

Internal Audit Division
City of Greensboro



March 26, 2010

TO: Rashad Young, City Manager
FROM: Internal Audit Division
SUBJECT: Alexander Homes Limited Partnership

The Internal Audit Division has completed our annual review of Alexander Homes Limited Partnership along with a Programmatic Review by the Housing & Community Development Department for the 2007-2008 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
Andy Scott, Assistant City Manager for Economic Development
Dan Curry, Interim Director of Housing & Community Development



City of Greensboro

Date: July 9, 2009
To: Dan Curry, Acting Director of Housing & Community Development
From: Internal Audit Division
Subject: Alexander Homes Limited Partnership 2007-2008

The Internal Audit Division has performed our annual compliance review of the current year's operations of Alexander Homes Limited Partnership, which received a loan from the City of Greensboro in the amount of \$797,000 in March 1995 to help in the rehabilitation of 40 apartments on Bingham, Gant, York and Spencer Streets and South O'Henry Boulevard. The balance due as of December 31, 2008 is \$794,253. The unpaid balance of this loan is due in April 2025. This partnership also entered into a Purchase Money Promissory Note with the Redevelopment Commission of Greensboro for \$67,500 on March 1995, and it is due in full in March of 2025.

The first mortgage is with Community Investment Corporation of the Carolinas which had an original amount of \$420,000 for 25 years at 8.54%. The mortgage balance as of December 31, 2007 was \$330,762.

These units are called Alexander Homes Apartments. They are rented to qualifying individuals and families in the Greensboro area and are managed by Wynnefield Properties, Incorporated.

We accompanied Mr. Jim Teele, Rehabilitation Advisor of the Department of Housing & Community Development, as he inspected approximately 15 percent of the units and some minor repairs were noted. Overall the exterior of the units inspected appear to be well maintained.

We examined selected program documentation maintained by the partnership 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 with the exception of the following findings:

FINDING:

In reference to the Partnership's financial condition as of December 31, 2008 we note the following: The working capital had a negative (\$48,805) which is an additional decrease of (\$21,553) from 2007.

RECOMMENDATION:

Management should advise us how they plan to improve the financial position of Alexander Homes.

FINDING:

There was \$10,576.05 withdrawn from the Capital Replacement Reserve account for the fiscal year ending December 31, 2008. Of that amount \$5,250.00 (49.6%) was for payment of audit fees.

RECOMMENDATION:

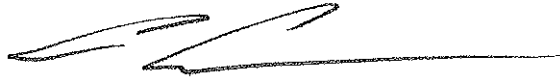
Audit fees are not a recognized capital withdrawal. The \$5,250.00 should be re-deposited back to the capital reserve account.

We request a written and signed response from the Department of Housing & Community Development and Wynnefield Properties by July 23, 2009 and mailed to City of Greensboro, Internal Audit Division, P.O. Box 3136, Greensboro, NC 27402

We would like to thank Ms. Joanie Duley, Corporate Management; Mr. Donald Friend, Maintenance Coordinator; Mr. Ernest Thomas, Property Manager; Ms. Denise Lockhart, Regional Manager; Mr. Tim Millisor, Director of Property Management and the staff of Wynnefield Properties 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: Andy Scott, Interim Assistant City Manager for Economic Development
Norwood Stone, President of Wynnefield Properties, Incorporated.



Date: July 9, 2009
To: Norwood Stone, Wynnefield Properties
From: Michael Blair, City of Greensboro HCD
RE: *FY09/10 Alexander Homes Apartments Programmatic Evaluation*

On June 2, 2009 HCD and Internal Audit (IA) staff conducted an on-site monitoring visit of Alexander Homes Apartments.

For informational purposes Alexander Homes Apartments are located at Gant, York, Bingham, S. O'Henry Blvd. and Spencer Street, in Greensboro, NC. Wynnefield Properties, Inc. manages the property and in this capacity is responsible to the City of Greensboro Department of Housing and Community Development for contractual and federal compliance.

The purpose of the monitoring visit is to determine whether the property is meeting HOME Program requirements and other applicable program and contractual requirements. In this monitoring review attention was paid to contract 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, 2008 to June 30, 2009. 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. Joanie Duley, Corporate Management; Mr. Donald Friend, Maintenance Coordinator; Mr. Ernest Thomas, Property Manager; Ms. Denise Lockhart, Regional Manager and Mr. Tim Millisor, Director of Property Management.

The March 1995 rehabilitation agreement included allocations of \$796,982 in Federal HOME dollars, a \$240,000 (Amended) gift from Neighborhoods United, and Tax Credits of \$1,415,517.

Forty (40) units and forty (40) HOME Assisted Units were created with an affordability period of thirty (30) years. It should be noted that the agreement increased the HOME period which under normal program rules would have since expired. Rents would not exceed 30% of the adjusted income of tenants at 60% of Median Income. Rents for 40% (16 units) of all units will not exceed 30% of the adjusted income of tenants at 50% of Median Income adjusted by family size.

The current 2009 HOME Program "Low HOME" rent is \$658 for a 2/BR unit. With rents at \$470 (with new rents of \$395/m) plus utilities of \$133 all Alexander Homes units fall below the "Low HOME" rent of \$658. The unit rents are in compliance with the HOME Program.

Resident incomes are certified annually according to the NCFHA Rental Compliance Reporting System report and HCD file review. Only one of the tenant incomes appears to have exceeded 140% of their maximum eligible income limit per the RCRS (LIHTC rules apply).

Section 8 housing vouchers are accepted and five (a decrease of two since the 2008 review) tenants receive this assistance.

HCD staff inspected seven (7) units on June 2, 2009 and reported several minor deficiencies that need attention. The exterior was reported to be in "average" condition. A second inspection of units (interiors of vacant units) was scheduled after the site visit and is discussed in the concern below.

Rental Property Scoring Report - 49 points out of maximum 100

A score of 49 places Alexander Homes in the red rental scoring category. This increases the level of monitoring by HCD and Internal Audit staff and reporting by management.

Indicator	Result	Deducted or added
Physical Occupancy FY08/09	58%	-15
Difference between Physical Occupancy and Econ. Occupancy (CY2008)	4.98%	-2
Average Vacant Unit Off-line Time	241 days	-8
Maintenance Response Time	around 1 day	0
Overall Physical Condition	"Average"	0
Per Unit Cash Flow	Under \$180 (-\$95)	-5
Hard Debt Service Coverage Ratio	.78	-15
Timely Delivery of External Audit	No management letter	-3
Adhering to HOME, PJ, Agreement and/or Note and Deed	Yes	0
Adhering to Reporting Standards	Yes	0
Cash Flow	negative	-5
Resident Turnover Rate	12%	0
Property Taxes Paid Overtime	Yes	0
Reserve requirements met	Yes	0
Replacement reserve Minimum of \$1,000/unit	\$35,918	-2

As a result of this review HCD staff is making one (1) finding 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 or a suggestion that may improve a service or element of operations.

Finding 1 – Very Low Occupancy

The occupancy for the property on the date of the monitoring visit was 50% (20 vacant units).

The occupancy from July 2008 through June 2009 is a reported 58% (down from 88% in the 2007 report and 78.8% in the 2008 report) or a vacancy rate of 42%. This is extremely damaging to the financial health of the property and has been an ongoing and escalating problem for nearly 3 years.

Similar properties in the area with rents from \$350-380/m have reported 90% occupancy rates or better.

Requested Action

Immediate improved occupancy should be goal for this property. It is noted that management lowered rents in June 2009, which was suggested by city staff on the day of the site visit, to \$395/m from \$420/m (and before that \$470/m). This should result in generating interest in some of the units. A new property manager has also been assigned to Alexander Homes (and Lincoln Grove).

The 2008 HCD report dated June 24, 2008 listed the low occupancy condition as a concern. It is categorized as a finding in this letter as no changes in rent, an accepted way of increasing occupancy, were made for almost 12 months from that letter as occupancy continued to decline to what appear to be unsustainable levels.

Management shall provide to HCD a rent roll on August 14, 2009 which hopefully will show an improvement due to the recent changes.

Concern 1 – Vacant Unit Turnover Time

Five of the units have been vacant, from the date of the site visit, for 511 days or longer. Five additional units had been vacant for 358 days which if they have remained vacant they are now at 390 days or more. In addition the average time off-line in FY08/09 (through June 2, 2009) was 241 days.

Requested Action

To shorten the time a unit remains off-line. High off-line (vacant) times like 511 days (now approaching 540 days or longer) can lead to vandalism of units' as well as general deterioration of the property and surrounding areas.

Due to the excessive off-line times HCD and Internal Audit staff along with staff from the primary lender (CICCAR) inspected on June 23, 2009 eleven (11) extremely long vacant units and found ten (10) to be what could be subjectively (two were borderline and the rest while generally clean were not high in potential tenant appeal) considered "rent ready"; one (1) was in no condition to be rented.

Concern 2 – Very Low Rental Property Score

The property when evaluated with the new rental scoring system scored 49 out of 100. This places it in what HCD considers a "red" category which indicates a property with serious difficulties and concerns; 49 is also well below the draft rental portfolio average which was in the 70's. This score triggers increased levels of monitoring by HCD and Internal Audit staff as well as reporting by management.

Requested Action

As directed in the finding management shall provide to HCD a rent roll on August 14, 2009 which hopefully will show an improvement in occupancy.

Observation 1 – Lead Based Paint Certification

None of the files reviewed contained signed and dated Lead Based Paint Certifications which are necessary for properties constructed prior to 1978.

Requested Action

This was discussed during the site visit and management staff agreed to start using the form. This will be verified during the next annual file inspection.

- HCD staff requests that management review the Internal Audit report and reply to it as requested.

The intent of the finding expressed in this case is to make higher, sustainable, occupancy a priority. The first concern is to heighten management awareness and encourage more efficient shorter vacant unit turnaround times. The second concern is to inform management of heightened City awareness regarding Alexander Homes and a strong desire to see the property stabilized. The observation is intended to record the absence of Lead Based Paint Certifications in tenant files as well as the intention expressed by management to start using the forms.

It is HCD staff opinion that Alexander Homes Apartments may be at risk of falling out contract compliance with the high vacancies and resulting lost income. The property appears to be in average condition and the units are acceptable and comparable to similar properties if not ideal. It remains an affordable housing option for qualified households.

HCD staff appreciates the assistance provided during the monitoring visit by Wynnefield Properties staff.


Michael Blair
Specialist Grants Compliance


Dan Curry
Acting Director HCD

R-11/19/09

Wynnefield Properties, Inc.

Real Estate Development
910-454-6134
Fax: 910-454-6190

P.O. Box 395
5614 Riverdale Road
Jamestown, NC 27282

November 18, 2009

Mr. Mickey Kearns
City of Greensboro
300 Washington Street
P.O. Box 3136
Greensboro, North Carolina 27402-3136

Re: Alexander Homes Limited Partnership

Dear Mickey:

This letter is to address the City of Greensboro Internal Audit Division letter dated July 9, 2009 concerning Alexander Homes. The property, since the audit in June, has experienced an increase in occupancy from 50% past occupancy rate to a present rate of 70%. We have increased our occupancy despite a tough rental environment that continues to exist. We are also now experience additional competition from private developed student housing.

Our use of rental incentives appears to have increased the occupancy from less than 50% to approximately 70% at present and we believe we will reach 80% with our current applications that are in process.

Finding 1 – We have implemented a rent incentive which has increased occupancy 20% as noted above. We currently have 4 applications in progress. We hope a continued increase in occupancy will positively affect the properties financial position.

Finding 2 – The replacement reserve will be funded out of cash flow when available.

We will continue to work with everyone to overcome the current economic crisis and will continue to try to overcome the functional obsolescence of this property. These two problems have greatly diminished Alexander Homes marketing ability. Should you have further question regarding our response concerning Alexander Homes, please contact us at 336-454-6134.

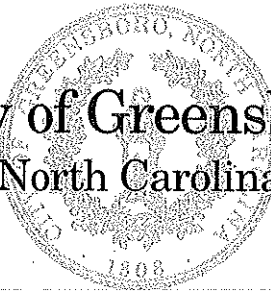
Regards,



Craig Stone
Wynnefield Properties

C: Norwood Stone
Bill Cashatt
Joanie Duley
Tim Millisor
Miah Strader

City of Greensboro
North Carolina



November 23, 2009

Mr. Craig Stone
Wynnefield Properties, Inc.
P. O. Box 395
Jamestown, NC 27282

Re: Alexander Homes Apartments-2007-2008

Dear Mr. Stone:

We are in receipt of Wynnefield's response dated November 18, 2009 in reference to the Alexander Homes Apartments review for 2007-2008. Please be advised that we require all Borrowers to response to our report within 14 days or in this case by July 23, 2009.

We agree with Wynnefield's response to improve the property's occupancy which should help its financial position regarding working capital. Regarding the Capital Replacement Reserve, please keep us advised when the \$5,250.00 has been replaced. We wish Wynnefield much success in improving the occupancy and financial condition of Alexander Homes Apartments.

If you should have any questions, please let us know at telephone number 373-2821.

Sincerely,


Mickey Kerans
Internal Auditor

Len Lucas
Internal Audit Director

Cc: Bob Morgan, Deputy City Manager
Andy Scott, Interim Assistant City Manager of Economic
Dan Curry, Acting Director of Housing & Community Development



MEMO

Date: March 22, 2010
To: Len Lucas, Internal Audit Director
From: Michael Blair, Analyst Grants Compliance 
RE: HCD Review of Alexander Homes Audit Report

HCD concurs with the Internal Audit review.

Internal Audit Division
Executive Department
City of Greensboro



March 23, 2010

TO: Dan Curry, Acting Director of Housing & Community Development
FROM: Internal Audit Division
SUBJECT: Alexander Homes Limited Partnership, 2007-2008

Thank you for your reply of March 22, 2010. Internal Audit agrees with the Department of Housing & Community Development's response to Internal Audit's subject report dated July 9, 2009.

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
Andy Scott, Assistant City Manager for Economic Development