



Date: July 3, 2007
To: Mitchell Johnson, City Manager
From: Internal Audit Division
Subject: Malachi House, Incorporated

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



Date: June 4, 2007
To: Andy Scott, Director of Housing & Community Development
From: Internal Audit
Subject: Malachi House, Incorporated

The Internal Audit Division has performed our yearly monitoring visit of the Malachi House, Incorporated which received a Shelter Operations grant in the amount of \$35,000 from the City of Greensboro during the 2005 to 2006 grant year.

The **Shelter Operations** grant for \$35,000 was used to provide shelter, long-term recovery assistance and supportive services to men who are substance abusers including long-term recovery care and other supportive services. The grant was to support utilities of \$30,000 and insurance of \$5,000. Approximately 500 clients were served as 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:

As per Note 4 of the Agency's external audit for fiscal year ended December 31, 2005, a mortgage of \$1,920,917 is due and payable on June 27, 2007. In reference to the Agency's 990 tax return for fiscal year ended December 31, 2006, total Revenues were down (10.1%) from 2005; net assets decreased to a deficit of (\$157,814) in 2006 from a deficit of (\$85,586) for 2005; and current assets decreased to \$93,590 in 2006 from \$213,091 in 2005.

RECOMMENDATION:

The Agency should advise the City on how they plan to improve their financial position; and their plans to pay off or refinance the mortgage that is due June 27, 2007.

FINDING:

The external audit report for fiscal year ended December 31, 2005 was due to the City by March 31, 2006, however, the City did not receive a copy until September 21, 2006; also, the external audit report for fiscal year ended December 31, 2006 was due to the City by March 31, 2007 and has not been received as of the date of this review report.

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.

FINDING:

A City check which was dated May 3, 2006 and mailed to the Agency for reimbursement was not deposited in the Agency's bank account until September 20, 2006 a time difference of over three months.

RECOMMENDATION:

The Agency should deposit City checks within a timely manner of receiving them from the City.

We request a written signed response from Malachi House and the Department of Housing & Community Development by June 18, 2007.

We would like to thank Mr. Cliff Lovick, Executive Director; Ms. Jacqueline Hooks, Chief Financial Officer 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: Ben Brown, Assistant City Manager for Economic Development
Elder Cliff Lovick, Executive Director of Malachi House, Incorporated.



Date: May 31, 2007
To: Cliff Lovick, Executive Director, Malachi House
From: Michael Blair, City of Greensboro HCD
RE: FY06/07 Programmatic Evaluation

On May 2, 2007 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 FY05/06 was \$35,000 (CDBG) which was expended in its entirety and fully requested by July 19, 2006.

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 550 clients would be served.

The period under review, along with current conditions, was from July 1, 2005 to June 30, 2006. In addition to examining various program materials and financial files in the course of the review HCD and IA staff met with Ms. Eileen Kerr who represented Malachi House for the HCD portion of the review.

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 and performance measures.

Overall Malachi House appears to be making a diligent effort to comply with HCD and CDBG requirements. Malachi House appears to HCD to be respecting the separate time and place rule regarding sectarian activities. It was reported that a participant who selected the secular curriculum has graduated which would be commendable.

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

The board meets six times a year (Four (4) is the HCD minimum number of annual board meetings with a quorum) and has 9 members, 7 men and 2 women, from a wide range of backgrounds. Malachi House maintains committees which report to the full Board.

Minutes are maintained and are understandable which is improved from past HCD reviews of minutes. The FY04/05 review noted staff members which were also voting members of the board; this has been corrected with staff now acting in an ex-officio role.

As a result of this review HCD staff is making zero (0) findings 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.

Concern Number 1 – Financial

HCD concurs with the Internal Audit finding which shows a large mortgage due in 2007 along with certain financial measures that show total revenue, net assets and current assets, all decreasing.

Requested Action

Malachi House should reply to the request by Internal Audit for a plan to address these issues by June 18, 2007 or a date that will be provided by Internal Audit on their final report.

Concern Number 2 – Proposal Estimates

Malachi listed 500 clients to be served in FY04/05 and reported 223 new participants. 550 were to be served in FY05/06 and 211 were reported. 300 are to be served in the current fiscal year FY06/07 which is underway and 350 in the upcoming fiscal year FY07/08. The actual reported number of new participants is consistently below the projected service numbers.

Requested Action

Malachi House should strive to project future service goals in a more accurate and understandable way. Using a previous year as a benchmark is recommended.

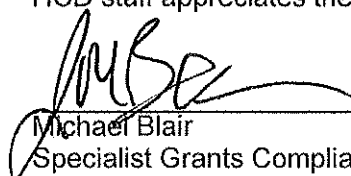
Malachi House	FY04/05	FY05/06
New Participants Served ^(HCD Records)	223	211
Client Days ^(HCD Records)	2,329	-
Average Occupancy ^(HCD Records)	88%	86.2%
Percent Homeless	25%	-
Average Length of Stay	106/d	140/d
Average Total Length of Stay	121/d	160/d
Program Graduates during FY05/06	42	58


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 4, 2007.

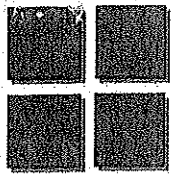
The concerns in this review, in our view, do not reflect negatively on Malachi House staff and their work ensuring the continued success of the referenced programs. The intent of the concerns expressed in this case is to heighten agency awareness. As previously mentioned HCD staff reports that certain issues observed over the last 2 years had been vastly improved upon by Malachi House. This includes board minutes, 1st amendment compliance, and board membership.

It is HCD staff opinion that Malachi House is an eligible use of city Homelessness Prevention funding. The program appears to be a good alternative for men with substance abuse problems who are, or may become, homeless. Fifty-Two (52) program graduates are reported to have been contacted in FY05/06. This appears to be a good number as it can be difficult to maintain contact with the nature of the problems being addressed. 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

ML
Date: May 31, 2007
To: Len Lucas, Internal Audit Director
From: Michael Blair, Specialist Grants Compliance
RE: HCD Review of Malachi House Internal Audit Report

After review of the May 4, 2007 Internal Audit report on Malachi House, Inc., for 2005-2006, HCD submits the following:

IA FINDING 1:

As per Note 4 of the Agency's external audit for fiscal year ended December 31, 2005, a mortgage of \$1,920,917 is due and payable on June 27, 2007. In reference to the Agency's 990 tax return for fiscal year ended December 31, 2006, total Revenues were down (10.1%) from 2005; net assets decreased to a deficit of (\$157,814) in 2006 from a deficit of (\$85,586) for 2005; and current assets decreased to \$93,590 in 2006 from \$213,091 in 2005.

IA RECOMMENDATION 1:

The Agency should advise the City on how they plan to improve their financial position; and their plans to pay off or refinance the mortgage that is due June 27, 2007.

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

IA FINDING 2:

The external audit report for fiscal year ended December 31, 2005 was due to the City by March 31, 2006, however, the City did not receive a copy until September 21, 2006; also, the external audit report for fiscal year ended December 31, 2006 was due to the City by March 31, 2007 and has not been received as of the date of this review report.

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:** *No comment.*

IA FINDING 3:

A City check which was dated May 3, 2006 and mailed to the Agency for reimbursement was not deposited in the Agency's bank account until September 20, 2006 a time difference of over three months.

IA RECOMMENDATION 3:

The Agency should deposit City checks within a timely manner of receiving them from the City.

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

Summary: HCD generally concurs with the Internal Audit report.



City of Greensboro

Date: June 4, 2007
To: Andy Scott, Director of Housing & Community Development
From: Internal Audit Division
Subject: HCD Reply to IA Report-Malachi House Grant 2005-2006

Thank you for your reply of May 31, 2007. Internal Audit agrees with Housing & Community Development's response to IA' subject draft report dated May 4, 2007.



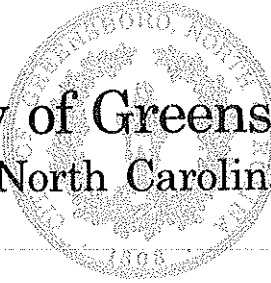
Mickey Kerans
Internal Auditor



Len Lucas
Internal Audit Director

Cc: Ben Brown, Assistant City Manager for Economic Development

City of Greensboro
North Carolina



June 26, 2007

Elder Cliff Lovick
Executive Director
Malachi House, Inc.
507 Balboa St.
Greensboro, NC 27405

Re: Malachi House, Inc. GrantYear-2005 to 2006

Dear Elder Lovick:

Enclosed is a copy of the City review report dated June 4, 2007 for the Malachi House, Inc. grant year 2005-2006. In the report, we requested a written response from you by June 18, 2007. As of today we have not received your reply. If you should have any question, please let me know. We need your written response within seven (7) days of the date of this letter.

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



"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 15, 2007

Mr. Andy Scott
Director of Housing & Community Development
P.O. Box 3136
Greensboro, NC 27402-3136

Dear Mr. Scott:

Please accept the following responses to the Internal Audit Division correspondence regarding our organization's 2005 to 2006 Shelter Operations Grant in the amount of \$35,000.

RECOMMENDATION:

The Agency should advise the City on how they plan to improve their financial position; and their plans to pay off or refinance the mortgage that is due June 27, 2007.

RESPONSE:

The Malachi House, Inc. is currently in its third year of its debt-reduction plan that was implemented in January of FY 2005 fiscal year and is a 3-5 year process. The objectives of the Debt Reduction Plan are as follows:

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

Debt-Reduction Plan Accomplished Objectives:

Sell Property at 1519 Barto Place

The property located at 1519 Barto Place is back on the market. The organization is also in preparation of selling a parcel of its front property located at 507 Balboa St.



Increase Revenues

1. Expansion in Work Detail Contracts
 - Furniture Market Contract increase for both spring and Fall Markets

 - Acquired three new contracts that produces an average combined weekly revenue of \$4,187.35 per week = \$217,742.20 annually.

 - Salvation Army Bell Ringers Seasonal Contract (Projected: \$18,000)

2. Increase in Grant Funding
 - Renewed funding for general operating support (Guilford Center: \$25,000)
 - 3-Year Grant from Moses Cone Wesley Long Foundation (\$250,000)
 - Renewed funding for Emergency Shelter Grant for \$17,256.
 - Receiving funding from another year from the City of Greensboro Department of Housing for \$50,000 (utilities and insurance).
 - Received notification of \$80,000 grant from the Kate B. Reynolds Charitable Trust for kitchen equipment and renovation of the dormitory located at 507 Balboa Street.
 - Received notification of \$15,000 grant from American Express for executive staff training.

In FY 2005, grant funding was about 9% of the organization's budget. Over the past year and in the current year, grant funding represents about 15% of the organization's budget.

3. Maximize training center by renting out space for tenancy and adding the Event and Conference Center service that also includes catering.
 - 3 Tenants that yield monthly income of \$4,700
 - Revenue generated from Event and Conference Center services.
 - This year, the organization will host three community events that will raise community awareness and generate income.

4. The organization will establish a reserve account that will represent a minimum of 6-months of its program operating budget. In the 4th and 5th year of the debt-reduction plan, the mortgaged student homes will be sold and the proceeds will be used to set up the investment vehicle for the reserve account.

Decrease Expenses

1. Implementation of pay off schedule of payables in arrears. Currently, payables in arrears are down to \$40,127 from \$82,017 in FY 2005 which will be paid off by end of the Fall FY 2007 Furniture Market contract.

2. Payoff short-term debt and credit cards and keep active accounts current.
 - The organization only has one main credit card still active. The other remaining cards (Office Depot, Staples and the MasterCard have been kept current and will be paid off by the end of the Fall FY 2007 Furniture Market contract).

3. There are only three equipment leases (administrative copier equipment, postage equipment and vending machine at Car Wash). The lease on the vending machine at the Car Wash will end in August of this year. It was not cost-effective to buy-out the administrative copier lease; therefore the lease will remain until it ends on 2/28/09. When that lease expires, there will only be one equipment lease – postage equipment. The organization has adopted a cash payment only policy on the purchase of all depreciable assets.

4. Currently, the organization only has two student/staff residential properties that are rented for the combined monthly rent of \$900/month compared to \$2,460 per month in FY 2006. Once the renovations are completed at the Training Center located at 507 Balboa St. students/staff will be relocated and monthly rent will be eliminated.

The organization was approved for a mortgage consolidation by Bank of America of all mortgaged properties on 12/12/2006. Therefore, there is only one mortgage payment in the amount of \$21,797.45 per month.

If you do a comparative study of the financial statements of FY 2005 to FY 2006 there is a significant improvement in the overall financial position of the organization. The organization is on target with meeting its 3-5 year Debt-Reduction/Strategic Plan objectives.

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 will coordinate the execution and completion of the annual tax return to coincide with the external audit to ensure timely reporting.

RECOMMENDATION:

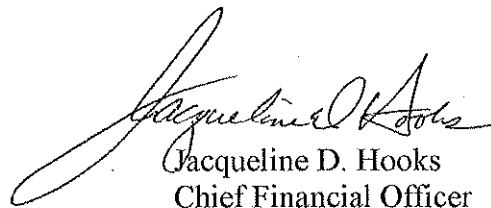
The Agency should deposit City checks within a timely manner of receiving them from the City.

RESPONSE:

The Malachi House, Inc. has a written policy and procedure regarding revenue tracking and deposits. The organization does not retain cash or checks on its premises over a 24 hour period. During the grant cycle for FY 2005/2006 funding, there were instances whereby the check disbursements from the City were held until information was remitted (i.e. external audit, corrections made on monthly outcome reporting, etc). Calls were also made to the City to follow up on the payment status of each monthly requisition when the payments were not received. Therefore, the actual date the check was received into our office did not always coincide with the time frame the check was written. Moreover, during the current grant cycle (FY 2006/2007), calls and emails have been made just about every month due to untimely receipt of payments from the City and requested that the check not be mailed but arrangements made to pick up the payment. The checks were not received almost until the next reporting date though the monthly requisitions were hand-delivered to the City before their due date.



Cliff Lovick
Executive Director



Jacqueline D. Hooks
Chief Financial Officer



City of Greensboro
North Carolina

July 3, 2007

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

Re: Malachi House Review-2005 to 2006

Dear Mr. Lovick:

We are in receipt of your letter dated June 15, 2007 reference the City's Internal Audit report dated June 4, 2007 for the 2005 to 2006 Grant Year for the Malachi House. Your timely response to our report is appreciated. Thank you for sending us a copy of your report that you sent to Andy Scott. In the future we will instruct you to send us a copy of your reply along with Andy Scott's copy.

We appreciate your detail response on your plans to improve Malachi House's financial position. We wish you much success in your endeavors.

Your reply to timely reporting of the delivery of your external audit and management letter within 90 days of your fiscal year end is appreciated.

We understand from the Department of Housing & Community Development that invoices sent in for reimbursement by the Grantees must be correct before payments are submitted to the Grantees. Your continued emphasis on following HCD procedures will be appreciated.

Please advise if you should have any questions.

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