



# City of reensboro

Date: November 3, 2004  
To: Ed Kitchen, City Manager  
From: Internal Audit  
Subject: Kingsgate Housing Compliance Review

Attached you will find our report on the annual compliance visit to Kingsgate Housing, LLC; the management agencies responses to our review, Housing & Community Development's response and our reply to those responses. At this time, we are in agreement with the H&CD Department and feel no further action is necessary. If you need additional information please let me 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 7, 2004  
To: George Carr; Norwood Stone; Andy Scott  
From: Internal Audit  
Subject: Kingsgate Housing, LLC / Allen Nussbaum Apartments 2002-2003

The Internal Audit Division has completed a program and compliance review for the current year's operations of Kingsgate Housing, LLC which received a loan from the City of Greensboro in the amount of \$451,000 to help in the rehabilitation of 37 apartments located at 537 through 605 West Terrell Street. These units are called Allen-Nussbaum Apartments

These apartments were in transition from Project Homestead's management which filed for bankruptcy in January. Most recently they were managed by Beacon Management until September 6, 2004, at which time Wynnefield Properties took over as managing agency.

The City's loan is to be repaid in monthly installments of \$1,225.23 until May 1, 2018 at which time any remaining balance and accrued interest will become due in full. The management agency is meeting these payment requirements.

We accompanied Mr. Bill Black, Rehabilitation Supervisor of Housing & Community Development as he inspected approximately 15% of the units and noted a few repairs need in the units observed. One unit has been condemned by the City Building Inspections Department due to a water leak that has caused substantial damage and mold. This appears to be due to the fact that this situation was not addressed in a timely fashion. We also noted that the Replacement Reserve Account was under funded by \$465 for the year ended December 2003. We recommend these issues are addressed in a timely fashion. The Housing and Community Development Department will continue to monitor this property.

We examined selected financial transaction and program documentation maintained by the agency for compliance with the loan agreement. Based on our review, it appears that the funds were used in compliance with the loan agreement except for the previous recommendations.

We request a written and signed response to our recommendations from the Kingsgate Limited Partnership before and after the management change and the Department of Housing & Community Development by October 21, 2004. We would like to thank Ms. Kim Payne, Property Manager and Ms. Marlene Streets, Regional Property Manager for Wynnefield Properties for their courtesy and cooperation during this compliance review. If there are any questions or comments concerning the details of this review, we can be reached at 373-2823.

Len Lucas  
Internal Audit Director

Cc: Ben Brown, Assistant City Manager for Economic Development  
George E. Carr III, President of Beacon Management, Incorporated  
I. Norwood Stone, President of Wynnefield Properties, Incorporated

# Wynnefield Properties, Inc.

Real Estate Development  
336-454-6134  
Fax: 336-454-6190

P.O. Box 395  
5614 Riverdale Road  
Jamestown, NC 27282

September 28, 2004

Mr. Len Lucas  
City of Greensboro  
P.O. Box 3136  
Greensboro, NC 27402

RE: Coley Jenkins Independent Living Center  
Raymond S. King Apartments  
Kingsgate Apartments

Dear Mr. Lucas

This communication is in response to your September 24, 2004 letter. We have spent months trying to work with Beacon Management attempting to facilitate an orderly transfer of management to Wynnefield Properties, Inc for the above referenced properties. This change was brought forward at the request of WNC, the syndicating partner in these properties.

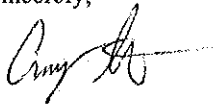
The transition has been very difficult and lengthy with both sides using legal counsel. Following some period of time, we were successful in forcing a change by physically showing up on the sites on Tuesday, September 7, 2004. We have found numerous problems with each site and we are continuing our investigation to develop good documentation for all the parties involved. The following list is an attempt to document the problems and deficiencies we have encountered.

1. When we arrived on the Coley Jenkins property we spoke with Kim Payne an employee of Beacon. We found she had hand collected and deposited September rental income directly into a Beacon Management account. This was not there normal collection and deposit method however; she followed on through with the directive at Mr. Carr's request.
2. We assumed the day to day management functions on 09-07-2004 without any funds being transferred or support from the previous management company. We assumed there were bills due immediately but with no accounting or funding furnished by Beacon we could not precede in a reasonable manner with appropriate financial operations. To date the only funds we have received on all three properties is a check in the amount \$3,720 for Coley Jenkins with no banking information related to that check or accounting.
3. Kingsgate unit 605-E: We received notification of water damaged to this unit and upon further investigation we found the unit had been allowed to sit unrepaired for too long and had now developed more severe problems including mold. It appears the cost of repairs have increased more than 400% and now is in excess of \$10,000. We are investigating all available alternatives.
4. Maintenance matters for all three jobs' at this point are being reviewed and their long and short term needs will be concluded shortly.
5. We would like to schedule a meeting with the appropriate city representative along with WNC, the syndicator, on how we can move forward with these properties.

6. During the negotiations, George Carr made us aware of a problem Beacon Management had with HUD, apparently due to the way they handled the use of the Morehead Simkins facility with respect to Coley Jenkins. We had no knowledge of this activity and refused to become involved as it was outside the scope of operations of Coley Jenkins and a matter that could not be funded from their already deficient operating budget. George tried to force us to sign documents that created financial obligations for Morehead and we refused to become involved.
  
7. With referenced to Coley Jenkins' financial condition, there are problems. Coley Jenkins continues to operate without the committed rebated tax funds that were established as part of the original operating budget. This loss of planned income has created a serious long term financial problem for this property. The alternatives are:
  - a) That we raise the rents sufficient to support the operational needs. This will obviously mean some of the existing tenants will be unable to afford the increased rents and will probably move out. We believe new tenants can be found at the higher rents. However, we hope some alternative can be developed that will allow us to avoid this final resolve.
  - b) We would like to open negotiations with the city to restructure in some acceptable way to re-infuse the funding related to the tax rebate. We believe this will solve the Coley Jenkins financial problems with very little change to the rents.
  - c) There has been communications related to social service programs, we would also like to discuss the possibilities in this area.

Thank you for your consideration. We are open to all alternatives and look forward to working with you on these three properties as we move ahead.

Sincerely,



Craig Stone  
Vice President

BEACON MANAGEMENT CORPORATION  
408 BATTLEGROUND AVENUE  
GREENSBORO, NORTH CAROLINA 27401

WWW.BEACON-NC.COM

OFFICE: (336) 545-9000  
FAX: (336) 545-9004

October 20, 2004

Len Lucas, Internal Audit Director  
City of Greensboro  
P. O. Box 3136  
Greensboro, NC 27402-3136

Re: Kingsgate Housing, LLC  
Allen Nussbaum Apartments  
Greensboro, North Carolina  
2002 - 2003

Dear Len:

I am responding to your October 7, 2004 letter directed to me along with Norwood Stone and Andy Scott and which concerns the subject property.

Paragraph 4 of your letter raised 2 findings that I feel should be addressed by Beacon Management Corporation, i.e., a water leak damage and the possible under funding of the property's Reserve for Replacement account.

With regard to water leak, please find enclosed Carmina Eder's letter addressing the timeliness of the water leak repair. It would appear from her statement that substantial staff efforts were timely made in dealing with this very difficult problem. Unfortunately, we could not complete all repairs as we were succeeded in management by Wynnefield Properties.

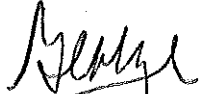
With regard to the Reserve for Replacement account, we are unaware of the cause of this problem. We assumed management services June 1, 2003 and for each of the following 7 months faithfully deposited the required \$780.00 per month payment. Given this situation, it would appear any under funding of the account occurred prior to the time we commenced management services. For your records please find a copy of our General Journal entries reflecting the requisite deposits.

MAILING ADDRESS:  
P.O. Box 29229  
GREENSBORO, NORTH CAROLINA 27429-9229

Len Lucas  
October 20, 2004  
Page Two

Len, if you have any additional questions, please do not hesitate to contact me.

Cordially,



George E. Carr III

Enclosures

cc: GEC file  
Kingsgate file

BEACON MANAGEMENT CORPORATION  
408 BATTLEGROUND AVENUE (27401)  
PO BOX 29229  
GREENSBORO, NC 27429-9229

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WWW.BEACON-NC.COM

October 20, 2004

Len Lucas  
Internal Audit Director  
City of Greensboro, NC

RE: Kingsgate Housing, LLC

Dear Len,

I am writing in response to your letter dated October 7, 2004 regarding one unit that had been condemned by the City Building Inspections Department due to a water leak that had caused substantial damage and mold.

Carmina R. Eder, Regional Asset Manager for Beacon Management Corporation received a telephone call from Ms. Ferguson, resident of the aforementioned unit stating that she had a leak in her kitchen ceiling. She stated that she had called the office of Kingsgate South and paged the emergency number since earlier that Friday morning and no one had returned her call.

I contacted Keith Swaim, maintenance technician. He called Ms. Ferguson and instructed her to turn off her AC and that he was in route from Winston Salem, NC. I went to visit Ms. Ferguson. I noticed the leak in the kitchen over the refrigerator. I asked her how long the drip had been going and if it had dripped that amount all day. She stated that it started that morning around 10:00 am and that since she turned the AC off (as instructed by Keith) it had slowed down quite a bit.

Keith arrived and informed me that he would have to blow out the AC duct. He stated that he had encountered this problem (stopped up ducts) at some other units and that it would take about an hour to finish up. I notified Ms. Ferguson that Keith would take care of the problem. I then left.

I received a call from Keith around 6:30 pm. He stated that he had received a page from Ms. Ferguson regarding the leak. He said that he was at the property and that the ceiling in the kitchen had begun to cave in. I told him that I would come down.

I arrived in Greensboro around 7:30 pm to see that the kitchen and living room ceiling had begun to fall. I also noticed water on the kitchen floor. Keith stated that upon his arrival, he had learned that Ms. Ferguson had contacted the city and a representative had

come out and turned off the water supply to the entire building. He stated that he had restored service to every unit except Ms. Ferguson. He stated that he was unaware of where the water was coming from.

Keith and I went into the manager's office of KGS and contacted John's Plumbing emergency number. We were informed that no one could come out until Saturday morning. I scheduled the call. We then contacted Professional Carpet Services. A representative came out around 11:00 pm and extracted water from the kitchen and living room floor. He also extracted water from the unit next door.

I offered temporary housing for Ms. Ferguson and her household at Raymond S. King Apartments. She declined the offer and made arrangements elsewhere. I left around midnight. Keith remained with the carpet technician.

The plumbing problem was corrected on Saturday morning. Ms. Ferguson was again offered temporary shelter at RSK. Bids were requested from several vendors regarding clean up and restoration of the unit on Monday morning. The insurance company was called and the claim reported.

By Tuesday, August 31, 2004 all bids were received. Nationwide Insurance gave its approval for the necessary repairs on September 7, 2004. However by that date Wynnefield Properties had taken over management services at this community.

Feel free to contact me with any questions or concerns regarding this matter at (336) 545-9000 ext 13.

Cordially,



Carmina R. Eder  
Regional Asset Manager  
Beacon Management Corporation

cc George E. Carr, President BMC

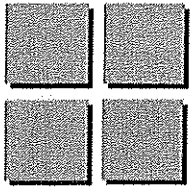


General Journal YTD, Acct# 1320

October 20, 2004, 02:53P

Kingsgate South Apts.  
Period : 2003

Type	Date	Item	Description	Acct#	Account Name	Tran#	Debit	Credit
BkDep	07/08/2003	JULY8	INITIAL FUNDS FROM WYNNEFIELD	1320	REPLACEMENT RESERVE	37	32,790.04	
Debit	07/18/2003	JUL18	R/R DEPOSITS (JUNE & JULY03)	1320	REPLACEMENT RESERVE	70	1,560.00	
Debit	07/31/2003	7	INTEREST-R/R	1320	REPLACEMENT RESERVE	219	16.62	
Cr	07/31/2003	8	DEPOSIT SLIPS	1320	REPLACEMENT RESERVE	223		22.75
AutCk	08/11/2003	1000	TCG TECHNOLOGIES, LLC	1320	REPLACEMENT RESERVE	90		2,290.00
AutCk	08/13/2003	1001	HANNER COMPUTER SERVICES	1320	REPLACEMENT RESERVE	97		1,103.53
BkDep	08/15/2003	AUG15	R/R DEPOSIT AUG03	1320	REPLACEMENT RESERVE	113	780.00	
BkDep	08/20/2003	AUG20	WYNNEFIELD -R/R FINAL MONEYS	1320	REPLACEMENT RESERVE	126	35.99	
Debit	08/31/2003	7	INTEREST-R/R	1320	REPLACEMENT RESERVE	248	19.88	
Debit	09/08/2003	SEPT8	R/R DEPOSIT	1320	REPLACEMENT RESERVE	145	780.00	
Debit	09/30/2003	7	INTEREST-R/R	1320	REPLACEMENT RESERVE	272	26.84	
Debit	10/20/2003	OCT20	R/R DEPOSIT	1320	REPLACEMENT RESERVE	315	780.00	
Debit	10/31/2003	7	INTEREST-R/R	1320	REPLACEMENT RESERVE	379	26.82	
BkDep	11/26/2003	NOV26	R/R DEPOSIT	1320	REPLACEMENT RESERVE	384	780.00	
Debit	11/30/2003	7	INTEREST-R/R	1320	REPLACEMENT RESERVE	404	24.14	
Debit	12/31/2003	DEC31	RESERVE FOR REPLACEMENT	1320	REPLACEMENT RESERVE	479	780.00	
Debit	12/31/2003	7	INTEREST-R/R	1320	REPLACEMENT RESERVE	486	29.07	
17 JOURNAL ENTRIES TOTAL :							38,429.40	3,416.28
BEGINNING BALANCE :				0.00	YTD TRANSACTIONS :	35,013.12	ENDING BALANCE :	35,013.12



# HCD


Department of Housing & Community Development

## MEMO

Date: October 28, 2004

To: Len Lucas, Internal Audit

CC: Ben Brown, Asst. City Manager  
Norwood Stone, Wynnefield Properties  
George Carr, Beacon Management  
Cynthia Blue, Housing and CD

From:  Andrew Scott, Housing and CD

RE: Kingsgate Housing Compliance Monitoring Review

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As noted in the program and compliance review report dated October 7, 2004 for the project known as Kingsgate South, there were two issues noted for follow up by the Department of Housing and Community Development.

The first concerned a unit damaged by a water leak and subsequent mold growth [Unit 605-E]. The report notes that "this [damage] appears to be due to the fact that this situation was not addressed in a timely fashion." The report dated October 20, 2004 from the former management agency detailing the actions taken indicate that the proper remediation efforts were undertaken in a timely manner. A time delay in repairs appears to have occurred due to the change in property management, which has significantly increased costs. Repairs were underway at the time of inspection on October 4. The case became active with the Local Ordinance Enforcement Office on October 18, 2004. LOE has confirmed that the unit was condemned, but that the owners are working to repair it. Bill Black's inspection notes indicate that "the management company is to notify the auditor when the unit has passed clearance." HCD has a meeting scheduled with the property owner on November 1 and will also continue to monitor this situation.

The second issue concerned a potential under-funding of the Replacement Reserve account by \$465.00. HCD agrees that if it can not be documented that the full amount of payments were made, the property or ownership should pay the deficit in a timely manner.



# City of Greensboro

Date: November 3, 2004  
To: Andy Scott, Director of Housing & Community Development  
From: Internal Audit  
Subject: Kingsgate Housing Compliance Review

We are in receipt of the requested response from the Department of Housing & Community Development concerning the compliance review of Kingsgate Housing, LLC. We concur that the repairs to the subject unit are underway. Additionally, we agree that all reserve accounts should be funded in a timely fashion to be in compliance with the City's loan agreement. At this time, no further action is necessary. Thanks for your attention to these matters.

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