monitoring review attention was paid to contract compliance along with financial management systems, a review of tenant files, and occupancy.

The period under review, along with current conditions, was from July 1, 2007 to June 30, 2008. In addition to examining various program materials, a physical inspection and reviewing financial files, in the course of the review HCD and IA staff met with Ms. Ann Costner, On-Site Manager of Richardson Hospital and Ms. Cathy Mitchell, Regional Asset Manager.

For reference purposes the property is located at 603 S. Benbow Road in Greensboro, NC. The property was rehabilitated in 2002 with a combination of private, City of Greensboro and North Carolina Housing Finance Agency dollars (NCHFA). City funding consisted of \$150,000 of federal Section 108 (CDBG) funds and the NCHFA contributed \$280,026 in Low Income Housing Tax Credit dollars. Additional financing was provided by Carolina Bank (Wachovia), the Federal Home Loan Bank of Atlanta and Community Affordable Housing Equity Corporation (CAHEC).

The 32 units would be made affordable to individuals whose gross income is less than or equal to 60% of the area median income. Gross Rent would not exceed 30% of a qualified resident's income. Rents were \$426/m (\$60/m UA) for a 1/br unit and \$505/m (\$86/m UA) for 2/br units which significantly below this requirement.

Resident incomes are certified annually according to the NCFHA Rental Compliance Reporting System report and HCD file review. The four (4) tenant files reviewed were in very good condition and contained all required back-up documentation.

The reported occupancy has been 93.1% from July 2007 through May 2008. This is 6% higher than the April 2008 area occupancy rate of 87%.

Section 8 housing vouchers are accepted and twelve (12) tenants receive this assistance.

HCD staff inspected five (5) units on July 18, 2008 and reported certain minor deficiencies that need attention in three (3) of those units. The exterior grounds were in good condition however there is visible water damage in several places and the paint is in bad condition; the exterior windows are reported to be in poor condition and in need of replacement.

Please refer to the inspection report for details.

As a result of this review HCD staff is making one (1) finding and one (1) concern. 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.

#### Concern – Exterior Building Conditions

There is visible water damage on the exterior of the building and cracks and peeling paint on several sections of stucco.

#### Requested Action

This is the second consecutive year that external conditions have been cited as a concern. Management should address the above mentioned maintenance concern as soon as possible. The appearance of the property is approaching non-compliance with §4.6 of the agreement.

#### Observation – Management Letter

Internal Audit reports that the management letter that should accompany the annual external audit was submitted June 18, 2008. The management letter, or a letter from the CPA stating that there are no management concerns, should be submitted with the audit.

#### Requested Action

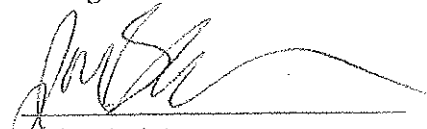
Management should attempt to submit to the City the management letter along with the annual external audit.

HCD staff requests that management review the Internal Audit report and respond as requested. The draft Internal Audit report is dated July 24, 2008.

The concern and observation in this review, in our view, do not reflect negatively on property management staff and their work ensuring continued affordability compliance. The intended outcome of the concern expressed in this case is for the listed conditions to be repaired. The observation is to heighten management awareness.

It is HCD staff opinion that L. Richardson Hospital Apartments is compliant with the agreement. The property is in good condition, other than those items noted in this report and the inspection report, and an exceptional housing option for qualified elderly ( $\geq 55$  years old) and disabled households.

HCD staff appreciates the assistance provided during the monitoring visit by Beacon Management staff.



Michael Blair  
Specialist Grants Compliance



Andy Scott  
Director HCD

BEACON MANAGEMENT CORPORATION  
408 BATTLEGROUND AVENUE  
GREENSBORO, NORTH CAROLINA 27401

OFFICE: (336) 545-9000  
FAX: (336) 545-9004

WWW.BEACON-NC.COM

July 18, 2008

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

RE: L. Richardson Hospital Limited Partnership  
Internal Audit Division Review as of 12/31/2007

Dear Mr. Kerans:

We have received your July 14, 2008 letter on the subject property and offer the following comments with respect to your listed findings:

Finding #1: 2007 Management Letter - Due 03/31/2008 but not received until 06/18/2008.

Response: Please know that it is this company's intention to offer compliance and cooperation in meeting all the loan terms and conditions established for various properties. Our auditor, however, has pointed out that he is not aware of any condition in the Richardson Hospital loan agreement or other documents that requires the issuance of a management letter as part of a fiscal year-end audit. Management letters are typically used when an independent auditor determines that an entity's internal controls have material flaws or major weaknesses. In as much as Richardson Hospital's controls were not found to contain major weaknesses and because the loan documents did not require the issuance of same, the auditor found no reason to prepare such a letter. The June 18<sup>th</sup> correspondence was written only after the city specifically requested that letter to be sent. Because of this we do not believe that this should have been a finding. In any event, we have instructed our CPA that in carrying out future audits, an accompanying letter should be prepared which either serves as a management letter or indicates that there are no management concerns sufficient to cause the issuance of a management letter.

MAILING ADDRESS:  
P.O. Box 29229  
GREENSBORO, NORTH CAROLINA 27429-9229

July 18, 2008  
Page Two

Finding #2: Replacement Reserve Account over funding by \$26,612.

Response: While our Reserve for Replacement account may appear to be over funded by \$26,612, we do not believe this to be the case. The official activation of a Reserve for Replacement account is tied to the placement of permanent financing on the property. The placement of Richardson Hospital's permanent financing was delayed for several reasons and due to the circumstances at that time, we did not feel it appropriate to delay making contributions to the Reserve for Replacement account. It was the prudent thing to do recognizing the property's long term capital needs. Please see Michael Blair's July 8<sup>th</sup> letter indicating that window repairs and exterior repainting are needed at Richardson Hospital. The over funded reserve account will need to be tapped for these expenses.

Thank you for your correspondence and please let us know if you should need any further information in regards to these matters.

Cordially,



George E. Carr III

cc: GEC file  
RH file  
Ann Costner, Richardson Hospital  
Cathy Mitchell  
Len Lucas, Director Internal Audit, City of Greensboro  
Andy Scott, Director HCD, City of Greensboro  
Doug Covington, CPA



# City of Greensboro

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

Thank you for your reply of November 25, 2008. Internal Audit agrees with Housing & Community Development's response to Internal Audit's subject report dated July 14, 2008.

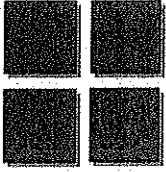


Mickey Kerans  
Internal Auditor



Len Lucas  
Internal Audit Director


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



# 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 L. Richardson Hospital Audit Report FY06/07

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After review of the Internal Audit report of the L. Richardson Hospital Limited Partnership, for FY2006-2007, HCD submits the following:

### IA FINDING 1:

The Partnerships' Management Letter for year ended December 31, 2007 was due to the City on March 31, 2008, however, we did not receive the letter until June 18, 2008.

### IA RECOMMENDATION 1:

The Management Letter of the Partnership is due within 90 days of their fiscal year end. The Partnership should make every effort to produce the letter to the City within the due date.

- HCD reply to Finding/Recommendation 1: Concur.

### IA FINDING 2:

The Partnership has overfunded the Replacement Reserve by \$26,612 as of fiscal year ended December 31, 2007.

### IA RECOMMENDATION 2:

As per the City's Loan Agreement, the Partnership should maintain the correct reserve balances at all times.

- HCD reply to Finding/Recommendation 2: Concur.