



# City of Greensboro

Date: September 12, 2002  
To: Ed Kitchen, City Manager  
From: Internal Audit  
Subject: Homeowners Model Experiment, Incorporated 2001-2002

The Internal Audit Division has performed our annual program and compliance audit of Homeowners Model Experiment, Inc. for the current year's operations. This agency received a loan from the City of Greensboro in May 1998 for \$265,000 to help in the rehabilitation of 13 apartment units located at 400 Bingham Street. These units are called Bingham Street Apartments and are managed by Ronald L. Fields and Company.

These units are designed to provide housing for low-income individuals or families in the Greensboro area. The loan is non-interest bearing and will become due in full September 1, 2013.

We accompanied Mr. Bill Black, Rehabilitation Supervisor of Housing & Community Development as he inspected 10 units and the exterior of the property and noted the following:

- Each unit inspected needs various repairs
- Most of the units had issues related to vandalism, and most of the units have had break-ins, even those occupied. According to copies of Police Reports filed for May and June of 2002, a minimum of \$10,000 in property damage and theft has occurred. Open drug dealing has been witnessed, and management has gone into vacant units and found drug users in the units. Police has the units on routine drive by.

We also examined selected financial transactions and program documentation maintained by the agency for compliance with the loan agreement and noted the following:

- There is a continuous high vacancy rate: currently 10 out of the 13 units are vacant
- The agency has not had an external audit performed since the year ended December 31, 1995. The contract requires that an annual audit be conducted and the financial statements be submitted to the City within 180 days of the fiscal year end. We contacted the agency in 2001 and requested a copy of the financial statements. The agency did not respond to this request.
- The Operating Reserve has a current balance of \$1,017; however it is under funded by \$2,000. HME, Inc. provided documentation on \$7,588 of repairs that they performed on these apartments using HME, Inc. funds because the apartments Reserve Account was low.
- The Capital Replacement Reserve has a current balance of \$3,045; however it is under funded by \$6,000
- A Statement of Cash Flows provided by the management company for year ended December 2001 doesn't show sufficient income to fund the reserve accounts and maintain the operating expenses of the property, which appears to be due to the high number of vacancies

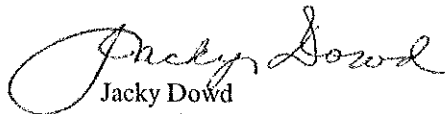
Since we've started this audit the Housing & Community Development Department has received a letter dated June 24, 2002 of HME, Inc.'s desire to sell the property. A second letter dated July 30, 2002 requested acceptance of (1) Section 8 Vouchers to fill the vacancies and (2) an increase in the rent levels from \$350 to \$425 to increase the cash flow. A letter dated July 31, 2002 from the H&CD Department approved the new tenant base and rent level increase.

We recommend that the H&CD Department closely monitor this agency to insure that the vacancies are reduced; the apartments are repaired; the reserves are funded; and the financial statements are submitted to the City. We are requesting a response from the H&CD Director by October 30 to indicate the status of the recommendations for this agency.

We would like to thank Ronald & Cheryl Fields, Administrative Managers and Mr. Russ Dunn, Maintenance Technician of Ronald L. Fields and Co. for their courtesy and cooperation shown us during this audit. If there are any questions and comments concerning the details of this audit, please contact us at 373-2821.



Len Lucas  
Internal Auditor



Jacky Dowd  
Internal Audit Director

Cc: Mitchell Johnson, Assistant City Manager  
Linda Miles, City Attorney  
Andy Scott, Director of Housing & Community Development  
Cheryl H. Fields, Administrative Manager of Ronald L. Fields and Company