



Date: November 30, 2007
To: Mitchell Johnson, City Manager
From: Internal Audit Division
Subject: Wynnefield Lincoln Grove Limited Partnership

The Internal Audit Division has completed our annual review of Wynnefield Lincoln Grove 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: October 15, 2007
To: Andy Scott, Director of Housing & Community Development
From: Internal Audit Division
Subject: Wynnefield-Lincoln Grove Limited Partnership 2005-2006

The Internal Audit Division has performed our compliance review of the year ended December 31, 2006 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. This payment should be promptly submitted to the City.

Mr. Jim Teele, of Housing & Community Development, 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, 2006.

RECOMMENDATION:

The Partnership should provide a Management Letter to the City for stated period.

FINDING:

The working capital at December 31, 2006 was a negative (\$48,719) a decrease of (\$74,203) from 2005. The current ratio for the same period was .39 to 1 a decrease of (5.11) from 2005.

RECOMMENDATION:

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

We request a written signed response from Wynnefield Management, Inc. which should be received by October 29, 2007 with a copy to the Department of Housing & Community Development (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 October 29, 2007.

We would like to thank Ms. Gayle Graves, Community Manager; Ms. Kim Sharp, Floating Manager; Mr. Donald Friend, Maintenance Coordinator; Ms. Joanie Duley, Corporate 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.

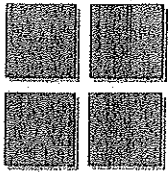


Mickey Kerans
Internal Auditor



Len Lucas
Internal Audit Director

Cc: Ben Brown, Assistant City Manager for Economic Development
I. Norwood Stone, President of Wynnefield Properties, Incorporated



HCD

Department of Housing & Community Development

Date: October 12, 2007
To: Norwood Stone, Wynnefield Properties
From: Michael Blair, City of Greensboro HCD
RE: FY07/08 Lincoln Grove Programmatic Evaluation

On September 13, 2007 HCD and Internal Audit (IA) staff conducted an on-site monitoring visit of the Lincoln Grove Apartments. 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. 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, 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. Gail Graves, Community Manager, Ms. Kim Sharp, Floating Manager, Mr. Donald Friend, Regional Maintenance Manager and Ms. Joanie Duley, Corporate Manager of Wynnefield Properties.

The property was acquired and rehabilitated in 1991 with \$1,671,583 in local bond funds combined with Private financing and North Carolina Affordable Housing Tax Credits. NCHFA requirements regarding occupancy and tenancy are in effect along with City contractual requirements. This 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 2007 maximum housing cost is: \$571.50

For families with two (2) or less members the 2007 maximum housing cost is: \$563.75

Rents for all eligible units in the complex are \$450/month with a \$133/month (\$150/m on the NCHFA RCRS) utility expectation (see table below). Total housing cost is then \$583/month. This exceeds the Deed of Trust affordability requirements.

	Rent	Utility	Total Rent + UA
All units	\$450	\$133	\$583

One tenant income appears to have exceeded 70% of adjusted median income which is a Deed of Trust maximum income however the Tax Credit over-income policy is followed on this property.

Resident incomes are certified annually according to the HCD file review. The tenant files reviewed were in average condition and contained most required back-up documentation.

The reported occupancy has been an average 84-86% from January 1, 2007 through September 13, 2007. This was calculated with a vacancy report provide by management and rent rolls. This is below the April 2007 area occupancy rate of around 90%. It is not a recommended occupancy rate.

Section 8 housing vouchers are accepted 32 units are occupied by tenants that are reported to be supported by these vouchers.

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

HCD staff inspected seventeen (17) units on September 13, 2007 and reported certain minor deficiencies that need attention in eleven (11) of those units. The exterior is in overall average 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

The December 1990 Deed of Trust states in §15 "Use of Premises" that 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. 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 \$450/m and utilities of \$133/m (GHA calculation; Tenant files used \$150/m) reported to HCD all units are out of compliance.

Requested Action

Bring the housing expense into compliance by reducing rents or calculating actual utility costs which are typically lower than GHA costs.

Concern 1 – Occupancy

The reported occupancy has been an average 84-86% from January 1, 2007 through September 13, 2007. This was calculated off of rent rolls and a vacancy report provided to HCD staff by management.

Requested Action

Management should work to improve occupancy at Lincoln Grove.

Concern 2 – Certifications/Inspections

Two tenant files had unsigned income certifications and three had unsigned management inspection forms. Four tenant files were missing a management inspection form.

- 747-9: Income certification form was not signed by tenant.
- 503-18: Management inspection form was missing.
- 207: Management inspection form was missing.
- 747-1: Management inspection form was not signed by tenant.
- 408-34: Income certification form was not signed by tenant.
- 723-17: Management inspection form was missing.
- 408-29: Management inspection form was missing.
- 2003-E: Management inspection form was not signed by tenant.

Requested Action

Income certification forms and move-in move-out management inspection forms should be signed by both the tenant and management and be in the tenant file.

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 October 1, 2007.

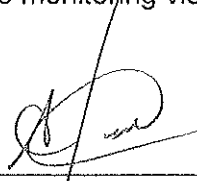
The finding and concerns in this review, in our view, do not reflect negatively on property management staff and their work ensuring continued affordability compliance. The intent of the finding is to ensure contractual affordability compliance. The intent of the first concern is to establish higher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

It is HCD staff opinion that the Lincoln Grove Apartments are not contractually compliant concerning affordability requirements. That noted the property remains a decent housing option for qualified households.

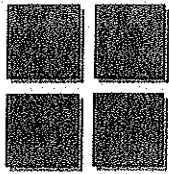
HCD staff appreciates the assistance provided during the monitoring visit by Wynnefield Properties staff.



Michael Blair
Specialist Grants Compliance




Andy Scott
Director/HCD



HCD

Department of Housing & Community Development

MEMO

 **Date:** October 22, 2007
To: Len Lucas, Internal Audit Director
From: Michael Blair, Specialist Grants Compliance
RE: 2007 HCD Review of Lincoln Grove Audit Report

After review of the October 1, 2007 Internal Audit report for Lincoln Grove Limited Partnership/Wynnefield Properties audit, for 2005-2006, HCD submits the following:

IA FINDING 1:

The Partnership did not provide us with a Management Letter for fiscal year ended December 31, 2006.

IA RECOMMENDATION 1:

The Partnership should provide a Management Letter to the City for stated period.

- **HCD Reply to Finding/Recommendation 1:** Concur. HCD adds that a letter from the CPA stating that there was no management letter issued would be sufficient.

IA FINDING 2:

The working capital at December 31, 2006 was a negative (\$48,719) a decrease of (\$74,203) from 2005.

The current ratio for the same period was .39 to 1 a decrease of (5.11) from 2005.

IA RECOMMENDATION 2:

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

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

Summary: HCD agrees with the Internal Audit report.



City of Greensboro

Date: October 24, 2007
To: Andy Scott, Director of Housing & Community Development
From: Internal Audit Division
Subject: HCD Reply to IA Report-Lincoln Grove 2005-2006

Thank you for your memorandum of October 22, 2007 regarding Internal Audit's report for Lincoln Grove for period 2005-2006. Internal Audit agrees with the Department of Housing & Community Development's response to IA's subject report dated October 15, 2007.

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: Ben Brown, Assistant City Manager for Economic Development

Wynnefield Properties, Inc.

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

R- 11/28/07
P.O. Box 395
5614 Riverdale Road
Jamestown, NC 27282

November 7, 2007

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 October 15, 2007 I am responding to your findings.

Enclosed is a copy of Costello Hill & Company's letter confirming that no management letter was issued.

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 May of 2007.
- 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 PVC, Inc. to reduce the property tax liability.
- 5) We have reduced property insurance premiums by \$ 6,022.00 for the 2007-2008 coverage period.

During the first six months we experienced several evictions for non payment of rents. After hiring a new manager the occupancy rate at the end of October was 93%.

A copy of response to HCD is attached.

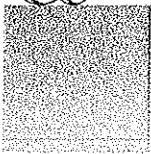
If you have any questions please call.

Sincerely,

Bill Cashatt

Bill Cashatt

COSTELLO HILL
& COMPANY, L.L.P.



CERTIFIED PUBLIC
ACCOUNTANTS
GREENSBORO,
NORTH CAROLINA

LESTER F. HILL, CPA
JERRY L. WILLIAMS, CPA
W. GREGORY ASHLEY, CPA
SUSAN S. MOYE, CPA

November 7, 2007

Ms. Joanie Duley
Wynnefield Lincoln Grove Limited Partnership
P. O. Box 395
Jamestown, NC 27282

Dear Ms. Duley:

We did not issue a management letter as part of our audit of Wynnefield Lincoln Grove Limited Partnership for the year ended December 31, 2006.

Costello Hill & Company LLP

Certified Public Accountants

P.O. Box 2610 • GREENSBORO, NC 27402 • 1112 MAGNOLIA STREET • GREENSBORO, NC 27401

TELE: (336) 274-3281 • FAX: (336) 370-0272

EMAIL: LHILL@COSTELLOHILL.COM • JWILLIAMS@COSTELLOHILL.COM • GASHLEY@COSTELLOHILL.COM • SMOYE@COSTELLOHILL.COM



City of Greensboro
North Carolina

November 29, 2007

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

Re: Lincoln Grove Apartments-2005-2006

Dear Bill:

Thank you for your response dated November 7, 2007 in reference to the Lincoln Grove Apartments review for 2005-2006 per our letter dated October 15, 2007. Please be advised we did not receive your written response until November 28, 2007.

We are in agreement with your responses and procedures and wish you much success.

We have received the Management Letter for year ended December 31, 2005 from the Costello, Hill & Company, LLP.

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