



City of Greensboro

Date: July 17, 2009
To: Bob Morgan, Interim City Manager
From: Internal Audit Division
Subject: Lincoln Grove Limited Partnership 2006-2007

The Internal Audit Division has completed our annual review of Lincoln Grove Limited Partnership along 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. However, there is still a payment due to the City in the amount of \$2,577.75. If you have any questions or need additional information, please let us know. Thanks.

Len Lucas
Internal Audit Director

Cc: Andy Scott, Interim Assistant City Manager for Economic Development
Dan Curry, Interim Director of Housing & Community Development



City of Greensboro

Date: July 22, 2008
To: Andy Scott, Director of Housing & Community Development
From: Internal Audit Division
Subject: Wynnefield-Lincoln Grove Limited Partnership 2006-2007

The Internal Audit Division has performed our compliance review of the year ended December 31, 2007 of Wynnefield-Lincoln Grove Limited Partnership. This property received a loan provided by the City of Greensboro in the amount of \$1,671,583 in December 1990. This loan is non-interest bearing and is due in full April 1, 2022. The loan was provided to help in the rehabilitation of 116 apartments located on and near 503 S. O'Henry Blvd. These units are called Lincoln Grove Apartments and are managed by Wynnefield Properties, Incorporated. One of the units is being used as an office for the Property Manager.

The City's loan is to be repaid based upon 75% of gross receipts less operating and capital expenses actually incurred on an annual basis. Applying the payment formula, the Partnership owes the City \$2,577.75 for the year ended December 31, 2006 which has not been received as of this report date. This payment should be promptly submitted to the City. There is no payment due for the fiscal year ended December 31, 2007. The mortgage balance for fiscal year ended December 31, 2007 of \$1,652,681 agrees with both the department of Housing & Community Development and the Partnership's audited financial statements.

Mr. Jim Teele, Housing Rehabilitation Specialist of the Department of Housing & Community Development (HCD), 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 agreement. Based on our review, it appears that the funds have been spent according to the terms of the loan agreement except for the findings described below:

FINDING:

The Partnership did not provide us with a Management Letter for fiscal year ended December 31, 2007 until June 26, 2007.

RECOMMENDATION:

The Partnership should provide a Management Letter to the City for stated period within 90 days of its fiscal year end.

FINDING:

The working capital at December 31, 2007 was a negative (\$79,350) a decrease of (\$28,931) from 2006.

RECOMMENDATION:

Wynnefield should explain to the City how it plans to improve the Partnership's working capital.

FINDING:

The Partnership did not provide the City with the mortgage payment of \$2,577.75 which was due for fiscal year ended December 31, 2006.

RECOMMENDATION:

The Partnership should remit the City a check for \$2,577.75 immediately as per the loan agreement.

FINDING:

The City was not shown as a lien holder on the Partnership's current Certificate of Insurance.

RECOMMENDATION:

The Partnership should send the City as current Certificate of Insurance designating the City as a lien holder.

We request a written signed response from Wynnefield Management, Inc. and the department of Housing & Community Development by August 5, 2008 to the City of Greensboro, Internal Audit Division, P. O. Box 3136, Greensboro, NC 27401.

We would like to thank Ms. Joanie Duley, Corporate Management; Mr. Ernest Allen, Community Manager; Mr. Donald Friend, Maintenance Coordinator; Ms. Ann Chavis, Compliance Manager and Mr. Jim Blakely, Wynnefield Regional Property Manager 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: Bob Morgan, Deputy City Manager
I. Norwood Stone, President of Wynnefield Properties, Incorporated



Date: July 21, 2008
To: Norwood Stone, Wynnefield Properties
From: Michael Blair, City of Greensboro HCD
RE: *FY08/09 Lincoln Grove Programmatic Evaluation*

On June 26, 2008 HCD and Internal Audit (IA) staff conducted an on-site monitoring visit of the Lincoln Grove Apartments. 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 compliance.

The purpose of the monitoring visit is to determine whether the property is meeting applicable contractual requirements. In this review attention was paid to contractual 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. Joanie Duley, Corporate Management; Mr. Ernest Allen, Community Manager; Mr. Donald Friend, Maintenance Coordinator; Ms. Ann Chavis, Compliance Manager and Mr. Jim Blakely, Wynnefield Regional Property Manager.

For reference purposes the property is located at 501 and 503 S. O'Henry Boulevard, 723 and 724 Jennifer Street, 206 and 207 Avalon Road, 800 Lowdermilk Street, 2003 Spencer Street, in Greensboro, NC. The property was acquired and rehabilitated in 1991 with \$1,671,583 in local bond funds combined with Private financing and North Carolina Housing Finance Agency (NCHFA) Low Income Housing Tax Credits (LIHTC). This acquisition and rehabilitation project resulted in 116 (minus one office) affordable two-bedroom units.

The Deed of Trust, dated December 1990, required rents to be affordable to families with income at or less than 45% of median area income for a family of three (3) or more OR at or less than 50% of median area income for a family of two (2) or less.

For families with three (3) or more members the 2008 maximum housing cost is: \$571.50
For families with two (2) or less members the 2008 maximum housing cost is: \$563.75

Rents for all eligible units in the complex are \$470/month with a \$133/month utility expectation (\$150/m and \$133/m on the NCHFA RCRS). Total housing cost is then \$603/month. This exceeds the Deed of Trust affordability requirements. (See finding below)

| | Rent | Utility | Total Rent + UA |
|-----------|-------|---------|-----------------|
| All units | \$470 | \$133 | \$603 |

Due to the local funding source and language in the loan agreement NCHFA requirements regarding occupancy and tenancy do not supersede the municipal contractual requirements (specifically the Deed of Trust). The deed (attached §15) states:

“No tenant’s lease shall be renewed if such tenant’s income exceeds seventy percent (70%) of the median income adjusted for family size.”

A simple 70% calculation, not rounded to the nearest \$50 or weighted, of median family income by family size from 2008 area MFI of \$56,100 is:

| | 1 person | 2 person | 3 person | 4 person | 5 person |
|--------------|----------|----------|----------|----------|----------|
| 2008 MFI 70% | \$27,489 | \$31,416 | \$35,343 | \$39,270 | \$40,514 |

Using the table above none of the reported tenant incomes appear to have exceeded 70% of adjusted median income which is the Deed of Trust maximum income.

Resident incomes do not appear to have been certified annually according to the HCD file review. Several of the tenant files reviewed were in poor condition and many did not contain all required back-up documentation. (See concern below)

The reported occupancy has been relatively low at 87-88% from July 1, 2007 through June 26, 2008. This was calculated with a rent roll report provide by management. This is above the April 2008 area occupancy rate of 83% however May - June 2008 has been lower at 82-83%. (See concern below)

Section 8 housing vouchers are accepted and 37 units (up from 32 units last year) are occupied by tenants that are reported to be supported by these vouchers.

Wynnefield Properties has a fair marketing plan that *may* meet the City Affirmative Marketing Requirements. The Tenant Selection Policy is understandable.

HCD staff inspected eighteen (18) units on June 26, 2008 and reported certain minor deficiencies that need attention in fourteen (14) of those units. The exteriors of most of the buildings are in overall good condition with minor maintenance and repair conditions. Please refer to the inspection report for details.

As a result of this review HCD staff is making one (1) finding and two (2) concerns. 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.

Finding 1 – Affordability

This is the second consecutive year that this finding has been made. Last year's reply to the finding referenced the extended use agreement as the guiding rule. HCD does not concur with the idea that LIHTC/NCHFA rules prevail.

The December 1990 Deed of Trust states in §15 "Use of Premises" that rents shall be affordable to families with income at or less than 45% of median area income for a family of three (3) or more OR at or less than 50% of median area income for a family of two (2) or less.

In order to achieve this affordability requirement for families with three (3) or more members the maximum monthly housing cost would be \$571.50. For families with two (2) or less members the maximum monthly housing cost would be \$563.75.

With all rents at \$470/m and utilities of \$133/m (housing authority calculation) reported to HCD all units remain out of contractual compliance regardless of the terms of the extended use agreement.

Requested Action

HCD staff requests that management bring the housing expense into compliance with the city agreement, specifically the Deed of Trust dated December 21, 1990, by reducing rents or calculating actual utility costs (which are typically lower than GHA costs and may bring the units into compliance) by **September 12, 2008**. Backup documentation from the utility provider will be needed if utility calculation averages are made.

Concern 1 – Occupancy

This is the second consecutive year that this concern has been included. The reported occupancy has been an average 87-88% from July 1, 2007 through June 26, 2008 and dropped lower in Q4 of FY07/08. This was calculated off of rent rolls provided to HCD staff by management.

Requested Action

Management should work to improve occupancy at Lincoln Grove. Management marketing efforts appear insufficient and may be a violation of the city affirmative marketing policy which is attached to this report.

Concern 2 – Income Certifications

This is the second consecutive year that this type of concern has been included. Two tenant files reviewed had incomplete recertifications from 2007. Other tenant files were in various states of disarray.

- 1 747-3: Annual 2007 recertification incomplete - no signatures.
- 2 723-26: Annual 2007 recertification incomplete - 2008 in progress.
- 3 747-11: Income certification form was not signed by management.

Requested Action

Tenant recertifications must be completed annually. Income certification forms should be signed by both the tenant and management.

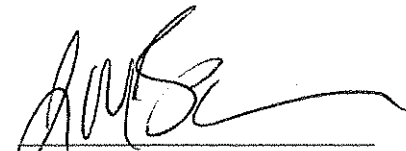
It should be noted that recent (late 2007 and 2008) file documentation for move-ins and recertifications are in much better order and condition.

A payment of \$2,577.75 is due to the City per Internal Audit. HCD staff requests that management reviews the Internal Audit report and respond to it as requested. The draft Internal Audit report is dated July 2, 2008.

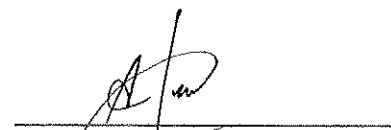
The finding and concerns in this review, in our view, do not reflect negatively on property management staff and their work ensuring continued affordability compliance. The intent of the finding is to ensure contractual affordability compliance. The intent of the first concern is to make higher occupancy a priority. The intent of the second concern is to make management aware of incomplete tenant file content although it appears that this has been addressed in 2008.

It is HCD staff opinion that the Lincoln Grove Apartments remain out of contractual compliance concerning affordability requirements. That noted the property remains an affordable decent housing option for qualified households.

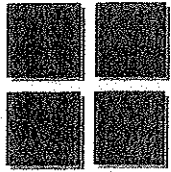
HCD staff appreciates the assistance provided during the monitoring visit by Wynnefield Properties staff.



Michael Blair
Specialist Grants Compliance




Andy Scott
Director HCD



HCD

Department of Housing & Community Development

MEMO

Date: July 28, 2008
To: Len Lucas, Internal Audit Director
From:  Michael Blair, Specialist Grants Compliance
RE: HCD Review of Lincoln Grove Audit Report

After review of the July 2, 2008 Internal Audit report for Lincoln Grove Limited Partnership/Wynnefield Properties audit, for 2006-2007, HCD submits the following:

IA FINDING 1:

The Partnership did not provide us with a Management Letter for fiscal year ended December 31, 2007 until June 26, 2007.

IA RECOMMENDATION 1:

The Partnership should provide a Management Letter to the City for stated period within 90 days of its fiscal year end.

- HCD Reply to Finding/Recommendation 1: Concur.

IA FINDING 2:

The working capital at December 31, 2007 was a negative (\$79,350) a decrease of (\$28,931) from 2006.

IA RECOMMENDATION 2:

Wynnefield should explain to the City how it plans to improve the Partnership's working capital.

- HCD Reply to Finding/Recommendation 1: Concur.

IA FINDING 3:

The Partnership did not provide the City with the mortgage payment of \$2,577.75 which was due for fiscal year ended December 31, 2006.

IA RECOMMENDATION 3:

The Partnership should remit the City a check for \$2,577.75 immediately as per the loan agreement.

- **HCD Reply to Finding/Recommendation 3:** Concur.

IA FINDING 4:

The City was not shown as a lien holder on the Partnership's current Certificate of Insurance.

IA RECOMMENDATION 4:

The Partnership should send the City as current Certificate of Insurance designating the City as a lien holder.

- **HCD Reply to Finding/Recommendation 4:** Concur.

Summary: HCD agrees with the Internal Audit report.



Date: July 30, 2008
To: Andy Scott, Director of Housing & Community Development
From: Internal Audit Division
Subject: HCD Reply to IA Report-Lincoln Grove 2006-2007

Thank you for your response of July 28, 2008 regarding Internal Audit's report for Lincoln Grove for period 2006-2007. Internal Audit agrees with Housing & Community Development's response to IA's subject report dated July 22, 2008.

A handwritten signature in black ink, appearing to read "M. Kerans".

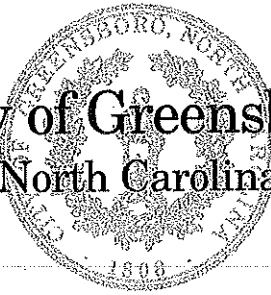
Mickey Kerans
Internal Auditor

A handwritten signature in black ink, appearing to read "Len Lucas".

Len Lucas
Internal Audit Director

Cc: Bob Morgan, Deputy City Manager

City of Greensboro
North Carolina



March 9, 2009

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

Re: New Garden Homes, Lincoln Grove & Kingsgate South-2006 to 2007

Dear Craig:

We are following up on responses due from Wynnefield for the subject properties re: reports for the 2006-2007 year. Your responses were due 7/17/08, 8/5/08 and 10/8/08 respectively. Since your responses are past due, please reply as soon as possible.

Sincerely,

Mickey Kerans
Internal Auditor

Len Lucas
Internal Audit Director

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

Kerans, Mickey

From: Joanie Duley [joanie.duley@wynnfieldproperties.com]

Sent: Thursday, June 25, 2009 9:27 AM

To: Kerans, Mickey; bill.cashatt@wynnfieldproperties.com

Subject: LG-City of G'Boro response 2008.doc

Attachments: LG-City of G'Boro response 2008.doc

Mickey,

Please see the attached letter from Bill Cashatt, CFO dated September 16, 2008. The attached letter was sent with the New Garden response letter from the corporate office in Jamestown, NC.

Please let us know if you should require any further information regarding Lincoln Grove.

Joanie

6/25/2009

R-6/25/09

Wynnefield Properties

5614 Riverdale Dr. Jamestown NC, 27282 Phone: 336-454-6134 Fax: 336-454-6226

September 16, 2008

To: City Of Greensboro-Internal Audit Division
Mickey Kerans
West Washington Street
Greensboro, NC 27402

RE: Lincoln Grove Limited Partnership 2006-2007

Dear Mickey,

This letter is to be responded to in two parts, we will respond below to the Internal Audit Division findings, a-d, as defined in the first section on your letter dated 7/22/2008.

Lincoln Grove will respond to c & d first –regarding the funds for City Of Greensboro mortgage payment for the fiscal year ending December 31, 2006, as funds are available from the Limited Partnership-we will send the funds to the City in the amount of \$2,577.75. Additionally, the ACCORD sheet has been attached to this letter showing the City of Greensboro as a lien holder. ✓

For finding A-Management Letter-this was supplied by request with our external auditor, Dauby, O'Connor, & Zaleski to the City of Greensboro on June 11, 2008, not as stated on June 26, 2008. DOZ performs the Management Letter only as a request.

For finding B-Working Capital-this response will be submitted with the HCD portion of the letter, with information concerning Lincoln Grove neighbor- Willow Oaks-which is a direct source of Lincoln Grove's tenancy, thus-resulting in lower occupancy which directly correlates to the working capital.

Please feel to contact me if you need any further assistance.

Respectfully Submitted,

Bill Cashatt, CFO
Wynnefield Properties
336-454-6134, xt. 23



City of Greensboro
North Carolina

July 1, 2009

Mr. Bill Cashatt
Controller
Wynnefield Properties
P. O. Box 395
Jamestown, NC 27282

Re: Lincoln Grove Apartments-2006-2007

Dear Bill:

Thank you for your response in your letter dated September 16, 2008 in reference to the Lincoln Grove Apartments review for 2006-2007 reference our letter dated July 22, 2008. Please be advised we did not receive your written response until June 25, 2009. We requested Wynnefield's response to our report be received on or before August 5, 2008.

On June 26, 2009 we received Lincoln Grove's Management Letter and Certificate of Insurance as requested in our report.

As far as the mortgage payment of \$2,577.75 since Wynnefield has not paid this as yet we need to have a more definite date when the City will receive their payment.


In reference to our finding on how Wynnefield plans to improve its Working Capital for Lincoln Grove Apartments, we still need a thorough explanation in writing.

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: Andy Scott, Interim Assistant City Manager for Economic Development
Mike Williams, Assistant City Attorney

R- 7/10/09

MGT, INC.

Property Management
336-454-6134
Fax: 336-454-6190

P. O. Box 395
5614 Riverdale Road
Jamestown, N. C. 27282

July 7, 2009

Mickey Kerans
Internal Auditor
City of Greensboro
P. O. Box 3136
Greensboro, N. C. 27402

Re: Lincoln Grove Limited Partnership Audit

Dear Mickey:

In reference to your letter dated July 1, 2009 I am responding to your findings.

As stated in our letter dated September 16, 2008 the mortgage payment of \$ 2,577.75 will be paid when the property's cash flow improves.

We are implementing the following procedures in a good faith effort to improve the financial position of Lincoln Grove Apartments

:

- 1) A new Manager was hired in June 2009.
- 2) Distributed flyers in the surrounding community advertising Lincoln Grove Apartments.
- 3) Site Manager is to contact housing assistance agencies in Greensboro on a regular basis.
- 4) We are working with an attorney to reduce the property tax liability. Guilford County is to send the new taxable value and rates in the next 30 days.
- 5) We have reduced property insurance premiums by \$ 6,022.00 for the 2007-2008 coverage period.
- 6) We have lowered rents to \$ 395.00 for all vacant units and are charging a \$ 99.00 security deposit.

If you have any questions please call.

Sincerely,


Bill Cashatt



City of Greensboro
North Carolina

July 13, 2009

Mr. Bill Cashatt
Controller
Wynnefield Properties
P. O. Box 395
Jamestown, NC 27282

Re: Lincoln Grove Apartments-2006-2007

Dear Bill:

Thank you for your response in your letter dated July 7, 2008 in reference to the Lincoln Grove Apartments review for 2006-2007 reference our letter dated July 1, 2009. We agree with your responses. Please send the mortgage payment in the amount of \$2,577.75 which is now due.

Sincerely,



Mickey Kerans
Internal Auditor



Len Lucas
Internal Audit Director

Cc: Andy Scott, Interim Assistant City Manager for Economic Development
Mike Williams, Assistant City Attorney
Dan Curry, Acting Director of Housing & Community Development