



# City of Greensboro

Date: June 20, 2008  
To: Mitchell Johnson, City Manager  
From: Internal Audit Division  
Subject: Malachi House, Incorporated

The Internal Audit Division has completed our annual review of the Malachi House, Incorporated 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.

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: May 12, 2008  
To: Andy Scott, Director of Housing & Community Development  
From: Internal Audit Division  
Subject: Malachi House, Incorporated

The Internal Audit Division has performed our yearly monitoring visit of the Malachi House, Incorporated which received a Transitional Shelter Operations grant in the amount of \$50,000 from the City of Greensboro during the 2006 to 2007 grant year.

The **Transitional Shelter Operations** Nussbaum Housing Partnership Allocation grant for \$50,000 was used to provide transitional housing for men enrolled in the twelve month residential substance abuse treatment program located at 507 Balboa St., Greensboro, NC. Operational costs eligible for reimbursement are: staff salaries; maintenance and security salary costs; maintenance and operations; insurance and utilities. Approximately 300 clients were served as a result of this grant.

We examined selected financial transactions and program documentation maintained by the agency for compliance with the contract and for assurance that program goals were achieved. Based on our review, it appears that the funds have been spent according to the terms of the contract with the exceptions of the following items:

**FINDING:**

In reference to the Agency's audited financials for year ended December 31, 2007, net assets for 2007 decreased to a deficit of (\$301,564) from a deficit of (\$207,735) for 2006; working capital for 2007 decreased to a deficit of (\$27,362) from a positive \$29,777 in 2006.

**RECOMMENDATION:**

The Agency should advise the City on how they plan to improve their financial position.

**FINDING:**

The external audit report for fiscal year ended December 31, 2007 was due to the City by March 31, 2008, however, the City did not receive a copy until April 30, 2008.

**RECOMMENDATION:**

The agency should comply with the grant contract with the City to deliver their external audited financials within 90 days of their fiscal year end.

We request a written and signed response from the Malachi House and the Department of Housing & Community Development by May 26, 2008 to the City of Greensboro, Internal Audit Division, P.O. Box 3136, Greensboro, NC 27401.

We would like to thank Mr. Cliff Lovick, Executive Director; Ms. Jacqueline Hooks, Chief Financial Officer; Ms. Eileen Kerr, Public Relations and the staff of the Malachi House, 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.

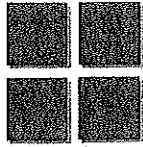


Mickey Kerans  
Internal Auditor



Len Lucas  
Internal Audit Director

Cc: Bob Morgan, Deputy City Manager  
Elder Cliff Lovick, Executive Director of Malachi House, Incorporated.



# HCD

Department of Housing & Community Development

**Date:** May 9, 2008  
**To:** Cliff Lovick, Executive Director, Malachi House  
**From:** Michael Blair, City of Greensboro HCD  
**RE:** FY07/08 Programmatic Evaluation

On April 30, 2008 HCD and Internal Audit (IA) staff conducted an on-site monitoring visit of Malachi House. Malachi House is a sub-recipient of the City of Greensboro Department of Housing and Community Development and is carrying out the activity of shelter operations. This was to include shelter, food and long-term substance abuse recovery care. The funding for Malachi House in FY06/07 was \$50,000 (Local) which was expended in its entirety and fully requested.

HCD staff understands that Malachi House is a 12 month residential and after-care substance abuse treatment program. Participants must express a need for residential treatment housing, have a "life controlling" problem, must be male, and must be 18 years old or older or 17 years old and have parental permission. Approximately 300 clients would be served.

The period under review, along with current conditions, was from July 1, 2006 to June 30, 2007. In addition to examining various program materials and financial files in the course of the review HCD and IA staff met with Mr. Cliff Lovick, Executive Director, Ms. Jacqueline Hooks, Chief Financial Officer, Ms. Eileen Kerr, Public Relations, Harvey Bryant, Intake Coordinator and the staff of Malachi House.

The purpose of the monitoring visit is to determine whether the sub-recipient has implemented and administered HCD-funded activities according to applicable program and contractual requirements. In this monitoring review attention was paid to contract compliance along with financial management systems, requisition practices, facility conditions and performance measures.

Overall Malachi House appears to be making a diligent effort to comply with HCD requirements. Malachi House appears to HCD to be addressing when needed the separate time and place rule regarding sectarian activities. It was reported in the last HCD review that a participant who selected the secular curriculum has graduated which is commendable.

Malachi House has fulfilled the HCD Board Training (3 members and 1 management staff) requirement for four consecutive years, 2004, 2005, 2006 and 2007. HCD also recommends the Duke Non-Profit Management program for board members of all agencies.

The board met three times in FY06/07 (Four (4) is the HCD suggested minimum number of annual (July 1 to June 30) board meetings with a quorum) and has a wide range of backgrounds. Malachi House maintains committees which report to the full Board.

Minutes are maintained and are generally understandable.

As a result of this review HCD staff is making one (1) finding and two (2) concerns regarding the use of HCD funding. A *finding* is defined by HCD as a program element that does not comply with a local, federal, or contractual, rule or regulation whereas a *concern* is either a potential finding or program weakness that should be improved to avoid future problems.

Finding Number 1 – Land Use

The uses of the property located at 507 & 509 Balboa Street are limited to a group home facility, church and day care facility. HCD believes through this review and site visit that other private business uses may be occurring. This would be contractual non-compliance per §2-G.

Requested Action 1

HCD has referred this issue to the city Planning Department for review. HCD requests that Malachi House cooperate with the planning and zoning review.

Concern Number 1 – Accessibility

It is understood by city staff that Malachi House does not accept otherwise qualified applicants due to certain physical disabilities. This may, or may not, pose an accessibility problem.

Requested Action 1

HCD has referred this matter to the city Human Relations Department for review of fair housing compliance. This is a courtesy request in order to prevent future confusion regarding federal and local fair housing requirements. HCD requests that Malachi House staff cooperate with this review.

Concern 2 – Beneficiary File Review

While the files reviewed were well maintained they did not include Community Development - Household Certifications. All files reviewed (after FY04/05) contained signed Verification of Homelessness forms. Prior to FY05/06 the agency did not complete Verification of Homelessness forms.

Requested Action 2

HCD requires that Community Development - Household Certification forms be filled out and signed by all program participants.

**Malachi House Measures**

	<b>FY04/05</b>	<b>FY05/06</b>	<b>FY06/07</b>
<u>New</u> Participants Served <sup>(HCD Records)</sup>	223	211	176 (232 w/prior year)
Client Days/Nights <sup>(HCD Records)</sup>	-	-	20,256
Average Occupancy <sup>(HCD Records)</sup>	88%	86.2%	80%
Percent Homeless	25%	-	-
Average Length of Stay	106/d	140/d	126/d
Average Total Length of Stay	121/d	160/d	-
Program Graduates during FY <sup>(MH)</sup>	42	58	1 (per "Enrollment Exits" report)

## Results of Facility Site Visit

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*External:* The exterior of the shelter is well maintained (no trash or clutter). The facility appeared to be clean and safe. Malachi House provides all client transportation.

*Internal:* Clients have computer access for classes and training provided by GTCC. A television is available for select movies and sporting events - access is limited. There is a phone available to clients. Clients have closets and dressers available for personal possessions.

*Sleeping areas:* The beds are in shared rooms. The rooms were very clean and linens are cleaned weekly. Suggestion: A bed map could be utilized.

*Bathrooms:* Overall the bathrooms inspected were clean and well maintained. There are showers available for clients.

*Medication:* Health Serve and "After Hours" at Moses Cone are utilized.

*Kitchen/Food:* The facility provides three meals a day for clients. Food is prepared on-site. The Barto facility kitchen, which is mostly a special events kitchen, had a state DHHS-DPH rating of 96. City staff was told that this rating is for the Balboa Street (the main kitchen) and the Barto site combined.

*Services:* Case management, substance abuse counseling and vocational training, are provided on-site along with referrals for other related services such as medical.

*Safety:* There were several fire extinguishers. There are smoke detectors and a sprinkler system. The written fire safety plan and emergency evacuation plan are not posted however fire drills are scheduled monthly which is commendable. There is a first aid kit which included a CPR mask.

*Postings:* The facility has posted a good grievance procedure. Facility rules are provided by handout but not posted.

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HCD staff requests that Malachi House management review the Internal Audit report and reply to it as requested. The draft Internal Audit report is dated May 7, 2008.

The finding and concerns in this review, in our view, do not reflect negatively on Malachi House staff and their work ensuring the continued success of the referenced programs. The intent of the finding is to immediately resolve any and all potential non-compliance with local zoning and land-use code. The first concern is to guarantee agency adherence to all federal and local fair housing regulations and HCD oversight responsibilities to those regulations. The second concern is simply to make management aware of certain file maintenance requirements.

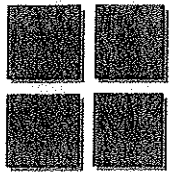
It is HCD staff opinion that Malachi House is an eligible use of city Homelessness Prevention funding. However the HCD finding and first concern must be addressed and resolved as quickly as practicable or eligibility will be jeopardized.

The program appears to be a good alternative for men with substance abuse problems who are, or may become, homeless. Performance records were understandable but could be clearer. There are no disqualifying financial concerns for future City funding. The program relationship to 2005-2009 Consolidated Plan is Priority 2B-A and 2B-B.

HCD staff appreciates the assistance provided during the monitoring visit by Malachi House staff.

  
Michael Blair  
Specialist Grants Compliance


  
Andy Scott  
Director HCD



# HCD

Department of Housing & Community Development

## MEMO

 **Date:** May 27, 2008  
**To:** Len Lucas, Internal Audit Director  
**From:** Michael Blair, Specialist Grants Compliance  
**RE:** HCD Review of Malachi House Internal Audit Report

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After review of the May 7, 2008 Internal Audit report on Malachi House, Inc., for 2006-2007, HCD submits the following:

### IA FINDING 1:

In reference to the Agency's audited financials for year ended December 31, 2007, total Revenues were down (0.59%); net assets for 2007 decreased to a deficit of (\$301,564) from a deficit of (\$207,735) for 2006; working capital for 2007 decreased to a deficit of (\$27,362) from a positive \$29,777 in 2006.

### IA RECOMMENDATION 1:

The Agency should advise the City on how they plan to improve their financial position.

- **HCD Reply to Recommendation 1:** *Concur.*

### IA FINDING 2:

The external audit report for fiscal year ended December 31, 2007 was due to the City by March 31, 2008, however, the City did not receive a copy until April 30, 2008.

### IA RECOMMENDATION 2:

The agency should comply with the grant contract with the City to deliver their external audited financials within 90 days of their fiscal year end.

- **HCD Reply to Recommendation 2:** *Concur.*

**Summary:** On recommendations one (1) and two (2) HCD concurs with the Internal Audit report.



# City of Greensboro

Date: May 29, 2008  
To: Andy Scott, Director of Housing & Community Development  
From: Internal Audit Division  
Subject: HCD Reply to IA Report-Malachi House Grant 2006-2007

Thank you for your reply of May 27, 2008. Internal Audit agrees with Housing & Community Development's response to IA' subject draft report dated May 7, 2008.

Mickey Kerans  
Internal Auditor

Len Lucas  
Internal Audit Director

Cc: Bob Morgan, Deputy City Manager





# MALACHI HOUSE

"He shall turn the heart of the father to the children and the hearts of the children to their father". . . 4:6

Elder Cliff C. Lovick  
Executive Director

June 10, 2008

Mr. Mickey Kerans  
Internal Auditor  
P.O. Box 3136  
Greensboro, NC 27402-3136

Dear Mr. Kerans:

Please accept the following responses to the Internal Audit Division correspondence regarding our organization's 2006 to 2007 Shelter Operations Grant in the amount of \$50,000.

*RECOMMENDATION:*

The Agency should advise the City on how they plan to improve their financial position.

*RESPONSE:*

The Malachi House, Inc. is currently in its fourth year of its 5 year debt-reduction plan that was implemented in January of FY 2005. The objectives of the Debt Reduction Plan are as follows:

1. Sell property located at 1519 Barto Place
2. Increase Revenues
3. Decrease Expenses

The organization has implemented a budget reduction plan for the remaining six months of this year that will accomplish the following objectives:

1. Reduce current monthly mortgage payment of \$21,797.45 to \$14,000/month by refinancing and securing a fixed interest only loan.
2. Reduce payroll by 10% that will free up an additional \$7,157 per month in cash flow.
3. Downsize payroll by eliminating 7 positions that yield a monthly savings of \$7,076.
4. Sell Barto Place and Ball St. properties that will result in a monthly savings of \$2,940 (rent and utilities).

The organization has a buyer for the Barto Place property as well as the Ball Street properties.

Post Office Box 20803 • Greensboro, NC 27420  
Administrative Offices 336.275.2500 • FAX 336.275.4000  
Induction Center 336.272.2700 • FAX 336.272.3100



The proceeds from the sale of the Barto Place property and the proceeds from the annual fundraising banquet will provide the working capital needed to complete the renovation project, enable the organization to open up another vocational training site in the form of a Car Wash in High Point and the production of the televised marketing fundraising efforts.

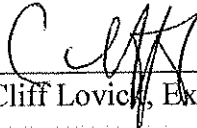
The proceeds from the sale of the Ball Street properties will be used to pay off some of the current debt of the organization and establish a reserve account in order to improve the organization's working capital and overall net asset and financial position.

*RECOMMENDATION:*

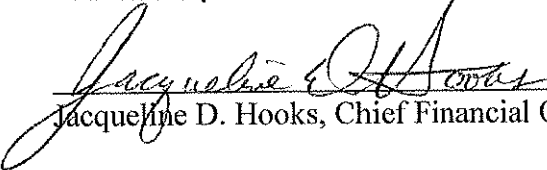
The agency should comply with the grant contract with the City to deliver their external audited financials within 90 days of their fiscal year end.

*RESPONSE:*

The Chief Financial Officer and the CPA firm have improved the reporting schedule and will continue to make every effort to ensure that the external audit is done within the 90 day time frame.

  
\_\_\_\_\_  
Cliff Lovich, Executive Director

  
\_\_\_\_\_  
Date

  
\_\_\_\_\_  
Jacqueline D. Hooks, Chief Financial Officer

  
\_\_\_\_\_  
Date



City of Greensboro  
North Carolina

June 11, 2008

Mr. Cliff Lovick  
Executive Director  
Malachi House  
P. O. Box 20803  
Greensboro, NC 27420

Re: Malachi House Review-2006 to 2007

Dear Mr. Lovick:

We are in receipt of your letter dated June 10, 2008 reference the City's Internal Audit report dated May 12, 2008 for the 2006 to 2007 Grant Year for the Malachi House. Your timely response to our report is appreciated.

We appreciate your response specifying your plans to improve Malachi House's financial position. We wish you much success in your strategic financial planning.

Your endeavor to improve the delivery of your external audit and management letter to the City within 90 days of your fiscal year end is appreciated.

Sincerely,



Mickey Kerans  
Internal Auditor



Len Lucas  
Internal Audit Director

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