



City of Greensboro

Date: August 4, 2008
To: Mitchell Johnson, City Manager
From: Internal Audit Division
Subject: Richardson Village Limited Partnership

The Internal Audit Division has completed our annual review of The Richardson Village 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.

Len Lucas
Internal Audit Director

Cc: Bob Morgan, Deputy City Manager
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 Village Limited Partnership 2006-2007

The Internal Audit Division has performed our compliance review of the year ended December 31, 2007 of Richardson Village 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 VILLAGE APARTMENTS are comprised of 24 units located at 600 DeWitt Street. The City provided a loan to help in the acquisition and rehabilitation in the amount of \$750,000 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 starting on the first day of May 2025, and continuing on each May 1st thereafter. This loan is due in full May 1, 2044. No payments are due at this time. The balance of the loan including accrued interest as of December 31, 2007 was \$771,740.

We accompanied Mr. Jim Teele, Housing Rehabilitation Specialist of the Department of Housing & Community Development (HCD), as he inspected approximately 15 percent of the units and some repairs were noted for the property. These issues have been forwarded to the Apartment Manager to address before they escalate into costly problems.

We examined selected financial transactions maintained by the entity for compliance with the loan agreement. 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 Management Letter for the year ended December 31, 2007 was due to the City on March 31, 2008 but was not received until June 18, 2008.

RECOMMENDATION:

The Partnership should provide the annual Management Letter to the City within 90 days of their fiscal year end date.

FINDING:

A \$15,000 withdrawal was made from the Operating Reserve for 2007 without the approval of the Limited Partner or HCD. The Operating Reserve was under funded at December 31, 2007 in the amount of \$7,479 and the Capital Replacement Reserve was over funded in the amount of \$2,347 for the same period.

RECOMMENDATION:

The Partnership should abide by the City Loan Agreement by obtaining prior written approval from HCD of all withdrawals in excess of \$2,000.

We request a written signed response from Beacon Management Corporation and HCD 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, Property 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



Date: July 10, 2008
To: George Carr, Beacon Management
From: Michael Blair, City of Greensboro HCD
RE: *FY08/09 Richardson Village Programmatic Evaluation*

On June 18, 2008 HCD and Internal Audit (IA) staff conducted an on-site monitoring visit of Richardson Village 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, 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. Ann Costner, On-Site Manager of Richardson Village and Ms. Cathy Mitchell, Regional Asset Manager.

For reference purposes the property is located at 600 DeWitt Street in Greensboro, NC and was rehabilitated in 2002 with a combination of private, City of Greensboro and North Carolina Housing Finance Agency dollars (NCHFA). City funding consisted of \$725,000 of federal Section 108 (CDBG) funds and \$25,000 in CDBG funds. Additional financing was provided by the NCHFA, Carolina Bank (Wachovia) and Community Affordable Housing Equity Corp. (CAHEC).

Gross Rent on the 24 two-bedroom units would not exceed 30% of the adjusted income of a three person household whose gross income is less than or equal to 60% of the area median income. Maximum rent is \$550/m (\$69/m UA) for 2/br units which does not exceed the 60% rent limit.

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

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

The reported occupancy has been 97% from June 2007 through May 2008. In addition the occupancy has been 100% from October 2007 through May 2008 which is superb compared to past year occupancy of 88% and the April 2008 area occupancy of 83%.

HCD staff was to inspect four (4) units on June 18, 2008 and reported minor deficiencies that need attention in three (3) of the units. The exterior is of average condition and could use repainting. Please refer to the inspection report for details. (See observation #2)

As a result of this review HCD staff is making zero (0) findings, zero (0) concerns and two (2) observations. 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 or a suggestion that may improve a service or element of operations.

Observation 1 – Audit

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 1

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

Observation 2 – Physical Condition

The physical inspection refers to peeling paint on columns and doors. Also mentioned are broken shutters and a fallen gutter.

Requested Action

To review the inspection report dated June 18, 2008 and make the appropriate repairs as needed. While this was not labeled an observation or concern in the previous review exterior paint was mentioned as in need of maintenance.

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

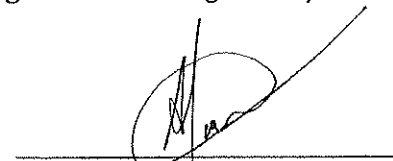
The observations in this review, in our view, do not reflect negatively on property management staff and their work ensuring continued affordability compliance. The intent of the first observation is to heighten management awareness. The second observation expressed in this case is for the listed conditions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

It is HCD staff opinion that Richardson Village Apartments is contractually compliant. The property is in average condition and a decent housing option for qualified households. The improved occupancy is exceptional in the current market.

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

WWW.BEACON-NC.COM

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

July 17, 2008

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

RE: Richardson Village 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 Village loan agreement or other documents that requires the issuance of a management letter to the City within 90 days after the Company's year-end. Management letters are typically used when an independent auditor determines that an entity's internal controls have flaws or weaknesses that he or she believes should be reported to the Company's management. In as much as Richardson Village's controls were not found to contain such weaknesses the auditor found no reason to prepare such a letter. The June 18th correspondence was written only after the City specifically requested that a letter to be sent stating that no management letter had been issued. 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 17, 2008

Page Two

Finding #2: Unauthorized \$15,000 withdrawal from Operating Reserve and Replacement Reserve Account over funding by \$2,347.

Response: The General Partner and Management Agent, Beacon Management Corporation, did in fact fail to secure the city's permission to transfer \$15,000 from the property's Operating Reserve account when it transferred these monies to the Tax & Insurance Escrow. Regretfully, such transfer was necessitated by a doubling of insurance costs which has occurred in recent years. In an attempt to rectify this matter we have prepared a letter to Department of Housing and Community Development requesting a retroactive approval of this \$15,000 transfer (see letter attached).

While our Reserve for Replacement account may appear to be over funded by \$2,347, 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 Village'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.

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
RV file
Ann Costner, Richardson Village
Cathy Mitchell
Len Lucas, Director Internal Audit, City of Greensboro
Andy Scott, Director HCD, City of Greensboro
Doug Covington, CPA

BEACON MANAGEMENT CORPORATION
408 BATTLEGROUND AVENUE
GREENSBORO, NORTH CAROLINA 27401

WWW.BEACON-NC.COM

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

July 17, 2008

Cynthia Blue
Department of HCD
City of Greensboro
P. O. Box 3136
Greensboro, NC 27402

RE: Richardson Village Limited Partnership
Retroactive withdrawal from LTO to Tax & Insurance Escrow

Dear Cyndi:

We have recently received correspondence from Mickey Kerans concerning the Internal Audit's review of Richardson Village as of 12/31/2007. In his review Mr. Kerans noted that we failed to secure the city's permission when we transferred \$15,000 of Long Term Operating Reserve funds into the property's Tax & Insurance escrow. This was an oversight on our part and therefore I am requesting your retroactive approval for the movement of these funds. The action was taken to meet the rising tax and insurance costs which have occurred over the past three years. I'm enclosing our correspondence to Mr. Kerans which further addresses this issue.

If you should have any questions, please do not hesitate to let us know.

Cordially,



George E. Carr III

cc: GEC file
RV file
Mickey Kerans, Internal Auditor, City of Greensboro

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

City of Greensboro
North Carolina

July 22, 2008

Mr. George E. Carr III
President
Beacon Management Corporation
408 Battleground Avenue
Greensboro, NC 27401

Re: Richardson Village Limited Partnership Year-2006 to 2007

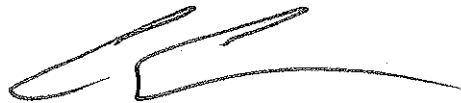
Dear Mr. Carr:

We are in receipt of your letter dated July 17, 2008 reference the City's Internal Audit report letter dated July 14, 2008 for the 2006 to 2007 Year. Your timely and concise response to our report is appreciated. We have reviewed your letter and agree with your responses and corrective measures. We would like to point out to you regarding the Management Letter, even though, the requirement was not part of Richardson Village's loan agreement that the City Council later adopted the Management Letter as a requirement for all financial reporting. Also, it is stated as a requirement for all Request for Proposals (RFP).

Sincerely,

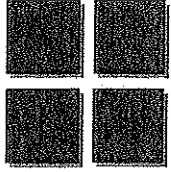


Mickey Kerans
Internal Auditor



Len Lucas
Internal Audit Director


Cc: Bob Morgan, Deputy City Manager
Andy Scott, Director of Housing & Community Development



HCD

Department of Housing & Community Development

MEMO

Date: July 28, 2008
To: Len Lucas, Internal Audit Director
From:  Michael Blair, Specialist Grants Compliance
RE: HCD Review of Richardson Village Audit Report

After review of the June 24, 2008 Internal Audit report of the Richardson Village Limited Partnership, for FY2006-2007, HCD submits the following:

IA FINDING 1:

The Management Letter for the year ended December 31, 2007 was due to the City on March 31, 2008 but was not received until June 18, 2008.

IA RECOMMENDATION 1:

The Partnership should produce the annual Management Letter to the City within 90 days of their fiscal year end date.

- HCD reply to Recommendation 1: Concur.

IA FINDING 2:

A \$15,000 withdrawal was made from the Operating Reserve for 2007 without the approval of the Limited Partner or HCD. The Operating Reserve was under funded at December 31, 2007 in the amount of \$7,479 and the Capital Replacement Reserve was over funded in the amount of \$2,347 for the same period.

IA RECOMMENDATION 2:

The Partnership should abide by the City Loan Agreement by obtaining prior written approval from HCD of all withdrawals in excess of \$2,000.

- HCD reply to Recommendation 2: Concur.



City of Greensboro

Date: July 30, 2008
To: Andy Scott, Director of Housing & Community Development
From: Internal Audit Division
Subject: HCD Reply to IA Report-Richardson Village Apartments- 2006-2007

Thank you for your reply of July 28, 2008. Internal Audit agrees with Housing & Community Development's response to Internal Audit's subject report dated July 14, 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