



City of Greensboro

Date: September 13, 2004
To: Ed Kitchen, City Manager
From: Internal Audit
Subject: Homeowner's Model Experiment, Incorporated / Program Income Audit/Review

Attached you will find our letter issued on Homeowner's Model Experiment, Incorporated (HME, Inc.) Program Income Audit/Review; their response to our letter and our response to their reply. In addition the Department of Housing & Community Development has recommended that HME, Inc. schedule the clients for homeownership classes that were overlooked. We concur with this recommendation.

If you have questions or need additional information please let us know. Thanks.

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: August 13, 2004
To: Andy Scott, Director of Housing & Community Development
From: Internal Audit
Subject: Homeowners Model Experiment, Incorporated (HME, Inc.) - Program Income Audit/Review

The Internal Audit Division has performed a program and compliance audit/review on Program Income and Project Proceeds generated by Homeowners Model Experiment, Incorporated's use of Federal, State and Local Funding from the City of Greensboro for the years ended 1997 through 2001. During these grant years HME, Inc. received approximately \$873,700 directly or indirectly from the City of Greensboro for its Affordable Housing Program. Our initial starting date for this audit was delayed for approximately two weeks due to a request from the agency for additional time to prepare. After visiting the agency and consulting with the City Manager's Office this request was granted.

For the purposes of this audit/review the following definitions are used. *Program Income* is defined as "gross income received by the recipient or subrecipient directly generated from the use of CDBG, HOME, Bond, Housing Partnership Funds and any other funds used to generate program income." *Gross Income* is defined as "income from the use of rental or real property, owned by the recipient or subrecipient, that was constructed or improved with the CDBG, HOME, Bond, Housing Partnership and any other funds, less costs incidental to generation of the income." In order to determine program income and project proceeds, sales data and expenses were reviewed to determine how the income and proceeds were calculated.

EXTERNAL AUDIT

FINDING:

HME, Inc. has not had an external audit performed since the year ended December 31, 1995. This is not in compliance with the Community Housing Development Organization (CHDO) agreement executed between HME, Inc. and the City of Greensboro in April of 1999.

RECOMMENDATION:

HME, Inc. should schedule an external audit to be performed immediately and provide the City of Greensboro with copies of the audit and any management letters issued upon their completion.

HOME COSTS and SALES

We reviewed an 18% sample of approximately 33 homes constructed and sold during the years 1997 through 2001 and the findings and recommendations on these six homes are summarized below.

FINDING

Proof of counseling of purchasers was not sufficient for two of the six units reviewed. Initially, the City of Greensboro's Housing & Community Development Department coordinated counseling for potential homeowners. Currently, Greensboro Housing Coalition handles this responsibility for the City.

RECOMMENDATION:

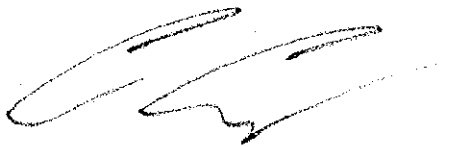
The Housing & Community Development Department should ensure that all potential purchasers are qualified to participate in the lease/purchase program provided by HME, Inc. and that all purchasers complete the required homeowner counseling.

The following table summarizes our conclusions of the three homes sampled per development:

	OLD HICKORY DRIVE	WILHOIT
Total # of Homes Built	17	16
Average Sales Price	\$70,383	\$95,783
Average Appraisal	\$82,000	\$109,000
Instant Equity to Homeowner	\$11,617	\$13,217
Average % of Instant Equity	16.5%	13.8%
Average Construction Cost	\$85,724	\$103,386
Average Overhead Cost	\$7,500	\$7,917
Average Overhead for Industry	\$8,446	\$11,494
City's Contribution per Home	\$17,358.82	\$14,220.94

Conclusion: With the exception of the aforementioned findings and recommendations, it appears that the lease/purchase program provided by HME, Inc. is operating as designed; and Instant Equity defined as the excess of the appraisal price of homes over the sales price is being passed on to the homeowners. These percentages were 16.5% and 13.8% respectively per development. Additionally, the expenses incurred in the construction of homes and administering the program exceeds the project proceeds generated contributing to a net operating deficit. This deficit appears to have been offset with funding provided by HME, Inc. and donations to their organization for these two developments.

We request a written response from HME, Inc. and the Housing & Community Development Department to our findings and recommendations by August 27, 2004. If there are any questions or comments concerning the details of this compliance review, we can be reached at 373-2823.



Len Lucas
Internal Audit Director

Cc: Ben Brown, Assistant City Manager for Economic Development
Victor L. Nussbaum, President of Homeowners Model Experiment, Incorporated
H. Walker Sanders, President of Community Foundation of Greater Greensboro

Lucas, Len

From: Wilson, Linda
Sent: Thursday, August 12, 2004 12:17 PM
To: Lucas, Len
Cc: Scott, Andrew
Subject: HME, Inc. audit question

I talked with Cheryl Fields of HME, Inc. this morning regarding the two families where participation in a home buyer training program could not be verified. This is the information provided by Cheryl on these two properties:

1415 Old Hickory— These clients were scheduled to attend the training but did not attend as planned and the follow-up to get them in a new session was not done by HME, Inc. These lease/purchase clients will be required to attend training in the near future by HME, Inc.

1422 Old Hickory—This sale was a resale to a second low income households and it was an oversight on the part of HME, Inc. that they were not required to participate in home buyer training.

Hope this information is helpful.

*Linda Wilson, AICP
Grants Administration Manager
(336)373-2109, fax: (336)373-2153
e-mail: linda.wilson@greensboro-nc.gov*

Homeowners Model Experiment, Inc.

PO Box 29205

Greensboro, NC 27429

September 9, 2004

Mr. Len Lucas
Internal Auditing Department
City of Greensboro
PO Box 3136
Greensboro, NC 27402

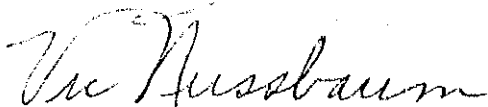
Dear Mr. Lucas:

I appreciate the feedback you provided HME, Inc., concerning the recent city audit. I believe your assessment was balanced, and on point. I pledge our commitment to meet the standards set down by the city and monitored by your department.

One of the first issues we will address, will be a financial audit. Costello Hill & Co. is scheduled to begin work on October 25, 2004. I will forward a copy of their findings as soon as the audit results are available.

Thank you for your time and consideration.

Sincerely,



Victor L. Nussbaum

President

Homeowners Model Experiment, Inc.

City of Greensboro
North Carolina

September 10, 2004

Mr. Victor L. Nussbaum, President
Homeowners Model Experiment, Incorporated
P.O. Box 29205
Greensboro, NC 27429

Dear Mr. Nussbaum:

Thanks for your letter in response to the City of Greensboro's recent review of HME, Inc.'s Affordable Housing Program. It appears you and your staff are in agreement with our assessment, which is amicable for both parties.

On the issue of the external audit, we understand Costello Hill & Company is scheduled to start October 25th. As you are aware, a complete and comprehensive audit involves a lot of time and detail. For these reasons I will be recommending to the City Manager's Office that the City not invest funding in future projects with HME, Inc. until after successful completion of the audit. Please call me at 373-2823 if I can be of assistance in the interim.



Len Lucas
Internal Audit Director

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