



City of Greensboro

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

The Internal Audit Division has completed our annual review of The Everitt Spencer 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
Jim Westmoreland, Acting Assistant City Manager for Economic Development
Andy Scott, Director of Housing & Community Development



City of Greensboro

Date: August 11, 2008
To: Andy Scott, Director of Housing & Community Development
From: Internal Audit Division
Subject: Everitt/Spencer Limited Partnership 2006-2007

The Internal Audit Division has performed our compliance review of the year ended June 30, 2007 of Everitt/Spencer Multi-Family Properties. This property was rehabilitated with a loan provided by the City of Greensboro and is designed for the benefit of low-income individuals or families in the Greensboro area. Affordable Housing Management, Incorporated manages this property. Additional information on the property is as follows:

Everitt/Spencer is located at 2115, 2116 and 2118 Everitt Street (25 Units) and 2101 and 2103 Spencer Street (20 Units). The Partnership received four loans from the City in the amount of \$599,288 in January 1991. The principal balances of each loan accrues at two and one-half (2 ½%) percent per annum compounded semi-annually on March 31, 1992 and on each September 30th and March 31st thereafter. An amount equal to one (1%) percent per annum shall be payable in arrears semi-annually commencing on March 31, 1992 and on each September 30th and March 31st thereafter. Two interest payments were made to the City on October 9, 2007 in the amount of \$3,817.34 and on April 2, 2008 in the amount of \$3,845.75 totaling \$7,663.09. The balance of accrued interest and principal per the Department of Housing and Community Development, as of December 31, 2007 is \$763,594 while the audited financials were \$762,478 a difference of \$1,116. These loans will be due in full on April 1, 2022. There are no Reserve Account requirements in the City's loan agreements for this property.

We accompanied Mr. Jim Teele, 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 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:

In reference to the Everitt/Spencer's audited financials for fiscal year ended December 31, 2007, below is the following finding:

Working capital for 2007 was in the negative of (\$277,017).

RECOMMENDATION:

Affordable Housing Management, Inc. should explain to the City how they plan to improve Everitt/Spencer's working capital position.

We request a written signed response from Affordable Housing Management and HCD by August 25, 2008 and mailed to the City of Greensboro, Internal Audit Division, P. O. Box 3136, Greensboro, NC 27401.

We would like to thank Mr. Justin Brooks, Regional Property Manager; Ms. Debora Osborne, Finance Director; Ms. Millie Mullins, Occupancy Specialist and the staff of Affordable Housing Management, 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.

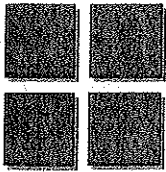


Mickey Kerans
Internal Auditor



Len Lucas
Internal Audit Director

Cc: Bob Morgan, Deputy City Manager
David Levy, Executive Director of Affordable Housing Management, Incorporated



HCD

Department of Housing & Community Development

Date: August 8, 2008
To: David Levy, Affordable Housing Management Inc.
From: Michael Blair, City of Greensboro HCD
RE: *FY08/09 Everitt Spencer Apartments Programmatic Evaluation*

On July 16, 2008 HCD and Internal Audit (IA) staff conducted an on-site monitoring visit of the Everitt Spencer Apartments. Affordable Housing Management Inc. (AHM) 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 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. Debora Osborne, Finance Director, Ms. Millie Mullins, Occupancy Specialist, Mr Justin Brooks, Regional Property Manager and other on-site AHM staff.

For reference purposes the property is located at 2115, 2116 & 2118 Everitt Street and 2101 & 2103 Spencer Street in Greensboro, NC and was acquired and rehabilitated with \$599,288 in local bond funds (1991) combined with \$1,549,884 in North Carolina Affordable Housing Tax Credits (now in year 16). The most recent audit has current balance on accrued principal and interest as \$762,478.

Greensboro Consortium HOME Program funds were not expended on this property therefore the deed of trust dated January 24, 1991 is the main document regarding occupancy and tenancy requirements for this review.

The properties consist of 25 units at Everitt Street and 20 units at Spencer Street. The units would be made affordable to households whose gross incomes did not exceed 50% of the adjusted area median. This has been determined by HCD staff to supersede the Declaration of Land Use Restrictive Covenants for Low Income Housing Credits rec. 12/31/90.

The following table is generated from on-site tenant file review documentation and the RCRS:

Reported Rents:	Rent	Utility (new)	Total Rent + UA
Everitt (25 units)	\$345	\$125	\$470
Spencer (20 units)	\$370	\$119	\$489

Rent plus utilities do not exceed 50% limits on any of the 45 units according to file documentation and the RCRS.

None of the tenant incomes reviewed appears to have exceeded 80% of adjusted median income. Resident incomes have been certified annually according to the HCD file review. The tenant files reviewed were in good condition and contained required back-up documentation. The only minor issue noted was either a lack of tenant or management signatures on unit inspection forms in three files.

The reported occupancy has been a decent 90% from July 2007 through July 2008. This is 7% higher than the April 2008 area occupancy rate of around 83%.

Section 8 housing vouchers are accepted in thirteen (13) units (up from ten (10) units in 2007), or 22% of all units, receive this assistance.

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

HCD staff inspected eight (8) units on July 16, 2008 and reported certain deficiencies that need attention in six (6) units. The exterior has several reported maintenance and conditions that need attention which is similar to last year's inspection. Please refer to the inspection report for details. Forward all repairs made to conditions listed on the inspection report to Internal Audit.

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

While the overall occupancy for the property has usually remained around 90% at the time of the visit it was 87% which is not recommended.

Requested Action

To keep occupancy at 90% or better. Please see the concern below.

Concern 2 - Vacant Unit Turnover

Unit 2115-D has been vacant since October 2007. It was vacant but ready to rent from October 2007 through April of 2008 a period of seven (7) months. Sometime in April a defective water heater broke and flooded the unit as water sat on the floor for an unknown length of time. Once the damage was discovered it took several more weeks to find repair parts so the unit was not rent ready from April 2008 through August 4, 2008.

Requested Action

To periodically inspect long vacant units for damage to prevent what occurred at unit 2115-D. The unit was vacant or damaged for over 300 days, and remains vacant as of the date of this report, which is 10 months of lost rental income. Thirteen other units were vacant for extended periods in FY07/08.

Observation – Annual Tenant Income Recertifications

HCD accepts the NCHFA waiver email dated September 26, 2007 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.

This being accepted HCD wishes to reiterate that the agreement dated December 30, 1992, §15 "Use of Premises", states that *"No tenant's lease shall be renewed if such tenant's income exceeds eighty percent (80%) of the median income adjusted for family size"*.

Requested Action

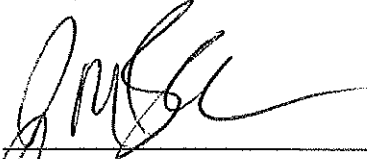
HCD requests that management be aware of and remain in compliance with the deed of trust §15. This supersedes LIHTC regulations on over-income tenants and may be difficult to monitor with annual tenant income recertifications being self certified.

HCD staff requests that management review the Internal Audit report and reply to it as requested. The draft Internal Audit report contains one finding on working capital.

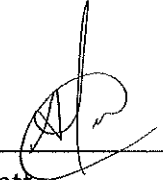
The concerns and observation in this review, in our view, do not reflect negatively on property management staff and their work ensuring continued affordability compliance. The intent of both concerns is to bring attention to potentially damaging rental income losses. The observation is to ensure future tenant income compliance with the agreement dated December 30, 1992.

It is HCD staff opinion that Everitt-Spencer Apartments are contractually compliant concerning affordability and contractual requirements.

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



Michael Blair
Specialist Grants Compliance



Andy Scott
Director HCD

R. 8/25/08



AFFORDABLE HOUSING
MANAGEMENT, INC

Writer's Extension: 123
Writer's Email: dosborne@ahmi.org

August 25, 2008

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

Re: Everitt/Spencer Limited Partnership 12-31-07

Dear Mr. Kerans,

I am writing in response to your letter of August 11, 2008.

Finding: At 12-31-07 Working capital was a negative \$277,017

The major increase in the negative working capital was due to the Carolina Bank mortgage note coming due in December, 2008. The note balance at 12-31-07 was \$237,835. We are diligently researching the option of rehabbing the property and as part of that, restructuring the debt. We have contacted the bank and requested an extension of the loan until we can get the rehab project developed. Carolina Bank has agreed to work with us and extend the loan until we complete the analysis.

If you have any further questions, please don't hesitate to contact me.

Sincerely,

A handwritten signature in cursive script that reads "Debora Osborne".

Debora Osborne
Finance Director

City of Greensboro
North Carolina

August 26, 2008

Ms. Debora Osborne
Affordable Housing Management, Inc.
330 S. Greene St.
Suite B-11
Greensboro, NC 27401

Re: Everitt/Spencer Apartments-2006 to 2007

Dear Debora:

We are in receipt of your letter dated August 25, 2008 reference the City's Internal Audit report letter dated August 11, 2008 for the 2006 to 2007 Year. Your timely response to our report is appreciated. We have reviewed your letter and agree with your response and corrective measure regarding refinancing the Carolina Bank loan. Please advise of the final restructuring.

Sincerely,

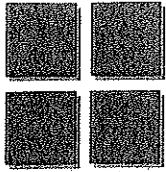


Mickey Kerans
Internal Auditor



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: Michael Blair, Specialist Grants Compliance
RE: HCD Review of Everitt/Spencer Audit Report

After review of the draft July 23, 2008 Internal Audit report for Everitt/Spencer Apartments, for 2006-2007, HCD submits the following:

IA FINDING:

In reference to the Everitt/Spencer's audited financials for fiscal year ended December 31, 2007, below is the following finding:

Working capital for 2007 was in the negative of (\$277,017).

IA RECOMMENDATION:

Affordable Housing Management, Inc. should explain to the City how they plan to improve the Everitt/Spencer's financial position.

- **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-Everitt/Spencer Audit 2006-2007

Thank you for your timely reply of September 1, 2008 for Everitt/Spencer Audit 2006-2007. Internal Audit agrees with the Department of Housing & Community Development's response to IA' subject report dated August 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 "Len Lucas".

Len Lucas
Internal Audit Director

Cc: Bob Morgan, Deputy City Manager