



Date: December 5, 2008
To: Mitchell Johnson, City Manager
From: Internal Audit Division
Subject: The Servant Center, Incorporated

The Internal Audit Division has completed our annual review of The Servant Center, Incorporated 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 stroke 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: October 27, 2008
To: Andy Scott, Director of Housing & Community Development
From: Internal Audit Division
Subject: The Servant Center, Incorporated -Servant House & Glenwood Housing 2006-2007

The Internal Audit Division has performed our compliance review of the year ended June 30, 2008 of The Servant Center, Incorporated.

The Servant House received a Grant in December 1998 of \$186,544 from the City of Greensboro to help in the rehabilitation of the Servant House located at 1305 Glenwood Avenue and 1312 Lexington Avenue. The Servant House provides housing accommodations for up to 25 individuals. These clients are usually homeless men that are disabled veterans. In addition to housing, these men are provided assistance for social services; job placement; veteran's benefits; and medical and dental care on a pro bono basis. Currently there are 17 residents at this facility. The current balance is \$186,544 and will be forgiven beginning in year 6 (December 15, 2005) at the rate of 20 percent per year, as long as the property is maintained as transitional housing for a period of 10 years. The Department of Housing and Community Development will not reduce the loan by 20% each year but reduce the entire amount at the end of the tenth operating year in 2009. The balance per the external audit for fiscal year ended June 30, 2008 is \$74,618.

The agency also received a loan dated November 24, 2004 for \$167,081 for eight studio apartment units located at 1205 Lexington Avenue which are called Glenwood Housing. The term of this loan is June 25, 2003 to December 1, 2045 at 0.0% interest. This housing is the next step to independent living for the disabled veterans that went through the services at The Servant House. The current balance of this loan is \$167,081. Payments are scheduled to begin on May 1, 2025 and continue each May 1 thereafter with final payment due December 1, 2045. These payments will be based upon a percentage of cash flows.

We accompanied Mr. Doug Booth, Supervisor for Housing Rehabilitation of the Department of Housing & Community Development, as he inspected approximately 15 percent of the units of the Glenwood Housing and the interior and exterior of the Servant House. Some repairs were noted for both locations and a list was given to Management 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:

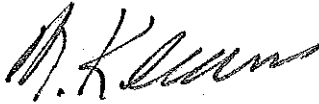
The Servant Center is combining the Servant House and Glenwood Housing income and expenses into one amount in their audited financial statements. As per the loan agreement with Glenwood Housing, the repayment of the loan will begin May 1, 2025 and the payment will be based on 50% net of the gross receipts and expenses. This is the second consecutive year this finding has been noted.

RECOMMENDATION:


In order for the Agency and the City to calculate the mortgage payment it is necessary for Glenwood Housing's income and expenses to be segregated from The Servant House's income and expenses.

We request a written and signed response from the Department of Housing & Community Development and The Servant Center by November 10, 2008 to the City of Greensboro, Internal Audit Division, P. O. Box 3136, Greensboro, NC 27401. Additionally we request notice of the steps taken by The Servant Center to address the issues noted in the Management Letter dated September 28, 2008 from the external auditors.

We would like to thank Ms. Gail Haworth, Executive Director; Ms. Shanna Reece, Deputy Director and the staff of The Servant Center, Incorporated 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.

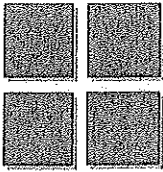


Mickey Kerans
Internal Auditor



Len Lucas
Internal Audit Director

Cc: Bob Morgan, Deputy City Manager
Jim Westmoreland, Acting Assistant City Manager for Economic Development
Gail Haworth, Executive Director of The Servant Center, Incorporated



HCD

Department of Housing & Community Development

Date: October 24, 2008
To: Gail Haworth, Servant Center
From: Michael Blair, City of Greensboro HCD
RE: *FY08/09 Glenwood Housing Programmatic Evaluation*

On October 1, 2008 HCD inspection staff and Internal Audit (IA) staff conducted an on-site monitoring visit of Glenwood Housing. Servant Center, 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 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 financial files, in the course of the review HCD and IA staff met with Ms. Shanna Reese, Deputy Director, and Ms. Gail Haworth, Executive Director, Servant Center.

The property is located at 1205 Lexington Avenue in Greensboro, NC and was substantially rehabilitated in 2005 with a combination of funding sources; \$167,081 (*\$105,796 in Federal HOME Program dollars, \$61,285 in Housing Partnership/Nussbaum Fund dollars*) from the City of Greensboro; \$365,796 in North Carolina Housing Finance Agency (NCHFA) funds (Also HOME funding); and a HUD Continuum grant of \$215,000. Since Greensboro Consortium HOME Program funds were expended on this property HOME Rules will be the primary guidance for this review.

Only one tenant income reviewed appears to have exceeded maximum eligible income limits (see finding below). Resident incomes are initially certified according to HCD file review. The tenant files reviewed were greatly improved from last years monitoring inspection with only minor deficiencies remaining.

Section 8 housing vouchers are accepted and all of the current residents receive this assistance.

The reported occupancy was 99% from January 2008 through October 2008. This is a tremendous improvement since the last review (80%). It should be noted however that the calculation may not accurate (See the observation below). There were two vacancies on the day of the visit but it is HCD staff understanding that one of the vacancies was being occupied the day of the visit.

HCD staff inspected the units on October 1, 2008 and reported certain minor deficiencies that need attention. The exterior is in good condition as are the individual units. Please refer to the inspection report for details.

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

Finding Number 1 – Over-Income Tenant

The tenant in unit F had a 2007 Social Security and Employment Pension income of \$37,368. This exceeds the 80% Low Income Limit for one person of \$31,550.

Requested Action

Per the agreement with the city dated June 25, 2003 §4.3 "Increases in Tenant Income" and HUD Final Rule §92.252 (i)(2): "Tenants who no longer qualify as low-income families must pay as rent the lesser of the amount payable by the tenant under State or local law or 30 percent of the family's adjusted income"

Using the income of \$37,368 (an adjusted income calculation could reduce this amount - see description below) the new rent would be \$934/m. HCD has no option but to enforce the agreement and HOME Program Final Rule regarding this matter.

Action must be taken on this unit and be in effect by December 31, 2008.

TITLE 24--HOUSING AND URBAN DEVELOPMENT

PART 5--GENERAL HUD PROGRAM REQUIREMENTS; WAIVERS--Table of Contents

Subpart F--Section 8 and Public Housing, and Other HUD Assisted Housing
Serving Persons with Disabilities: Family Income and Family Payment;
Occupancy Requirements for Section 8 Project-Based Assistance

Sec. 5.611 Adjusted income.

Adjusted income means annual income (as determined by the responsible entity, defined in Sec. 5.100 and Sec. 5.603) of the members of the family residing or intending to reside in the dwelling unit, after making the following deductions:

- (a) Mandatory deductions. In determining adjusted income, the responsible entity must deduct the following amounts from annual income:
 - (1) \$480 for each dependent;
 - (2) \$400 for any elderly family or disabled family;
 - (3) The sum of the following, to the extent the sum exceeds three percent of annual income:
 - (i) Unreimbursed medical expenses of any elderly family or disabled family; and
 - (ii) Unreimbursed reasonable attendant care and auxiliary apparatus expenses for each member of the family who is a person with disabilities, to the extent necessary to enable

any member of the family (including the member who is a person with disabilities) to be employed. This deduction may not exceed the earned income received by family members who are 18 years of age or older and who are able to work because of such attendant care or auxiliary apparatus; and

(4) Any reasonable child care expenses necessary to enable a member of the family to be employed or to further his or her education.

(b) Additional deductions.

(1) For public housing, a PHA may adopt additional deductions from annual income. The PHA must establish a written policy for such deductions.

(2) For the HUD programs listed in Sec. 5.601(d), the responsible entity shall calculate such other deductions as required and permitted by the applicable program regulations.

[66 FR 6223, Jan. 19, 2001]

Concern Number 1 – Income Recertifications

The tenant files reviewed had much improved recertification documentation from the prior years but there is still a need for improvement.

Requested Action

Keep at a minimum the following items in one file that can be reviewed by an outside monitoring agency:

- Rental Application/Income Disclosure Form
- Eligible Income Certification Form
- Income Verification Backup Documents or Unemployment certification
- Executed Lease
- Management Inspection Form

Observation – Rent Rolls

The rent roll is not user friendly and should be replaced with a more contemporary rental form in order to more accurately/easily calculate occupancy rates. The forms provided were difficult to decipher.

HCD staff requests that management review the Internal Audit report and reply to it as requested. The draft Internal Audit report is dated October 8, 2008.

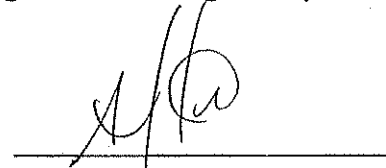
The finding, concern and observation, in this review, in our view, do not reflect negatively on property management staff and their work ensuring continued HOME Program compliance. The intent of the finding is to get immediate action regarding an over income tenant. The concern expressed in this case is to help improve file maintenance. The observation is intended to get property information to resemble that of a typical HOME Program funded rental property.

It is HCD staff opinion that Glenwood Housing is generally contractually, and HOME Program, compliant. The only compliance issue that must immediately be resolved is the over-income tenant. The property appears to be in good condition and continues to be a decent housing option for qualified individuals.

HCD staff appreciates the assistance provided during the monitoring visit by Servant Center staff.



Michael Blair
Specialist Grants Compliance



Andy Scott
Director HCD

R- 11/11/08



Hope and Healing for the Homeless
Servant House & Glenwood Housing
1312 Lexington Avenue, Greensboro, NC 27403
Phone (336) 275-8585 Fax (336) 370-1540
www.theservantcenter.org

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Executive Director

Gail C. Haworth

Date: November 7, 2008

To: Len Lucas, Director - Internal Audit Division
Mickey Kerans, Internal Auditor

From: Gail C. Haworth, Executive Director

Subject: The Servant Center, Inc. - Servant House & Glenwood Housing
City Audit fy ending 6/30/08

This is in response to the findings and recommendations in your letter dated October 27, 2008, in regard to the City of Greensboro's compliance review fy ended June 30, 2008 for The Servant Center, Inc.

The Servant Center staff produces separate reports yearly as to income and expenses for Servant House and Glenwood Housing and have recommended to the outside auditor that these separate reports be made a part of the audit; however, staff has no control over how the outside audit is reported. Because of a loan repayment that will commence on May 1, 2025, based on cash flow for Glenwood Housing, The Servant Center's action in this matter will be to again request that the fy 2009 audit reflect segregated income and expenses for Glenwood Housing.

As to issues noted in the Management Letter dated September 28, 2008 from the external auditors, The Servant Center staff and board are in the process of addressing both replacement of reserve accounts and the formation of an audit committee.

If you need additional information in regard to these matters, please let me know.

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



City of Greensboro
North Carolina

November 20, 2008

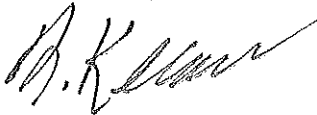
Ms. Gail C. Haworth
Executive Director
The Servant Center
1312 Lexington Avenue
Greensboro, NC 27403

Re: The Servant Center/Glenwood Housing-2006 to 2007

Dear Gail:

We are in receipt of your letter dated November 7, 2008 reference the City's Internal Audit report letter dated October 27, 2008 for the 2006 to 2007 Year. Your timely response to our report is appreciated. We have reviewed your letter and thank you for contacting Costello Hill & Company, L.L.P. again to change the format of The Servant Center's financial statements to show the Servant House and Glenwood Housing as two separate operating units.

Sincerely,

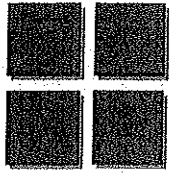


Mickey Kerans
Internal Auditor



Len Lucas
Internal Audit Director

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



HCD

Department of Housing & Community Development

MEMO

Date: November 25, 2008
To: Len Lucas, Internal Audit Director
From: *MB* Michael Blair, Specialist Grants Compliance
RE: HCD Review of Servant House/Glenwood Hsg Internal Audit Report

After review of the Internal Audit report of The Servant Center, Inc, (and Glenwood Housing) for 2006-2007, HCD submits the following:

IA FINDING 1:

The Servant Center is combining the Servant House and Glenwood Housing income and expenses into one amount in their audited financial statements. As per the loan agreement with Glenwood Housing, the repayment of the loan will begin May 1, 2025 and the payment will be based on 50% net of the gross receipts and expenses. This is the second consecutive year this finding has been noted.

IA RECOMMENDATION 1:

In order for the Agency and the City to calculate the mortgage payment it is necessary for Glenwood Housing's income and expenses to be segregated from The Servant House's income and expenses.

- **HCD reply to Finding/Recommendation 1:** Concur. This is the third consecutive year that this finding has been made with no resolution.



Date: December 2, 2008
To: Andy Scott, Director of Housing & Community Development
From: Internal Audit Division
Subject: HCD Reply to IA Report-Servant Center/Glenwood Housing 2006-2007

Thank you for your reply of November 25, 2008. Internal Audit agrees with Housing & Community Development's response to IA's subject report dated October 27, 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 'Len Lucas'.

Len Lucas
Internal Audit Director

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