



City of Greensboro

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

The Internal Audit Division has completed our annual review of The Seager Place 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: July 28, 2008
To: Andy Scott, Director of Housing & Community Development
From: Internal Audit Division
Subject: Seager Place Limited Partnership 2006-2007

The Internal Audit Division has performed our annual compliance review of the year ended December 31, 2007 of Seager Place Limited Partnership, which consists of 42 units for low-income individuals located at 1402 Fleming Road.

This Limited Partnership received a loan in June, 2003 for \$390,000 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 final payment due December 1, 2034. On the first day of May 2004, and continuing each May 1st thereafter, the Borrower shall make principal payments calculated as follows: Gross Receipts received less expenses incurred to get a net income amount; this amount shall be divided by 1.15 which is the amount available to pay all loans. From this amount debt service payments shall be subtracted to arrive at a positive, if any, amount available for distribution; and lastly this amount shall be multiplied by 50% to determine amount of principal due to the City. The Partnership does not owe the City a mortgage payment for fiscal year ended December 31, 2007. The mortgage principal balance at December 31, 2007 is \$380,350. These units are called Seager Place Apartments and are managed by Beacon Management Corporation.

We accompanied Mr. Jim Teele, Housing Rehabilitation Specialist in the Department of Housing & Community Development (HCD), 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 (\$58,588).

RECOMMENDATION:

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

FINDING:

There were three withdrawals totaling \$23,700 from the Operating Reserve Account during 2007. The Loan Agreement between the Partnership and the City of Greensboro requires if there were withdrawals of \$2,000 or more from the Operating or Capital Reserve Account, they have to have prior written approval from HCD. All three withdrawals were over \$2,000 and not approved by HCD.

RECOMMENDATION:

The Partnership should obtain prior written approval from HCD before withdrawing any funds over \$2,000 from their required Reserve Accounts.

FINDING:

The Management Letter for fiscal year end December 31, 2007 was not received by the City.

RECOMMENDATION:

The Partnership should provide the City a Management Letter for fiscal year end December 31, 2007.

We request a written signed response from Beacon Management Corporation and HCD by August 11, 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 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.

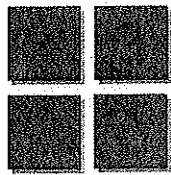


Mickey Kerans
Internal Auditor



Len Lucas
Internal Audit Director

Cc: Bob Morgan, Deputy City Manager
George Carr, President of Beacon Management Corporation



HCD

Department of Housing & Community Development

Date: July 25, 2008
To: George Carr, Beacon Management
From: Michael Blair, City of Greensboro HCD
RE: *FY08/09 Seager Place Programmatic Evaluation*

On July 9, 2008 HCD and Internal Audit (IA) staff conducted an on-site monitoring visit of the Seager 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 HOME Program and contractual compliance.

The purpose of the monitoring visit is to determine whether the property is meeting applicable HOME Program and contractual requirements. In this monitoring review attention was paid to HOME 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, Property Manager and Ms. Cathy Mitchell, Regional Asset Manager.

For reference purposes the property is located at 1404 Fleming Rd. in Greensboro, NC. The June 2003 construction agreement included allocations of \$385,000 in Federal HOME dollars, \$5,000 of Local Nussbaum dollars, and \$269,329 in housing tax credits with a total development cost of \$3,601,708 for 42 total units.

Four (4) one-bedroom units and one (1) two-bedroom unit will be at Low HOME rents which are affordable to tenants with 50% of adjusted local median income. Sixteen (16) one-bedroom units and four (4) two-bedroom units will be at High HOME rents which are affordable to tenants with 60% of adjusted local median income.

2008 HOME Rents:	Required	Actual	Reported Rents:	Rent	Utility	Total Rent
LOW HOME 1/BR \$528/m	4	22	One Bedroom	\$424- \$518	\$50	\$474-\$568
LOW HOME 2/BR \$635/m	1	6	Two Bedroom	\$503- \$617	\$65	\$568-\$682
HIGH HOME 1/BR \$645/m	16	N/A				
HIGH HOME 2/BR \$719/m	4	N/A				

Rent plus utilities do not exceed HOME limits on any of the 42 units. None of the tenant incomes appear to have exceeded 140% of their maximum eligible income limit according to the RCRS. Resident incomes are certified annually according to the NCFHA RCRS report and HCD file review. The tenant files reviewed were in very good condition and contained required back-up documentation.

The reported occupancy has been nearly 100% from January 2008 through July 2008 and was 95% at the time of the visit. This is 9% higher than the April 2008 area occupancy rate of around 91%.

Section 8 housing vouchers are accepted and thirty (30) tenants receive this assistance up from twenty-seven (27) tenants last year.

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 seven (7) units on July 9, 2008 and reported certain minor deficiencies that need attention in five (5) of those units. The exterior is well maintained and in good condition with two (2) reported maintenance conditions (expired inspections all fire extinguishers and beginning of exterior mold). 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 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, a clarification of policy interpretation, or a suggestion that may improve a service or element of operations.

Observation 1 - HOME/LIHTC and Section 8

When tenants receive an additional subsidy through rental assistance programs such as the *Housing Choice Voucher Program (Section 8)* (or any other comparable rental assistance program), different requirements apply for each program.

- Under LIHTC rules, if the rental assistance program rent limit exceeds the LIHTC rent, the *unit rent may be raised to the higher limit*.
- Under the HOME program, the unit rent may not be raised to the higher limit under the rental assistance program unless *all of the following* are true (and units meeting these criteria are counted as Low HOME units):
 - The tenant's income is less than 50% of AMI;
 - The tenant pays no more than 30% of adjusted income toward rent and utilities;
 - The unit receives Federal or State project-based rental subsidy

None of the units receive project based Section-8 so the HOME units may not be raised like the LIHTC units can be raised.

Observation 2 - Annual Tenant Income Recertification

If management receives approval from the NCHFA to allow for tenant self recertification of annual income, without the use of third party backup, HCD will accept that practice.

It should be noted however that HCD may not waive the 6th year HOME Rule on recertifications - Every 6th year full and complete third party backup documentation is required for each tenant in a HOME unit.

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.

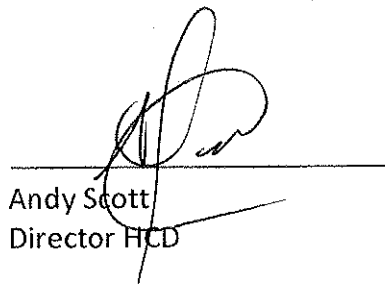
The observations in this review, in our view, do not reflect negatively on property management staff and their work ensuring continued affordability compliance. The intent of both observations is to clarify cross cutting federal rules and regulations.

It is HCD staff opinion that the Seager Place Apartments is contractually compliant concerning affordability requirements. The property itself is in excellent condition and remains a very good 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 8, 2008

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

RE: Seager Place Limited Partnership
Internal Audit 2006-2007

Dear Mr. Kerans:

Thank you for your letter of July 28, 2008. Following is our response to the findings:

FINDING #1: The Working Capital for the year ended December 31, 2007 was a negative (\$58,588).

RESPONSE: We are 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 (\$58,588) working capital balance. However, this completely ignores the fact that, under the caption "Restricted Deposits and Funded Reserves: is \$26,506 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 \$90,766 reflected as current liabilities, \$21,460 is due for accrued bonus management fees and partnership administration fees and \$27,742 is due for accrued construction costs. 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 these amounts as soon as cash flow permits. However, in the future years depending on the cash flows of the Partnership, we may reclassify all or a portion of these liabilities to non 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.

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

Mr. Mickey Kerans
August 8, 2008
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FINDING #2: Three withdrawals totaling \$23,700 from the Operating Reserve Account without approval from HCD.

RESPONSE: The General Partner and Management Agent, Beacon Management Corporation, did in fact fail to secure the city's permission to transfer \$23,700 from the property's Operating Reserve account when it transferred these monies to the Operating Account. The funds withdrawn were urgently needed to enable Seager to appeal an extreme property valuation rendered by The Guilford County Tax Assessors. Guilford County had proposed a property assessment of \$2,159,500 (51,416 per unit), a figure so high that it would virtually bankrupt Seager Place. The operating funds your letter referred to were used for appraisals and legal fees which were needed to go before The NC Property Tax Commission. Fortunately we were able to make the case and the property's assessment has now been reduced to \$1,551,000 (36,928 per unit). Because of this, we were able to receive appropriate tax rebates from Guilford County and these monies have enabled the property to refund all \$23,700 to the Long Term Operating Reserve account.

FINDING #3: The Management Letter for fiscal year end December 31, 2007 was not received by the City.

RESPONSE: We have asked Douglas Covington, the property's CPA, to prepare and forward directly to you a management letter covering the 2007 fiscal year audit.

If you have any questions, please do not hesitate to contact me at 336-282-6000.

Cordially,



George E. Carr III

cc: GEC file
SP file
Cathy Mitchell
Doug Covington
Andy Scott
Len Lucas

City of Greensboro
North Carolina

August 11, 2008

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

Re: Seager Place Limited Partnership Year-2006 to 2007

Dear Mr. Carr:

We are in receipt of your letter dated August 8, 2008 reference the City's Internal Audit report letter dated July 28, 2008 for the 2006 to 2007 Year. Your timely and concise response to our report is appreciated. We have reviewed your letter and we 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



MEMO

Date: September 1, 2008
To: Len Lucas, Internal Audit Director
From: *MB* Michael Blair, Specialist Grants Compliance
RE: HCD Review of Seager Place Audit Report

After review of the July 15, 2008 Internal Audit report of Seager Place Limited Partnership/Beacon Management, for 2006-2007, HCD submits the following:

IA FINDING 1:

The Working Capital for the year ended December 31, 2007 was a negative (\$58,588).

IA RECOMMENDATION 1:

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

- **HCD reply to Recommendation 1:** Concur

IA FINDING 1:

There were three withdrawals totaling \$23,700 from the Operating Reserve Account during 2007. The Loan Agreement between the Partnership and the City of Greensboro requires if there were withdrawals of \$2,000 or more from the Operating or Capital Reserve Account, they have to have prior written approval from HCD. All three withdrawals were over \$2,000.

IA RECOMMENDATION 1:

The Partnership should get prior written approval from HCD before withdrawing any funds over \$2,000 from their required Reserve Accounts.

- **HCD reply to Recommendation 1:** Concur

IA FINDING 1:

The Management Letter for fiscal year end December 31, 2007 was not received by the City.

IA RECOMMENDATION 1:

The Partnership should provide the City a Management Letter for fiscal year end December 31, 2007.

- **HCD reply to Recommendation 1:** Concur. It should be noted that if a management letter was not issued by the CPA then a letter stating that there were no management concerns should be provided.



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-Seager Place Apartments 2006-2007

Thank you for your reply of September 1, 2008 regarding IA's review report dated July 28, 2008 for Seager Place Apartments. We agree with HCD response.

Mickey Kerans
Internal Auditor

Len Lucas
Internal Audit Director

Cc: Bob Morgan, Deputy City Manager