



Date: December 7, 2007
To: Mitchell Johnson, City Manager
From: Internal Audit Division
Subject: Southwoods, LLLP

The Internal Audit Division has completed our annual review of Southwoods Limited Liability Limited Partnership in conjunction with a Programmatic Review by the Housing & Community Development Department for the 2005-2006 grant year. Attached you will find our review report; the programmatic 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: Ben Brown, Assistant City Manager for Economic Development
Andy Scott, Director of Housing & Community Development



City of Greensboro

Date: November 13, 2007
To: Andy Scott, Director of Housing & Community Development
From: Internal Audit Division
Subject: Southwoods LLLP 2005-2006

The Internal Audit Division has performed our compliance review of the year ended December 31, 2006 of Southwoods LLLP (Property). This partnership received a loan provided by the City of Greensboro (City) in November, 1996 in the amount of \$550,000 to help in the financing of 59 studio apartments located at Columbus and Kirkman Streets for low-income individuals. This loan is non-interest bearing and the current balance is \$540,950 as of December 11, 2006. These units are called Southwoods Apartments and are managed by Affordable Housing Management, Incorporated (Management).

The repayment on this loan to the City is based upon a percentage of cash flow after deducting all operating expenses actually incurred; payment of debt service and funding of the reserve accounts. The calculated payment for year ended December 31, 2006 was \$-0-. The replacement reserves have been satisfactorily reconciled and the charges to the account appear to have been approved in advanced and repairs are reasonable.

We accompanied Mr. Jim Teele, 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 were giving to the Property Manager 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 following findings:

FINDING:

The working capital at December 31, 2006 was a negative (\$26,091) an increase of (\$11,277) from 2005; and the current ratio was less than one at .286 to 1 a decrease of (.538) from 2005.

RECOMMENDATION:

Since these ratios indicate the Property's possible ability to pay off current liabilities in a timely manner, we would appreciate Management advising the City how they plan to improve working capital and the current ratio.

We request a written signed response from Management which should be received by November 27, 2007 with a copy to HCD and the Internal Audit Division.

We also request a written signed response from HCD on this review which should be received on or before November 27, 2007.

We would like to thank Ms. Donna Dungee, Community Manager of Southwoods Apartments; Ms. Joyce Satterfield, Director of Property Management 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.

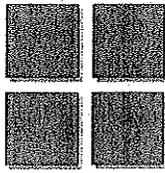


Mickey Kerans
Internal Auditor



Len Lucas
Internal Audit Director

Cc: Ben Brown, Assistant City Manager for Economic Development
Mr. David Levy, President of Affordable Housing Management, Incorporated



HCD

Department of Housing & Community Development

Date: November 9, 2007
To: David Levy, Affordable Housing Management, Inc.
From: Michael Blair, City of Greensboro HCD
RE: *FY07/08 Southwoods Programmatic Evaluation*

On October 17, 2007 HCD and Internal Audit (IA) staff conducted an on-site monitoring visit of the Southwoods Apartments. The property is located at 2307 Columbus Street in Greensboro, NC. Affordable Housing Management, Inc. (AHMI) 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, 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. Donna Dungee, Community Manager of Southwoods Apartments, Ms. Joyce Satterfield, Director of Property Management and other AHMI staff.

The November 1996 acquisition and construction project created 59 studio HOME units.

City of Greensboro financing for Southwoods was \$550,000 in federal HOME dollars. Additional funding was provided by a First Union construction loan and the North Carolina Housing Finance Agency (LIHTC).

Fifty-nine (59) studio units would be at Low HOME rents which are affordable to tenants at or below 50% of adjusted local median income for a two person household. This requirement has been met and exceeded with a total housing cost of \$356/m (rent \$317/m and utilities \$39/m).

Total allowable housing cost: $\$22,550 / 12 = \$1,879 \times .30 = \$564/m$

Incomes of residents are certified annually according to the NCFHA report dated from 10.16.07. Nine (9) tenant files were inspected by HCD staff. The files were all well maintained and contained all required income and lease information. They generally matched the rent roll report.

The reported occupancy was a low 89.2% from January 2007 through October 2007. This is slightly lower than the April 2007 area occupancy rate of around 90%.

Section 8 tenants are accepted and occupy five (5) units.

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

Management maintains an updated waiting list with twenty (20) active applications at the time of the visit.

The leases do not contain any of the HOME prohibited provisions and leases are greater than or equal to twelve months in length and not on a transient basis.

HCD staff inspected nine (9) units on October 17, 2007 and reported certain minor deficiencies that need attention in four (4) of those units. The overall condition was found to be good and the site itself is an attractive living environment. While improved over recent inspections there remain loose landing deck boards and nails. Please refer to the inspection report for details.

As a result of this review HCD staff is making zero (0) findings and one (1) concern. 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.

Concern 1 – Low Occupancy

The occupancy was calculated from information given to HCD staff. Using the vacancy loss worksheet occupancy of 89.2% was calculated for 2007. The reported occupancy in 2006 was 93%. It should be added that when occupancy is calculated from the move-in/move-out report then occupancy falls to approximately 88.2%. The October 2007 rent roll, and move-in/move-out report, shows 11 vacancies or 81.4% occupancy.

Requested Action

For management to confirm or correct the HCD calculated occupancy from January 1, 2007 through October 17, 2007. Regardless of the correct occupancy calculation it appears that it is not above 90% which is the cause of the concern.

HCD staff requests that management review the Internal Audit report and reply to it as requested. The draft Internal Audit report is dated October 19, 2007.

The concern in this review, in our view, does not reflect negatively on property management staff and their work ensuring continued affordability compliance. The intent of the concern is to make management aware of potential occupancy problems, which can lead to cash flow problems, and to encourage correcting of the condition.

It is HCD staff opinion that Southwoods Apartments is contractually compliant concerning HOME Program affordability requirements. The property itself is in good condition and remains a decent housing option for qualified households.

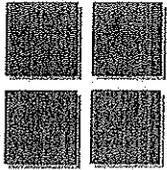
HCD staff appreciates the assistance provided during the monitoring visit by Affordable Housing Management Inc. staff.



Michael Blair
Specialist Grant Compliance



Andy Scott
Director HCD



HCD

Department of Housing & Community Development

MEMO

Date: November 29, 2007
To: Len Lucas, Internal Audit Director
From:  Michael Blair, Specialist Grants Compliance
RE: 2007 HCD Review of Southwoods Audit Report

After review of the Draft December 19, 2007 Internal Audit report of Southwoods Limited Partnership, for 2005-2006, HCD submits the following comments. The HCD "Reply" is a response to the Internal Audit "Recommendation" and not the specifics of the "Finding" unless otherwise noted:

IA FINDING 1:

The working capital at December 31, 2006 was a negative (\$26,091) an increase of (\$11,277) from 2005; and the current ratio was less than one at .286 to 1 a decrease of (.538) from 2005.

IA RECOMMENDATION 1:

Since these ratios indicate the Property's possible ability to pay off current liabilities in a timely manner, we would appreciate Management advising the City how they plan to improve working capital and the current ratio.

- **HCD reply to Recommendation 1:** Concur. In addition the HCD Programmatic Review included a finding on 2007 reported occupancy of 89.2% which is relatively low.

Summary: HCD concurs with the Internal Audit report.



AFFORDABLE HOUSING
MANAGEMENT, INC

Writer's Extension: 129
Writer's Email: jsatterfield@ahmi.org

November 29, 2007

Michael Blair
Specialist Grant Compliance
City of Greensboro
Department of Housing and
Community Development
Greensboro, NC 27402

Internal Audit
FY07/08 Southwoods Programmatic Evaluation

Concern 1 - Low Occupancy

Southwoods has experienced high vacancy rates from time to time. This was expected during its inception based on the type of units and eligibility of potential residents. Since the Audit, the marketing plan has been reviewed and updated in an attempt to generate more exposure and interest in these units. The marketing plan will be reviewed and updated periodically. Currently, we have seven vacant units with three move-ins pending.

PHYSICAL INSPECTION REPORT

PROPERTY: Southwoods Apartment
Address: 2307-A Columbus Street
Review Period: 2005-2006
Inspection Date: 10/17/2007

Exterior & Grounds

Building 2305

Missing pickets on decking scheduled for replacement
Soffitt put back into position
Loose nails hammered into position

Building 2307 & 2309

Loose deck boards hammered into place. Warped boards to be replaced

Building 2311

Loose nails hammered into place

Southwoods

2305-B Repairs on vacant unit completed
2307-C Bath sink drain opened
2309-A Faucet aerator replaced
2309-N Wall guard behind stove replaced
Crack in bath sink repaired
Towel bar placed back into position
2311-B GFI replaced in bath
Leaking faucet in bath repaired
Bathroom vent cleaned



Date: December 3, 2007
To: Andy Scott, Director of Housing & Community Development
From: Internal Audit Division
Subject: HCD Reply to IA Report- Southwoods 2005-2006

Thank you for your written reply of November 29, 2007. Internal Audit agrees with Housing & Community Development's responses to IA' subject report dated November 13, 2007.

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Mickey Kerans
Internal Auditor

A handwritten signature in cursive script, appearing to read 'Len Lucas'.

Len Lucas
Internal Audit Director

Cc: Ben Brown, Assistant City Manager for Economic Development



AFFORDABLE HOUSING
MANAGEMENT, INC.

Writer's Extension: 123

Via Email

November 29, 2007

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

Re: Southwoods

Dear Mr. Kerans:

In response to your letter of November 13 2007, I offer the following information:

Finding:

- a) Negative Working Capital: Please be aware that this property, when developed, was anticipated to incur higher vacancy levels than normal due to the clientele being served. Additionally, rent increases have been kept to a minimum in order to maintain the units as affordable as possible. Affordable Housing Management has deferred collection of fees to assist the property during this period. To address the current projected negative working capital for this fiscal year a budget-based rent increase approval will be submitted to the required lenders for approval. Additionally, a withdrawal from the Operating Reserve will be requested to cover this year's operating deficit. AHM will make every effort to keep the property rented and rents collected which will make the largest impact on this issue.

Please see the attached information responding to the maintenance issues and occupancy concern.

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

December 3, 2007

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

Re: Southwoods Apartments-2005 to 2006

Dear Debora:

We are in receipt of your e-mail letter dated November 29, 2007 reference the City's Internal Audit report letter dated November 13, 2007 for the 2005 to 2006 Year. We have reviewed your letter and agree with your responses and corrective measures.

Sincerely,



Mickey Kerans
Internal Auditor



Len Lucas
Internal Audit Director

Cc: Ben Brown, Assistant City Manager for Economic Development
Andy Scott, Director of Housing & Community Development