



Date: January 3, 2007
To: Mitchell Johnson, City Manager
From: Internal Audit Division
Subject: Everitt Spencer Limited Partnership

The Internal Audit Division has completed our annual review of the Everitt Spencer 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: October 10, 2006
To: Andy Scott, Director of Housing & Community Development
From: Internal Audit Division
Subject: Everitt/Spencer Limited Partnership 2004-2005

The Internal Audit Division has performed our compliance review of the year ended June 30, 2005 of Everitt/Spencer Multi-Family Properties. This property was rehabilitated with a loan provided by the City of Greensboro and is designed for the benefit of low-income individuals or families in the Greensboro area. Affordable Housing Management, Incorporated manages this property. Additional information on the property is as follows:

Everitt/Spencer is located at 2115, 2116 and 2118 Everitt Street (25 Units) and 2101 and 2103 Spencer Street (20 Units). The Partnership received four loans from the City in the amount of \$599,288 in January 1991. The principal balances of each loan accrues at two and one-half (2 ½%) percent per annum compounded semi-annually on March 31, 1992 and on each September 30th and March 31st thereafter. An amount equal to one (1%) percent per annum shall be payable in arrears semi-annually commencing on March 31, 1992 and on each September 30th and March 31st thereafter. Two interest payments were made to the City on April 5, 2005 in the amount of \$3,678.51 and on October 11, 2005 in the amount of \$3,705.84. The balance of accrued interest and principal per the Department of Housing and Community Development, as of August 31, 2006 is \$749,008. These loans shall be due in full on April 1, 2022. There are no Reserve Account requirements in the City's loan agreement for this property.

We accompanied Mr. Jim Teele of the Department of Housing & Community Development, as he 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 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:

In reference to the Everitt/Spencer's audited financials for fiscal year ended December 31, 2005 and 2004, below are the following findings:

- a. Working capital for 2005 decreased to (\$268,867) from (\$229,023) for 2004.
- b. The current ratio at 2005 was .001 to 1 and for 2004 was .019 to 1. The current ratio is a measure of the entity's ability to pay its current liabilities in a timely manner. With the current ratio less than 1 (one), then Everitt/Spencer would have difficulty paying its current liabilities.

RECOMMENDATION:

Affordable Housing Management, Inc. should explain to the City how they plan to improve the Everitt/Spencer's financial position.

We request a written signed response from the agency and the department of Housing & Community Development by October 24, 2006.

We would like to thank Ms. Millie Mullins, Regional Manager of Tax Credit Properties; and Ms. Debora Osborne, Finance Director and the staff of Affordable Housing Management, 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.

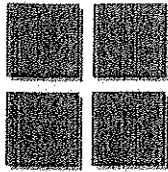


Mickey Kerans
Internal Auditor



Len Lucas
Internal Audit Director

Cc: Ben Brown, Assistant City Manager for Economic Development
David Levy, Executive Director of Affordable Housing Management, Incorporated



HCD

Department of Housing & Community Development

Date: October 13, 2006
To: David Levy, Affordable Housing Management, Inc.
From: Michael Blair, City of Greensboro HCD
RE: *Everitt/Spencer Apartments Programmatic Evaluation*

Project Information:

The Everitt/Spencer Apartments are located at 2115, 2116 & 2118 Everitt Street and 2101 & 2103 Spencer Street in Greensboro, NC. They are currently managed by Affordable Housing Management, Inc.

The property was acquired and rehabilitated with \$599,288 in local bond funds combined with \$1,549,884 in North Carolina Affordable Housing Tax Credits. No Greensboro Consortium HOME Program funds were expended on this property therefore the lease agreement, which uses NCHFA restrictive covenants, is the main document regarding occupancy and tenancy requirements for this review.

The properties consist of 25 units at Everitt Street and 20 units at Spencer Street. The units would be made affordable to households via Declaration of Land Use Restrictive Covenants for Low Income Housing Credits rec. 12/31/90.

Contract Compliance:

The requirement of rents being affordable to families with income (adjusted) at or less than 50% of Median has been met with tenant rents of all at or below \$370/month and utility allowances all at or under \$137/m. The maximum total housing burden then is \$507/m rent plus utilities. This means that Everitt/Spencer tenant rents meet the Maximum LIHTC Rent of \$635/m (Rent plus utilities).

All move-ins listed on the NCHFA report meet income requirements. 23 units at Everitt Street and 15 units at Spencer Street are occupied by tenants that are under 50% of adjusted Median area income. There are 6 total (Everitt and Spencer) units with annual incomes that have exceeded the maximum limits. No units exceed 140% of the maximum eligible incomes. No actions are recommended.

Incomes of residents are to be certified annually per the agreement. The NCHFA RCRS (Rental Compliance Reporting System) showed units being recertified on a regular 12 month schedule. The NCFHA report dated 09.27.05 gave the properties a review which included no issues of non-compliance.

The tenant files were well maintained with only one unusual income certification. 2128-E gave one income on the RCRS and another on the worksheet in the file. This should be corrected as soon as possible.

Affordable Housing Management has a fair marketing plan that meets the City Affirmative Marketing Requirements. The Tenant Selection Policy is clear and understandable. Contractual affordability and income requirements are satisfactory. An updated waiting list is maintained with 11 applicants in August 2006.

Contractual affordability and income requirements are satisfactory.

Financial Review:

The financial condition of these units is a concern. Please refer to the Internal Audit report for details.

Condition:

Please refer to the 08.30.06 HCD inspection report which details certain conditions that should be corrected, specifically screens and downspout elbows. Forward all repairs made to conditions listed on the inspection report to Internal Audit.


Occupancy:

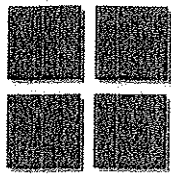
Everitt/Spencer had a 93.3% occupancy rate (6.7% vacancy) during the visit in August 2006. In April the area vacancy rate was 10.4%. This is an improvement from the much higher vacancy report in 2005. The poor occupancy situation was a detriment to the financial viability of the properties in 2005. With the increased occupancy in 2006 the financial situation should improve.

HCD requests a month by month occupancy report from AHM for January 2006 through September of 2006. Please email this report to Michael Blair at Michael.blair@greensboro-nc.gov by October 20, 2006.

The April 2006 Carolina Real Data vacancy rate for Greensboro was 10.02%.


Michael Blair
Grant Compliance


Andy Scott
Director HCD



HCD

Department of Housing & Community Development

MEMO

Date: October 26, 2006
To: Len Lucas, Internal Audit Director
From: Michael Blair, Specialist Grants Compliance
RE: HCD Review of Everitt/Spencer Audit Report

After review of the draft September 8, 2006 Internal Audit report for Everitt/Spencer Apartments/Affordable Housing Management (AHM), for 2004-2005, HCD submits the following:

IA FINDING:

In reference to the Everitt/Spencer's audited financials for fiscal year ended December 31, 2005 and 2004, below are the following findings:

- a. Working capital for 2005 decreased to (\$268,867) from (\$229,023) for 2004.
- b. The current ratio at 2005 was .001 to 1 and for 2004 was .019 to 1. The current ratio is a measure of the entity's ability to pay its current liabilities in a timely manner. With the current ratio less than 1 (one), then Everitt/Spencer would have difficulty paying its current liabilities.

IA RECOMMENDATION:

Affordable Housing Management, Inc. should explain to the City how they plan to improve the Everitt/Spencer's financial position.

- **HCD Reply Finding a:** HCD does not concur with the Internal Audit working capital calculation.
- **HCD Reply Finding b:** HCD does not concur with the Internal Audit current ratio calculation.

Internal Audit includes Deferred Interest on the City's loan in the calculations (as a potentially due liability in case of default by any means) which we do not believe constitutes a current liability. This over exaggerates the current ratio and low working capital figures when calculated in this manner. The only remedy for the owner is to create a cash stockpile to offset the annual increases in accrued deferred interest which is not in the property's long term interest.

Removing deferred interest from the calculation still leaves a current ratio less than 1 which is a concern. This is due primarily to low cash flow due to high vacancies. AHM should work to improve the project's financial position through higher occupancy.

Summary: HCD concurs with the Internal Audit recommendation that AHM respond with their plan to improve the financial position of Everitt/Spencer. HCD does not concur with the method that Internal Audit uses when calculating Current Ratio and Working Capital.



Date: October 30, 2006
To: Andy Scott, Director of Housing & Community Development
From: Internal Audit Division
Subject: HCD Reply to IA Report-Everitt/Spencer 2004-2005

Thank you for your reply of October 26, 2006. Internal Audit understands your reasoning on how the current ratio and working capital should be calculated and agree with Housing & Community Development's response that the Agency should improve their financial position in reference to IA' subject report dated October 10, 2006.

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



AFFORDABLE HOUSING
MANAGEMENT, INC

Writer's Extension: 123

Writer's E-mail: dosborne@ahmi.org

December 28, 2006

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

Re: Everitt/Spencer St. Apartments

Dear Mr. Kerans,

In response to your letter of October 10, 2006 I offer the following information:

Finding:

- a) Working Capital for 2005 decreased to (\$268,867) from (\$229,023): This property experienced higher than normal vacancies during 2005. Vacancy for 2005 was \$35,414; vacancy for 2004 was \$18,486. Along with the increase in vacancy comes an increase in expenses to prepare the unit for the next resident (cleaning/painting, etc.).
- b) Everitt/Spencer St Apts. Current ratio is less than 1 which results in difficulty paying current liabilities: Affordable Housing Management made the sacrifice in 2005 as noted in the increase in payables due to affiliates and has continued to sacrifice in 2006 to assure that the property has available funding to operate and keep vendors current.

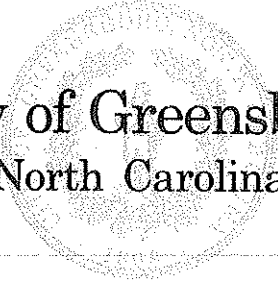
During the 2006 year this property has substantially reduced vacancies from \$35,414 in 2005 to approximately \$14,149 in 2006. Assuming this occupancy level is maintained we believe the current ratio issue will be resolved in a couple of years.

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

Sincerely,

A handwritten signature in cursive script that reads 'Debora Osborne'.

Debora Osborne
Finance Director



City of Greensboro
North Carolina

January 2, 2007

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

Re: Everitt/Spencer Apartments-2004 to 2005

Dear Debora:

We are in receipt of your letter dated December 28, 2006 reference the City's Internal Audit report letter dated October 10, 2006 for the 2004 to 2005 Year. We have reviewed your letter and agree with your responses and corrective measures.

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