



**Date:** April 3, 2007  
**To:** Mitchell Johnson, City Manager  
**From:** Internal Audit Division  
**Subject:** Berryman Square Limited Partnership

The Internal Audit Division has completed our annual review of The Berryman Square Limited Partnership in conjunction with a Programmatic Review by the Housing & Community Development Department for the 2004-2005 fiscal 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:** November 22, 2006  
**To:** Andrew Scott, Director of Housing & Community Development  
**From:** Internal Audit Division  
**Subject:** Berryman Square Limited Partnership 2004-2005

The Internal Audit Division has performed our compliance review of the year ended December 31, 2005 of Berryman Square Limited Partnership. The Partnership received a loan in the amount of \$765,000 from the City of Greensboro to help in the rehabilitation of 44 apartments on 200-208 Berryman Street for low-income individuals or families. These units are called Berryman Square and are managed by Affordable Housing Management, Incorporated.

We accompanied Mr. Jim Teele, of the Housing & Community Development Department (H&CD), as he inspected approximately 15 percent of the units and some repairs were noted for the property. These issues were forwarded to the Property Director to address before they escalate into costly problems. We have not received notice from Affordable Housing Management that these repairs have been completed.

The City's loan bears interest at a rate of 2.50%. A portion of this interest, .50%, will be made in semi-annual payments of .25% on each January 1 and July 1. The remaining 2.00% will accrue. The repayment of the principal of \$765,000 will be based on 25% of the Net Operating Income less payments to the Reserve Accounts and Debt Service. The agency is meeting the interest payment requirements of which we received \$2,403.82 by check dated June 19, 2006. There was a Net Operating Income that required the .25% principal payment which we received per check dated May 11, 2006 in the amount of \$394. The current principal and interest balance per H&CD records at October 16, 2006 is \$967,258. The balance of the principal and accrued interest will be due in full January 1, 2010.

We examined selected financial transactions maintained by the entity for compliance with the loan agreements. Based on our review, it appears that the funds have been spent according to the terms of the loan agreements except for the findings described below:

**FINDING:**

The Agency's working capital at fiscal year ended December 31, 2005 was a negative (\$179,407) and its current ratio was less than one (1) at .136 to 1.

**RECOMMENDATION:**

The Agency should explain how they plan to improve their working capital position.

**FINDING:**

The maximum percentage of increase in the Replacement Reserve Account per the Loan Agreement is 3%. The increase from 2004 to 2005 was increased by 38%.

**RECOMMENDATION:**

The Agency should explain why the Replacement Reserve account was increased by more than 3% from 2004 to 2005.

We request a written signed response from the AHMI and the department of Housing & Community Development by December 6, 2006.

We would like to thank Ms. Kimberly Miller, Property Site Manager; Ms. Morgan Wright, Assistant Site Manager; Ms Millie Mullins, Regional Manager and Ms. Debora Osborne, Finance Director 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  
David Levy, Executive Director, Affordable Housing Management, Incorporated



**Date:** November 22, 2006  
**To:** David Levy, Affordable Housing Management, Inc.  
**From:** Michael Blair, City of Greensboro HCD  
**RE:** *FY06/07 Berryman Square Apartments Programmatic Evaluation*

**Project Information:**

The Berryman Square Apartments are located at 200-208 Berryman Street in Greensboro, NC and are currently managed by Affordable Housing Management, Inc.

The property was rehabilitated with \$765,000 in local funds (Housing Partnership/Nussbaum Fund) combined with \$1,224,000 in private funds. No Greensboro Consortium HOME Program funds were expended on this property therefore the lease agreement is the main document regarding occupancy and tenancy requirements for this review. The lease agreement uses §42 of the IRS code which refer to Low Income Housing Tax Credits.

The property consists of 44 units and the units would be made affordable to households with incomes at or below 50% of the adjusted area Median Income. The rent on 100% of the units would not exceed that which is affordable to those families whose gross income does not exceed 42% of area median.

**Contract Compliance:**

The requirement of rents being affordable to families with income (adjusted) at or less than 42% of Median has been met with 2BR tenant rents of \$450/month and 1BR at \$409/month. Utility expectations are from \$54/month to \$154/month depending on the unit.

All move-ins listed on the NCHFA report meet income requirements. There are 11 units with annual incomes on recertification that have exceeded the eligible move-in limits.

- \* Five (5) tenant incomes exceed 140% of their income restrictions. Over income tenants (post move-in by virtue of recertification) are permissible. HCD requests that AHM verify that this is allowable under §42 of the IRS code.
- \* The tenant in unit 206-M had an income of zero dollars (\$0) according to the last recertification on 08.01.06. In addition the Move-In income was \$10,920. HCD requests an explanation as to how a calculation of \$0 is possible.

At the time of the staff visit a waiting list was being maintained.

Section 8 assistance is accepted and 8 units have these vouchers.

An Affordable Marketing Plan is displayed at the offices of AHM. AHM has an acceptable fair marketing plan. The Tenant Selection Policy is clear and understandable.

Contractual affordability and income requirements are satisfactory.

**Financial Review:**

A low "current ratio" of .136 to 1 as well as negative working capital of (\$179,407). HCD prefers to see the "current ratio" above 1 on this type of property.

**Condition:**

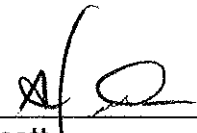
An inspection by HCD staff found the property to be in average condition. Several minor conditions were in the HCD inspection report which should be addressed. Please report repairs to Internal Audit.

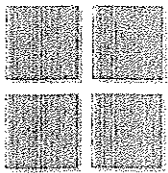
**Occupancy:**

Berryman Square had an 87% occupancy rate (13% vacancy) during the 9 months from January, 2006 through September, 2006. It is below the average in NE Greensboro which had an occupancy rate of 89.6% in April of 2006. Occupancy needs to be improved. It is recommended that the property manager work with other affordable housing agencies to help increase the occupancy.

The April 2006 Carolina Real Data vacancy rate for the City of Greensboro was 10%.

  
\_\_\_\_\_  
Michael Blair  
Specialist Grant Compliance

  
\_\_\_\_\_  
Andy Scott  
Director HCD



# HCD

Department of Housing & Community Development

## MEMO

**Date:** November 29, 2006  
**To:** Len Lucas, Internal Audit Director  
**From:** Michael Blair, Specialist Grants Compliance  
**RE:** 2006 HCD Review of Berryman Square Audit Report

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After review of the November 3, 2006 Internal Audit report for Berryman Square Apartments/Affordable Housing Management (AHM), for 2004-2005, HCD submits the following:

### IA FINDING 1:

The Agency's working capital at fiscal year ended December 31, 2005 was a negative (\$179,407) and its current ratio was less than one (1) at .136 to 1.

### IA RECOMMENDATION 1:

Agency should explain how they plan to improve their working capital position.

- HCD Reply to Recommendation 1: Concur

### IA FINDING 2:

The maximum percentage of increase in the Replacement Reserve Account per the Loan Agreement is 3%. The increase from 2004 to 2005 was increased by 38%.

### IA RECOMMENDATION 2:

The Agency should explain why the Replacement Reserve account was increased by more than 3% from 2004 to 2005.

- HCD Reply to Recommendation 2: Concur

**Summary:** On findings one (1) and two (2) HCD concurs with the IA report.



**Date:** November 30, 2006  
**To:** Andy Scott, Director of Housing & Community Development  
**From:** Internal Audit Division  
**Subject:** HCD Reply to IA Report-Berryman Square Audit 2004-2005

Thank you for your timely reply of November 29, 2006 concerning Berryman Square. Internal Audit agrees with Housing & Community Development's response to IA's subject report dated November 22, 2006.

Handwritten signature of Mickey Kerans in black ink.

Mickey Kerans  
Internal Auditor

Handwritten signature of Len Lucas in black ink.

Len Lucas  
Internal Audit Director

Cc: Ben Brown, Assistant City Manager for Economic Development



**AFFORDABLE HOUSING  
MANAGEMENT, INC**

Writer's Extension: 123

Writer's E-mail: [dosborne@ahmi.org](mailto:dosborne@ahmi.org)

December 5, 2006

Mr. Mickey Kerans  
City of Greensboro  
Internal Audit Department  
P.O. Box 3136  
Greensboro, N.C. 27402-3136

Re: Berryman Square Apts.

Dear Mr. Kerans,

In response to your letter of November 22nd, I offer the following information:

Finding:

- a) Negative working capital/current ratio: For the year ending 12/31/05 this property does not have a negative working capital. I calculate the working capital ratio on 12/31/06 at 1: 45 to 1. (Current Assets 29,946/20448 Current Liabilities)
- b) The NCHFA requires that we increase our prior year monthly deposit by 4%. Your calculation was based on the net change in the account over the prior year. (12/04 Account Balance 17,402. 12/05 Account Balance 23,975). We are required by NCHFA to maintain the monthly deposit established in the prior year and increase the monthly deposit by 4%.

If you have any further questions, please don't hesitate to contact me.

Sincerely,

Debora Osborne  
Finance Director





City of Greensboro  
North Carolina

December 11, 2006

Ms. Debora Osborne  
Affordable Housing Management, Inc.  
330 S. Greene St.  
Suite B-11  
Greensboro, NC 27401

Re: Berryman Square Apartments-2004 to 2005

Dear Debora:

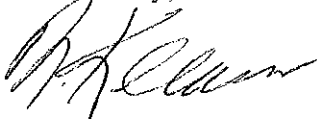
We are in receipt of your letter dated December 5, 2006 reference the City's Internal Audit report letter dated November 5, 2006 for the 2004 to 2005 Year. Your timely response to our report is appreciated. We have reviewed your letter and have the following comments:

- a) Negative working capital and current ratio.  
As discussed over the phone the audited balance sheet that you supplied to us does not categorize assets and liabilities as current or long term, so it is difficult to try and calculate the ratios. Also, deferred interest is listed along with other liabilities instead of with Mortgages. Please contact Williams, Overman, Pierce, L.L.P. for a written explanation on why they don't list the assets and liabilities as current and long term. Also, they should explain why their reporting presentation doesn't violate GAAP financial reporting.
- b) The Replacement reserve account increased 38% rather than the required City percentage of 3%. Per our telephone conversation, the City loan agreement states in paragraph 1.1: "The initial level of funding (\$9,600) shall be increased annually on the anniversary of the establishment of said account by three (3%) over the level for the prior year." You calculate this by NCHFA's requirements, however, it still violates the City agreement because the City's agreement doesn't refer to NCHFA's agreement. Please send us a copy of

NCHFA's agreement stating the higher requirement so we can put it with our permanent file.

If you should have any questions, please give me a call.

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

## Kerans, Mickey

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**From:** Debbie Osborne [dosborne@ahmi.org]  
**Sent:** Wednesday, January 10, 2007 2:46 PM  
**To:** Kerans, Mickey  
**Cc:** Danny Duncan  
**Subject:** FW: Reserve for Replacement

-----Original Message-----

**From:** David Levy  
**Sent:** Wednesday, January 10, 2007 2:41 PM  
**To:** Kerans@greensboro-nc.gov  
**Cc:** dd@wopcpa.com; Debbie Osborne  
**Subject:** FW: Reserve for Replacement

Mickey, please see the emails below confirming that 4% increases to the RFR deposits is required by NCHFA. Let Debbie know if you need any additional info. Thanks, Dave

-----Original Message-----

**From:** Scott Farmer [mailto:bsfarmer@nchfa.com]  
**Sent:** Wednesday, January 10, 2007 2:28 PM  
**To:** David Levy  
**Subject:** Re: Reserve for Replacement

That is a normal requirement for tax credit projects.

Scott Farmer  
Director of Rental Investment  
North Carolina Housing Finance Agency  
3508 Bush Street  
Raleigh, NC 27609  
(919) 877-5641  
Fax (919)877-5701

>>> "David Levy" <dlevy@ahmi.org> 01/10/07 10:42 AM >>>

Scott, during a recent City of Greensboro monitoring review of one of our tax credit properties, Berryman Square, it was questioned why we were increasing the deposits into the Reserve For Replacement account by 4% each year.

Our response was that it was a NCHFA requirement to do so. Can you please confirm that.

Dave

David B. Levy, Executive Director  
Affordable Housing Management, Inc.  
330 S. Greene, Suite B-11  
Greensboro, NC 27401  
336-273-0568 Ext. 131  
336-273-3975 (fax)  
dlevy@ahmi.org  
www.ahmi.org <<http://www.ahmi.org/>>