



City of Greensboro

Date: September 12, 2008
To: Mitchell Johnson, City Manager
From: Internal Audit Division
Subject: Great Oaks Limited Partnership 2006-2007

The Internal Audit Division has completed our annual review of The Great Oaks 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: August 5, 2008
To: Andy Scott, Director of Housing & Community Development
From: Internal Audit Division
Subject: Great Oaks (St. Leo's) Associates Limited. Partnership 2006-2007

The Internal Audit Division has performed our annual compliance review of the year ended December 31, 2007 of Great Oaks Associates Limited Partnership, which consists of 44 units for low-income individuals located at the intersection of East Bessemer Avenue and Cypress Street.

This Partnership received a loan in October 1998 for \$830,000 from the City of Greensboro to help in the initial building of the apartment units. This is a ½ of 1% interest bearing loan with one final payment due in full October 31, 2028. These units are called St. Leo's Place at Great Oaks and are managed by Beacon Management Corporation. The balance at December 31, 2007 including accrued interest per the Department of Housing & Community Development is \$868,829 which agrees with the Partnership's audited financials.

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 minor repairs were noted. Overall the units inspected appear to be well maintained.

We examined selected financial transactions and program documentation 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 agreement except for the following findings:

FINDING:

The Working Capital for the year ended December 31, 2007 was a negative (\$70,183).

RECOMMENDATION:

The Partnership should try to keep a positive Working Capital balance.

We request a written signed response from Beacon Management Corporation and HCD by August 19, 2008 and mailed to the City of Greensboro, Internal Audit Division, P. O. Box 3136, Greensboro, NC 27401.

We would like to thank Ms. Donna White, On-Site Property Manager; Ms. Cathy Mitchell, Regional 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: August 1, 2008
To: George Carr, Beacon Management
From: Michael Blair, City of Greensboro HCD
RE: *FY08/09 St. Leo's Place Programmatic Evaluation*

On July 10, 2008 HCD and Internal Audit (IA) staff conducted an on-site monitoring visit of the St. Leo's Place Apartments. Beacon Management, Inc. 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 contractual requirements. In this monitoring review attention was paid to contractual 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. Donna White, On-site Property Manager and Ms. Cathy Mitchell, Regional Asset Manager.

For reference purposes the property is located at 1800 Sullivan Street, Greensboro, NC. The October 1998 contract included a loan of \$830,000 in local Housing Partnership dollars and \$2,015,491 in other funding to assist in the construction of the apartments. The 44 units were designed to provide appropriate housing for Elderly and Disabled residents.

Thirty Six (36) one-bedroom units and eight (8) two-bedroom were created and the units will be affordable to tenants at or below 60% of adjusted local median income.

In 2008 the maximum housing costs (rent plus tenant paid utilities) for a one bedroom unit at 60% of MFI was \$635/m and \$762/m for a two bedroom unit.

44 TOTAL Units	Tenant Rent	Utilities	Total (Rent + Util.)
8 2-BR Units	\$580	\$70	\$630
36 1-BR Units	\$500	\$43	\$543

Rent plus utilities do not exceed 60% limits on any of the 44 units. Only one of the tenant incomes appears to have exceeded 140% of their maximum eligible income limit according to the RCRS report.

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

The reported unit occupancy has been a remarkable 99.7% from January 2008 through July 1, 2008. It was 100% at the time of the site visit and rent collection was within 2% of the physical occupancy in 2007. A waiting list is maintained and had 38 applicants at the time of the visit.

Section 8 housing vouchers are accepted and twenty-eight (28) (twenty-seven (27) tenants in the last review) tenants receive this assistance.

Beacon Management has a fair marketing plan that meets the City Affirmative Marketing Requirements. The Tenant Selection Policy is clear and understandable.

HCD staff inspected six (6) units on July 10, 2008 and reported certain minor deficiencies that need attention in three (3) of those units. The exterior is well maintained and in good overall condition with no reported maintenance conditions. Please refer to the inspection report for details.

As a result of this review HCD staff is making zero (0) findings, zero (0) 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.


Observation – Annual Tenant Income Recertifications

HCD accepts the IRS waiver dated June 5, 2008 which allows for annual recertifications to take place without third party backup documentation. Annual recertifications will now be self certified. Initial (move in) certifications will still include third party verification such as pay stubs, employer verification of income, tax returns, and bank statements.


HCD staff requests that management review the Internal Audit report and reply to it as requested. The draft Internal Audit report is dated July 15, 2008.

It is HCD staff opinion that St. Leo's Place Apartments is contractually compliant concerning affordability requirements. The property itself is in excellent condition and remains a very good, and highly sought after, housing option for qualified elderly 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

WWW.BEACON-NC.COM

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

August 7, 2008

Mr. Mickey Kerans
Internal Audit Division
City of Greensboro
P.O. Box 3136
Greensboro, NC 27402-3136

RE: ST. LEO'S PLACE (GREAT OAKS LIMITED PARTNERSHIP)
Internal Audit 2006-2007

Dear Mr. Kerans:

Thank you for your letter of August 5, 2008. The following is our response to your finding:

FINDING: The Working Capital for the year ended December 31, 2007 was a negative (\$70,183).

RESPONSE: This finding has been addressed in prior years and we were in disagreement then and are still in disagreement with the finding that the Partnership will have difficulty paying off its current liabilities. Under strict definition of Working Capital, you are correct that the Partnership reflected a negative \$70,183 working capital balance. However, this completely ignores the fact that, under the caption "Restricted Deposits and Funded Reserves" is \$45,149 in a "Reserve for Painting and Decorating" account. The Partnership is under no legal obligation to maintain this reserve. This reserve has been set aside by the managing general partner and can be used for any operating expense purpose at his discretion. In addition, a further analysis of working capital reveals that of the \$82,187 reflected as current liabilities, \$49,710 is due for accrued partnership administration fees. Although these are definitely obligations of the Partnership, their repayment is conditioned upon there being adequate surplus cash before they can be paid. We believe, at this time, it is appropriate to reflect this amount as a current liability as it is our intent to pay this amount as soon as cash flow permits. However, in the future years depending on the cash flow of the Partnership, we may reclassify all or a portion of this liability to non-

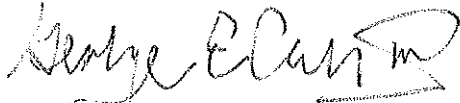
MAILING ADDRESS:
P.O. Box 29229
GREENSBORO, NORTH CAROLINA 27429-9229

Mr. Mickey Kerans
August 7, 2008
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current. By view of the items cited herein, we do not believe there to be any shortage in working capital. The property is operating efficiently and has no need to improve its financial status with regard to its current assets and liabilities.

If you have any questions regarding our response, please contact Cathy Mitchell, Regional Asset Manager, at 545-5000, ext. 12.

Cordially,



George E. Carr III

cc: GEC file
SLP file
Cathy Mitchell
Doug Covington
Andy Scott
Len Lucas
Donna White



City of Greensboro
North Carolina

August 11, 2008

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

Re: St. Leo's @ Great Oaks Limited Partnership Year-2006 to 2007

Dear Mr. Carr:

We are in receipt of your letter dated August 7, 2008 reference the City's Internal Audit report letter dated August 5, 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.

Sincerely,

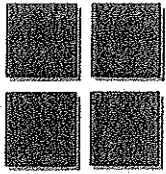


Mickey Kerans
Internal Auditor



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: September 1, 2008
To: Len Lucas, Internal Audit Director
From: *AB* Michael Blair, Specialist Grants Compliance
RE: HCD Review of St. Leo's Audit Report

After review of the draft July 15, 2008 Internal Audit report of St. Leo's/Great Oaks Limited Partnership, for 2006-2007, HCD submits the following comments.

IA FINDING 1:

The Working Capital for the year ended December 31, 2007 was a negative (\$70,183).

IA RECOMMENDATION 1:

The Partnership should try to keep a positive Working Capital balance.

- HCD reply to Finding/Recommendation 1: Concur.



City of Greensboro

Date: September 3, 2008
To: Andy Scott, Director of Housing & Community Development
From: Internal Audit Division
Subject: HCD Reply to IA Report-Great Oaks @ St. Leo's 2006-2007

Thank you for your memorandum dated September 1, 2008 regarding Internal Audit's report for Great Oaks @ St. Leo's for period 2006-2007. Internal Audit agrees with the Department of Housing & Community Development's response to IA's subject report dated August 5, 2008.

Mickey Kerans
Internal Auditor

Len Lucas
Internal Audit Director

Cc: Bob Morgan, Deputy City Manager