



City of Greensboro

Date: February 2, 2009
To: Mitchell Johnson, City Manager
From: Internal Audit Division
Subject: S&J Partnership, Incorporated 2006-2007

The Internal Audit Division has completed our annual review of S&J Partnership, Incorporated in conjunction with a Programmatic Review by the Housing & Community Development Department for the 2006-2007 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
Andy Scott, Director of Housing & Community Development



Date: December 30, 2008
To: Andy Scott, Director of Housing & Community Development
From: Internal Audit Division
Subject: S&J Partnership Incorporated. 2006-2007

The Internal Audit Division has performed our compliance review of the year ended December 31, 2007 of S&J Partnership, Incorporated (S&J), which received a loan from the City of Greensboro in the amount of \$200,000 on June 30, 2005. This loan helped in the renovation of the restaurant building at 1524 E. Market Street.

This loan is 5% interest bearing and repayment began on June 30, 2005. Payments are amortized over 300 months with a balloon payment due on June 30, 2010. As per the loan print out from the Department of Housing & Community Development (HCD) dated May 21, 2008 the balance of the loan plus current interest was \$171,964.

We were accompanied Ms. Abby Feinstein, Specialist Community Services of the Department of HCD, and she inspected the exterior and interior of the building and some repairs were noted for the property. These issues have been forwarded to the Borrower 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 regards to the December 31, 2007 balance sheet per the S&J 1120-S tax return, we note the following findings:

- a. The City loan amount on the tax return does not agree with the balance per HCD.
- b. On the tax return for 2007, the previous year's balance sheet amounts do not agree with the amounts on the 2006 tax return.
- c. Working capital per the tax return is in the negative by (\$321,065).
- d. Per the City Loan Agreement financial statements from the Borrower were due to the City within 180 days (June 30, 2008) of their fiscal year end but were not received until November 12, 2008.
- e. The cash balance per S&J's bank statements at December 31, 2007 and 2006 did not agree with the cash balances per the 1120-S tax return.

RECOMMENDATION:

An explanation is due from the Borrower why the comparative year balance sheet balances do not agree; why the financial statements were not received on time; and how they plan to improve their working capital position.

FINDING:

Insurance documentation provided by the Borrower did not note the City of Greensboro as a lien holder or additional insured.

RECOMMENDATION:

The insurance policy of S&J should state the City of Greensboro as a lien holder and additional insured.

FINDING:

The City's loan agreement dated June 30, 2005 is with the East Market Street Square, Inc. (EMSS) and its tenant S&J. The current lease for the restaurant at 1524 East Market Street states the Landlord as EMSS and the tenant as Danny Rogers.

RECOMMENDATION:

We recommend the Landlord on the lease be stated as S&J the Sublessor and Danny Rogers as Sublessee.

We request a written signed response from the S&J Management and the Department of HCD by January 12, 2009.

We would like to thank Mr. Skip Alston, President of S & J Management, Incorporated for his 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.

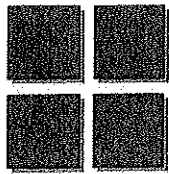


Mickey Kerans
Internal Auditor



Len Lucas
Internal Audit Director

Cc: Bob Morgan, Deputy City Manager
Skip Alston, President of S & J Management, Incorporated



HCD

Department of Housing & Community Development

MEMO

Date: December 29, 2008
To: Len Lucas, Internal Audit Director
From: Michael Blair, Specialist Grants Compliance
RE: FY08/09 HCD Review of EMSS-Bar-B-Que Palace

HCD does not prepare programmatic letters for the Bar-B-Que Palace loan due to the property not having typical performance requirements through either the contract with the city or through the City Bonds that funded the project.

That noted the following items were observed during a site visit conducted by HCD and Internal Audit staff on November 12, 2008:

- Exposed wires at the Dylon sign
- Exposed box covers (missing covers) at the exit sign and entry sign
- The metal rail (fence) that surrounds the outside patio is broken which creates a hazardous pass through opportunity for customers
- A large brick column that anchored the corner of the patio fence has been broken off, apparently by a vehicle, and now lays on the side of the parking lot in the grass
- Exposed wires at exterior "order" sign

Many of the above items could be considered hazards and should be repaired as soon as possible.

It is noted that the interior of the restaurant is in excellent condition and appeared to be very well maintained.



P.O. Box 20503 • Greensboro, NC 27420

January 14, 2009

Mr. Mickey Kerans
Internal Auditor
City of Greensboro
Greensboro, NC. 27402

Dear Mr. Kerans,

This letter is in response to your letter dated December 30, 2008, concerning the annual audit for S & J Partnership, Inc., for the year ending December 31, 2007.

The responses to your findings are as follows:

Finding No. 1

I have contacted our CPA who prepared the tax returns and the financial statements. He is not aware of the inconsistency of the balances on the balance sheet and the tax returns. Please find enclosed a copy of the 1120S for the year 2006 to be sure you have the correct tax returns. The tax returns were amended from a Limited Liability Company to a Chapter S Corporation in the year 2006. This might be the cause of the inconsistency in the balances. However, please feel free to contact Mr. Jim Bulk at 336-669-1574 our CPA for any additional questions concerning the financial statements and/or the yearly tax returns.

We will make an increase effort in getting the annual financial statements to you in a timely manner in the future. As you are aware, the restaurant that was operated by S & J Partnership, is now under new management, therefore, a plan to improve our working capital at this time is not necessary.

Finding No. 2

We have notified the insurance company to note the City of Greensboro as an additional insured on the property insurance policy of East Market Street Square, Inc., the owners of the building have notified the Sublessee to do the same on his Liability Insurance policy.

Finding No. 3

We are in the process of amending the lease agreement as requested to show Danny Rogers as the Sublessee and S & J Partnership, Inc. as the Sublessor. A copy will be forwarded to your office once all signatures are obtained.

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Response to Findings
City of Greensboro

Please also note that S & J Management, Inc. has changed its name to The Alston Realty Group, Inc. The address and the EIN is still the same.

If there are any questions or additional information needed concerning the response to your findings, please feel free to contact me at 336-272-5779.

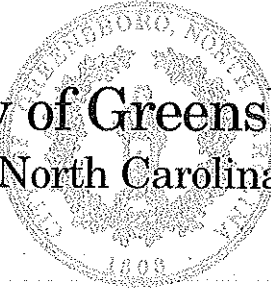
Sincerely,



Melvin L. Alston, President
The Alston Realty Group, Inc.

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

City of Greensboro
North Carolina



January 20, 2009

Ms. Melvin L. Alston
President
The Alston Realty Group, Inc.
P. O. Box 20503
Greensboro, NC 27420

Re: S&J Partnership Incorporated-2006 to 2007

Dear Mr. Alston:

We are in receipt of your letter dated January 14, 2009 reference the City's Internal Audit report letter dated December 30, 2008 for the 2006 to 2007 Year. Thank you for your prompt and concise response. We have reviewed your responses and our replies are as follows:

Finding No. 1:

Evidently the 1120S S Corporation return for 2006 you sent us is a later version the one we had in our file. Therefore we agree with your responses for Finding No. 1.

Finding No. 2:

Please send us a copy of an updated Certificate of Insurance which shows the City of Greensboro as additional insured.

Finding No. 3:

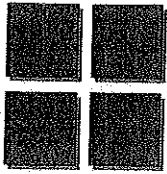
Agree.

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: January 28, 2009
To: Len Lucas, Internal Audit Director
From: Michael Blair, Specialist Grants Compliance
RE: FY08/09 HCD Review of S & J Management, Inc. - Restaurant Audit Report

After review of the December 2, 2008 Internal Audit report on S & J Management, Inc, for 2006-2007, HCD submits the following:

IA FINDING 1:

In regards to the December 31, 2007 balance sheet per the S&J 1120-S tax return, we note the following findings:

- a. The City loan amount on the tax return does not agree with the balance per HCD.
- b. On the tax return for 2007, the previous year's balance sheet amounts do not agree with the amounts on the 2006 tax return.
- c. Working capital per the tax return is in the negative by (\$321,065).
- d. Per the City Loan Agreement financial statements from the Borrower were due to the City within 180 days (June 30, 2008) of their fiscal year end but were not received until November 12, 2008.
- e. The cash balance per S&J's bank statements at December 31, 2007 and 2006 did not agree with the cash balances per the 1120-S tax return.

IA RECOMMENDATION 1:

An explanation is due from the Borrower why the comparative year balance sheet balances do not agree; why the financial statements were not received on time; and how they plan to improve their working capital balance.

- **HCD Reply to Recommendation 1:** Concur. The partnership has already satisfactorily replied to this finding.

IA FINDING 2:

Insurance documentation provided by the Borrower did not note the City of Greensboro as a lien holder or additional insured.

IA RECOMMENDATION 2:

The insurance policy of S&J should state the City of Greensboro as a lien holder and additional insured.

- **HCD Reply to Recommendation 2:** Concur. The partnership has already satisfactorily replied to this finding.

IA FINDING 3:

The City's loan agreement dated June 30, 2005 is with the East Market Street Square, Inc. (EMSS) and its tenant S&J. The current lease for the restaurant at 1524 East Market Street states the Landlord as EMSS and the tenant as Danny Rogers.

IA RECOMMENDATION 3:

We recommend the Landlord on the lease be stated as S&J the Sublessor and Danny Rogers as Sublessee.

- **HCD Reply to Recommendation 1:** Concur. The partnership has already satisfactorily replied to this finding.

Summary: HCD concurs with the Internal Audit report.

City of Greensboro

Date: January 29, 2009
To: Andy Scott, Director of Housing & Community Development
From: Internal Audit Division
Subject: HCD Reply to IA Report-S&J Partnership: Restaurant 2006-2007

Thank you for your memorandum dated January 28, 2009 regarding Internal Audit's report for S&J Partnership for period 2006-2007. Internal Audit agrees with the Department of Housing & Community Development's response to IA's subject report dated December 30, 2008.



Mickey Kerans
Internal Auditor



Len Lucas
Internal Audit Director

Cc: Bob Morgan, Deputy City Manager