

**WILMINGTON HOUSING PARTNERSHIP
CORPORATION**
(A COMPONENT UNIT OF THE CITY OF WILMINGTON, DELAWARE)

**INDEPENDENT AUDITORS' REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

JUNE 30, 2019 AND 2018

WILMINGTON HOUSING PARTNERSHIP CORPORATION
(A COMPONENT UNIT OF THE CITY OF WILMINGTON, DELAWARE)
TABLE OF CONTENTS
JUNE 30, 2019 AND 2018

	<u>Page No.</u>
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	1
Schedule of Findings and Recommendations with Corrective Action Plan	3



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Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Directors
Wilmington Housing Partnership Corporation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of the Wilmington Housing Partnership Corporation, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Wilmington Housing Partnership Corporation basic financial statements, and have issued our report thereon dated March 17, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Wilmington Housing Partnership Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Wilmington Housing Partnership Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Wilmington Housing Partnership Corporation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, a misstatement on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Wilmington Housing Partnership Corporation's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

To the Board of Directors
Wilmington Housing Partnership Corporation

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and recommendations as items 2019-001 through 2019-006, that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Wilmington Housing Partnership Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2019-005 and 2019-006.

Wilmington Housing Partnership Corporation's Responses to Findings

The Wilmington Housing Partnership Corporation's responses to the findings identified in our audit are described in the accompanying corrective action plans. The Wilmington Housing Partnership Corporation's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Wilmington Housing Partnership Corporation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Wilmington Housing Partnership Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Belfint, Lyons & Shuman, P.A.

March 17, 2020
Wilmington, Delaware

WILMINGTON HOUSING PARTNERSHIP CORPORATION
(A COMPONENT UNIT OF THE CITY OF WILMINGTON, DELAWARE)
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
YEARS ENDED JUNE 30, 2019 AND 2018

Reference Number: 2019-001

Type of Finding: Material Weakness

Financial Reporting

Condition: The WHPC's fiscal year 2018 financial statements were not audited timely at the end of the fiscal year and were audited in conjunction with its fiscal year 2019 financial statements.

Criteria: WHPC's by-laws require an annual audit.

Cause: The former Executive Director and the Board of Directors did not engage an auditor to audit the fiscal year 2018 financial statements.

Effect: The WHPC's fiscal year 2018 financial statements were audited in conjunction with its fiscal year 2019 financial statements. Because of the delay, additional difficulties were encountered in locating documents and other evidence necessary for the audits. Also, the value for decision making of the financial information contained in the audited financial statements is lessened, due to the passage of time.

Recommendation: We recommend that the WHPC engage its auditors on a timely basis in the future.

Views of Responsible WHPC Officials and Planned Corrective Actions: We agree with the finding and will implement the recommendation by doing the following: Solicit for an auditor for a two-year engagement 2020-2021 immediately, and re-solicit as appropriate.

Responsible Positions: WHPC Board of Directors

WILMINGTON HOUSING PARTNERSHIP CORPORATION
(A COMPONENT UNIT OF THE CITY OF WILMINGTON, DELAWARE)
SCHEDULE OF FINDINGS AND RECOMMENDATIONS - CONTINUED
YEARS ENDED JUNE 30, 2019 AND 2018

Reference Number: 2019-002

Type of Finding: Material Weakness

Nonperformance of Necessary Accounting Functions

Condition: We noted that during fiscal years 2018 and 2019, necessary accounting functions, including bank reconciliations, were not performed timely. An outside accountant was later retained to record accounting activities for both years. We also noted that documentation for a number of revenue and expenditure transactions could not be produced by WHPC and had to be obtained from outside sources such as banks and vendors. As a result, numerous audit adjustments were required to present the financial statements in accordance with generally accepted accounting principles.

Criteria: The WHPC's by-laws require accurate and timely financial statements for the use of the Board of Directors (Board) for the review of financial performance regarding the budget, the preparation of the Annual Financial Statements, the Annual Independent Audit, and the Annual IRS Form 990.

Cause: The former Executive Director, and former Board Treasurer, did not hire or engage the necessary accounting services in a timely manner. The document retention procedures of the WHPC and the City Department of Real Estate and Housing failed to adequately retain and organize documentation supporting WHPC transactions.

Effect: The WHPC's fiscal years 2018 and 2019 financial statements were not in good condition for management reporting and for audit. An outside accountant was later retained to record accounting activities for the two years and to prepare the books for audit. Numerous difficulties were encountered in the performance of the audit.

Recommendation: We recommend that the WHPC retain an accountant on a regular basis to keep its books and financial reporting current.

Views of Responsible WHPC Officials and Planned Corrective Actions: We agree with the finding and will implement the recommendation by doing the following: External accountant is currently engaged. Continue to use a third-party accountant to record accounting activities on a monthly basis.

Responsible Positions: WHPC Board of Directors

WILMINGTON HOUSING PARTNERSHIP CORPORATION
(A COMPONENT UNIT OF THE CITY OF WILMINGTON, DELAWARE)
SCHEDULE OF FINDINGS AND RECOMMENDATIONS - CONTINUED
YEARS ENDED JUNE 30, 2019 AND 2018

Reference Number: 2019-003

Type of Finding: Material Weakness

Lack of Supporting Documentation to Provide Evidence of Authorization of Transactions

Condition: We noted that the authorization for a number of transactions we examined could not be evidenced because of the lack of documentation. Additionally, we noted many significant transactions were not documented in the Board of Directors' minutes.

Criteria: Strong internal controls require the retention of documentary support for and evidence of the approval of transactions.

Cause: With the departure of the former Executive Director, Board of Directors, and the WHPC staff in fiscal year 2019, WHPC records became disorganized or lost. The documentation retention procedures of the WHPC and the City Department of Real Estate and Housing failed to adequately retain and organize documentation supporting WHPC transactions. In addition, the Board of Directors' minutes did not contain evidence of the Board's consideration and approval of important and material transactions.

Effect: Numerous difficulties were encountered in the performance of the audit. Because of the absence of much of the original documentation for fiscal years 2018 and 2019, we relied on documentation provided from outside sources: the City of Wilmington, banks, and vendors. While the documentation from the third parties provided support for the timing, valuation, and classification of transactions, proper authorization could not be determined with certainty.

Recommendation: We recommend that the WHPC establish procedures to ensure the retention of adequate documentation to support the authorization of all future transactions. We also recommend that the Board of Directors prepare and retain minutes with enough detail to support all important and material decisions.

Views of Responsible WHPC Officials and Planned Corrective Actions: We agree with the finding and will implement the recommendation by doing the following: The file room currently in the Real Estate and Housing Department on the 7th Floor of 800 French Street, has be re-organized, labeled, and locked when not in use.

Responsible Positions: WHPC Board of Directors

WILMINGTON HOUSING PARTNERSHIP CORPORATION
(A COMPONENT UNIT OF THE CITY OF WILMINGTON, DELAWARE)
SCHEDULE OF FINDINGS AND RECOMMENDATIONS - CONTINUED
YEARS ENDED JUNE 30, 2019 AND 2018

Reference Number: 2019-004

Type of Finding: Material Weakness

Possible Conflict of Interest - Legal Services

Condition: During the years ended June 30, 2019 and 2018, WHPC incurred over \$100,000 for legal work performed by the law firm of which a member of the Board of Directors is a partner. The former Executive Director, who authorized the work, was not aware that the cost of the legal services had reached that level. There was no record of this legal work in the Board of Directors' minutes. There was also no record of it in WHPC's invoice files or general ledger, resulting in the need for an audit adjustment.

Criteria: The WHPC's by-laws address conflicts of interest with related parties and, among other things, require the "disclosure of an actual, potential, or apparent conflict of interest" to the Board of Directors.

Cause: It appears, from the Board of Directors' minutes we examined, that these legal services, their cost and the potential conflict were not discussed by the former Executive Director or the Board member during the period the services were being performed. The former Executive Director also did not keep himself informed as to the rising costs of the services.

Effect: Because the cost of the services was not recorded in the WHPC's general ledger, its liabilities were understated by \$100,000, resulting in the need for an audit adjustment. Because there is no record of these services in the Board of Directors' minutes, it appears that the Board may not have been properly informed of a possible conflict of interest.

Recommendation: We recommend that the WHPC obtain full documentation for the legal services provided and that the Board of Directors review the documentation and the possible conflict of interest. We also recommend that the WHPC follow the guidance in its by-laws with regard to possible conflicts of interest.

Views of Responsible WHPC Officials and Planned Corrective Actions: We agree with the finding and will implement the recommendation by doing the following: The Board of Directors has asked the President to request full documentation of the legal services provided for their review. All board members are required to submit yearly conflict-of-interest statements.

Responsible Positions: WHPC Board of Directors

WILMINGTON HOUSING PARTNERSHIP CORPORATION
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SCHEDULE OF FINDINGS AND RECOMMENDATIONS - CONTINUED
YEARS ENDED JUNE 30, 2019 AND 2018

Reference Number: 2019-005

Type of Finding: Material Weakness

Failure to Repay Federal Funds Due to the City of Wilmington

Condition: In fiscal year 2018, WHPC sold a property that had been renovated using federal Neighborhood Stabilization Program (NSP) funds. The proceeds from the sale of the property were considered program income of the NSP and were required to be repaid to the City of Wilmington (City) upon the sale of the property. Rather than repay the City the proceeds, WHPC used the funds for operations and, instead, gave the City a \$97,000 mortgage on another property for the amount due.

Criteria: Federal Community Development Block Grant compliance regulations require that “any revenue from the sale, rental, redevelopment, rehabilitation, or any other eligible use of NSP funds is to be provided to and used by the State or unit of general local government” (the City). The Memorandum of Understanding between the WHPC and the City of Wilmington also required the repayment of the borrowed NSP funds upon sale of the renovated property.

Cause: Errors in the original recording of the mortgage and errors in the settlement process resulted in the settlement proceeds being disbursed to the WHPC rather than to the City of Wilmington. Due to the WHPC’s cash shortage, the funds were used for operations by the former Executive Director.

Effect: These actions put the WHPC in violation of the federal NSP regulations and in breach of its contract with the City.

Recommendation: We recommend that the WHPC repay the amount due to the City as soon as it is possible.

Views of Responsible WHPC Officials and Planned Corrective Actions: We agree with the finding and will implement the recommendation by doing the following: The subject property is listed with a broker. Upon sale of the property and receipt of the proceeds of the satisfied mortgage, funds will be immediately used to repay the City. In the future, an additional review of documents by legal staff will take place.

Responsible Positions: WHPC Board of Directors

WILMINGTON HOUSING PARTNERSHIP CORPORATION
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SCHEDULE OF FINDINGS AND RECOMMENDATIONS - CONTINUED
YEARS ENDED JUNE 30, 2019 AND 2018

Reference Number: 2019-006

Type of Finding: Material Weakness

Default on Loans and Use of Sales Proceeds

Condition: The WHPC is in violation of the covenants contained in its loan agreements, causing the loans to be in default. These violations include failure to make required payments when due, use of the proceeds from the sale of encumbered properties to pay operating expenses, and failure to meet financial reporting requirements to the lenders.

Criteria: The covenants are included in the loan agreements.

Cause: The former management and Board of Directors of the WHPC lacked the funds to meet all of its obligations and chose to prioritize paying operating expenses over repaying loans.

Effect: Due to the lack of adequate new funding, various debts remain unpaid. The current management and Board of Directors are working with creditors and others to secure funding, complete projects in process, and renegotiate repayment terms.

Recommendation: We recommend that the WHPC implement internal controls to ensure compliance with loan covenants.

Views of Responsible WHPC Officials and Planned Corrective Actions: We agree with the finding and will implement the recommendation by doing the following: An independent accountant will accurately summarize and monitor covenants contained in loan agreements as part of the reporting at regular Board of Directors' meetings.

Responsible Positions: WHPC Board of Directors

WILMINGTON HOUSING PARTNERSHIP CORPORATION
(A COMPONENT UNIT OF THE CITY OF WILMINGTON, DELAWARE)
SCHEDULE OF FINDINGS AND RECOMMENDATIONS - CONTINUED
YEARS ENDED JUNE 30, 2019 AND 2018

Reference Number: 2019-007

Type of Finding: Material Weakness

Wilmington Housing Partnership Corporation - City Auditor's Agreed-Upon Procedures Reports Findings

Condition: On October 7, 2019 and January 7, 2019, the City Auditor issued Agreed-Upon Procedures reports which included the following findings:

1. Inconsistencies were noted in the estimated valuation of the properties in the Walt's Way project in reports prepared at different times.
2. Delinquencies in paying WHPC obligations and use of certain grant funds for other than their intended purpose.
3. Failure to perform regular accounting functions, including bank reconciliations.
4. Carrying a large number of properties in inventory, with no plans for development.

Our audit findings were consistent with the findings of the City Auditor.

Criteria: As noted by the City Auditor and in this report, under WHPC and City accounting policies, WHPC is required to maintain accounting records in an orderly manner. It is also required to maintain documentation to support the amounts and the approvals of its transactions. Additionally, federal Community Development Block Grant compliance regulations require that "any revenue from the sale, rental, redevelopment, rehabilitation, or any other eligible use of NSP funds is to be provided to and used by the State or unit of general local government" (the City).

WILMINGTON HOUSING PARTNERSHIP CORPORATION
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SCHEDULE OF FINDINGS AND RECOMMENDATIONS - CONTINUED
YEARS ENDED JUNE 30, 2019 AND 2018

Reference Number: 2019-007 - Continued

Cause: WHPC's operations and accounting were not adequately monitored or managed by its management and Board of Directors. During fiscal year 2018, WHPC lost anticipated funding that it had previously relied upon to support its activities. WHPC updated its general ledger on a regular basis in fiscal years 2018 and 2019 and did not engage an independent auditor to audit its fiscal year 2018 financial statements on a timely basis.

Effect: The internal control deficiencies cited resulted in material journal entries needed to adjust WHPC's general ledger and to present its financial statements in accordance with generally accepted accounting principles. They also resulted in a lack of timely reporting to the Board of Directors and to City management of issues that required their attention.

Recommendation: We recommend that City officials and the Board of Directors completely update WHPC policies and procedures to ensure accurate and complete accounting records are maintained and to reflect the current management and Board structure. We also recommend that the City and WHPC make arrangements to properly reimburse the City's NSP program for the sale of the NSP property noted above.

Views of Responsible City Officials and Planned Corrective Actions: We agree with the finding and will implement the recommendation by doing the following: WHP and the Department of Real Estate and Housing have in place internal control procedures to prevent any future waste, fraud, or abuse from occurring. For example, no payment can be issued from WHP of over \$5,000 without both the President and Secretary approving and signing the same unless the Board of Directors approves the same. For payment requests from WHP to the Department of Real Estate and Housing, with consultation with the City's Law Department and with the advice of the City Auditor, a procedure is in place whereby Director of Real Estate and Housing recuse themselves from the approval process for payments requested by WHP.

In reference to the confusion surrounding previously communicated values of WHP properties; consistent with accepted accounting practices, WHP, under its prior Executive Director, previously communicated its properties' values at times based on potential value after improvements (and without actually considering the costs associated with realizing that potential value) as opposed to actual current value or acquisition cost. In some cases, the assumptions underlying those potential values were not provided as appropriate context for the recipient of that information. WHP now only communicates the values of its properties in terms of current fair market value. Whatever the accounting value of valuing WHP's properties prospectively, it does not outweigh the cost to the clarity of WHP's financial position.

**WILMINGTON HOUSING PARTNERSHIP CORPORATION
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SCHEDULE OF FINDINGS AND RECOMMENDATIONS - CONTINUED
YEARS ENDED JUNE 30, 2019 AND 2018**

Reference Number: 2019-007 - Continued

Views of Responsible City Officials and Planned Corrective Actions - Continued

WHP has an active Board of Directors and operates to the extent that its financial condition and the generosity of others allow. WHP's corporate status with the Delaware Secretary of State is intact. WHP is an owner of a number of properties in the City and has a continuing obligation as both part of its mission and as a member of the community to complete projects it started or to responsibly transfer properties to entities that can.

Responsible Positions: WHPC Board of Directors