



Belle Maison Nursing Home, Hammond, LA

Section 232 Loan Program



To: Roger Lewis
Director, Office of Residential Care Facilities,
Office of Healthcare Programs, OHP

//signed//

From: Gerald Kirkland
Regional Inspector General for Audit, 6AGA

Subject: Belle Maison Nursing Home, Hammond, LA, Generally Complied With the
Owner and Operator Regulatory Agreements and HUD Requirements for Its
Section 232 Loan

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) results of our review of the Belle Maison Nursing Home's compliance with its regulatory agreements and HUD requirements for its Section 232 loan.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 817-978-9309.



Audit Report Number: 2015-FW-1006

Date: September 23, 2015

Belle Maison Nursing Home, Hammond, LA, Generally Complied With the Owner and Operator Regulatory Agreements and HUD Requirements for Its Section 232 Loan

Highlights

What We Audited and Why

As part of the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's annual audit plan, we audited the Belle Maison Nursing Home. We selected the facility for review based on a risk analysis. Our objective was to determine whether the facility complied with the executed owner and operator regulatory agreements and HUD requirements.

What We Found

The facility generally complied with the terms of the owner and operator regulatory agreements and HUD requirements and cleared a minor issue identified during the audit.

What We Recommend

This report contains no recommendations.

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Background and Objective

Section 232 of the National Housing Act authorizes the Federal Housing Administration to insure mortgages made by private lenders to finance the development of nursing homes, intermediate care facilities, board and care homes, and assisted living facilities. The Office of Residential Care Facilities, under the U.S. Department of Housing and Urban Development's (HUD) Office of Healthcare Programs, manages the Section 232 program. Federal regulations at 24 CFR (Code of Federal Regulations) 200.105(a) state that as long as HUD is the insurer or holder of the mortgage, HUD will regulate the borrower by means of a regulatory agreement, providing terms, conditions, and standards established by HUD, or by other prescribed means. HUD also holds the mortgage lender responsible for ensuring that the owner and operator comply with the terms of the regulatory agreements.

Belle Maison Nursing Home, located at 15704 Medical Arts Plaza, Hammond, LA, operates 140 licensed and certified beds. The owner, Belle Maison Healthcare Facility, is a single-member limited liability asset company owned by Ponchatoula Nursing Home, LLC. Ponchatoula Nursing Home, LLC, leases the nursing home from the owner and operates the nursing home, doing business as Belle Maison Nursing Home. On December 1, 2011, the owner refinanced the mortgage loan and executed a mortgage and note with Capital Funding (mortgage lender) for \$3.7 million. HUD executed owner and operator regulatory agreements, effective December 1, 2011, and insured the \$3.7 million mortgage on the facility under the Section 232 program.

Our objective was to determine whether the facility complied with the executed owner and operator regulatory agreements and HUD requirements.

Results of Audit

Finding: The Facility Generally Complied With the Owner and Operator Regulatory Agreements and HUD Requirements

The facility generally complied with the terms of the owner and operator regulatory agreements and HUD requirements and cleared a minor issue identified during the audit.

The Facility Generally Complied With Requirements

In accordance with its owner and operator regulatory agreements and HUD requirements, the facility generally (1) made prompt mortgage payments, (2) established and maintained a reserve fund for replacements, (3) provided HUD annual financial reports in a timely manner, and there were no material deficiencies relevant to our objective, (4) did not show signs of potential operational deficiencies, (5) deposited and recorded receipts generated, (6) adequately supported disbursements, and (7) maintained the property in good condition.

The Facility Cleared a Minor Issue Identified During the Audit

During the audit, we identified a minor issue related to changes made to the property by the facility. Specifically, we determined that the facility made renovations, costing \$106,465, to its special care common area and special care bedrooms and bathrooms without prior HUD approval as required by the owner's regulatory agreement, section 6(d) and deemed those costs unsupported. After we issued the draft report, HUD provided additional criteria to support that the scope of the renovations did not require prior HUD approval. Additionally, the facility and HUD provided the requests authorizing reimbursement from the facility's reserve for replacement fund, which we determined was sufficient to support that HUD approved these renovation costs. Since the facility met HUD requirements when making changes to the property, we removed this issue from the final report.

Conclusion

The facility followed its regulatory agreements and HUD requirements and cleared the minor issue identified during the audit.

Recommendations

Since the facility generally complied with the regulatory agreements and HUD requirements, and cleared the minor issue identified during the audit, there are no recommendations.

Scope and Methodology

We conducted the audit at the Belle Maison Nursing Home in Hammond, LA, and our office in New Orleans, LA, from May through August 2015. The audit scope generally covered January 1, 2013, through December 31, 2014. We expanded the scope to April 2012 to identify additional remodeling expenses and to July 2015 to include currently occupied units for inspection.

To accomplish our objective, we

- Reviewed relevant regulations and program guidance;
- Reviewed the facility's organizational chart;
- Reviewed mortgage loan and escrow activity reports covering January 1, 2013, through December 31, 2014;
- Reviewed audited financial statements;
- Reviewed the following areas: (1) Centers for Medicaid and Medicare Services participation, (2) timeliness of loan and other payments, (3) cash and cash equivalents on hand, (4) responsiveness to HUD requests, (5) accounts payable and receivable, (6) legal representation, and (7) timeliness of reimbursements from Medicaid and Medicare;
- Reviewed receipts and disbursements;
- Inspected the physical condition of the facility; and
- Interviewed the facility's staff and obtained clarification from HUD as needed.

For the receipts review, using the facility's monthly tenant reports, we selected a nonstatistical random sample of 14 resident rent payments totaling \$116,289 from a universe of more than \$15.7 million for the period January 1, 2013, to December 31, 2014. We reviewed the receipts to determine whether the facility maintained adequate supporting documentation, deposited the receipts into its bank account, and recorded the receipts in its books and records. Through file reviews, we determined that the computer-processed data related to rent receipts were generally reliable.

For the disbursements review, we selected our sample using the facility's check register reports for the period January 1, 2013, to December 31, 2014. We selected our sample by focusing on payees that did not appear to be for an ordinary or reasonable expense. We selected a nonstatistical sample of 60 disbursements totaling \$384,609 from a universe of more than \$16.2 million. During the survey, we reviewed 14 of the 60 sampled disbursements totaling \$250,343 to determine whether the facility maintained adequate supporting documentation and complied with the regulatory agreement and HUD requirements. Because the issues identified were not significant, we did not review the additional 46 disbursements sampled. However, we did expand our review to capture all reimbursements from the reserve for replacement fund for remodeling expenses. Through file reviews, we determined that the computer-processed data related to disbursements were generally reliable.

Using the facility's daily census report as of July 6, 2015, we selected a nonstatistical random sample of 14 occupied units from an adjusted universe of 119. We inspected the physical condition of the 14 occupied units, along with the building exterior, building systems, and common areas, to determine whether the facility maintained the property in good repair. Based upon a comparison of the unit and resident name in the census report and the resident residing in the units during the inspections, we determined that the computer-processed data were generally reliable.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Internal Controls

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objective:

- Effectiveness and efficiency of policies and procedures used to ensure compliance with the Section 232 regulatory agreement and HUD requirements;
- Relevance and reliability of information used for making decisions and ensuring that information in external reports is relevant, reliable, and fairly disclosed; and
- Compliance with applicable Federal requirements.

We assessed the relevant controls identified above.

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, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

We evaluated internal controls related to the audit objective in accordance with generally accepted government auditing standards. Our evaluation of internal controls was not designed to provide assurance regarding the effectiveness of the internal control structure as a whole. Accordingly, we do not express an opinion on the effectiveness of the facility's internal control as a whole.

Appendixes

Appendix A

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments



September 14, 2015

Gerald R. Kirkland
Regional Inspector General for Audit
Office of Inspector General
U.S. Department of Housing and Urban Development
Office of Audit (Region 6)
819 Taylor Street, Suite 13A09
Fort Worth, Texas 76102

Re: Belle Maison Nursing Home, Hammond, LA, Generally Complied With the Owner and Operator Regulatory Agreements and HUD Requirements for Its Section 232 Loan

Dear Mr. Kirkland:

Thank you for the opportunity to respond to the draft results of your office's review of Belle Maison Nursing Home's ("Belle Maison") compliance with its regulatory agreements and HUD requirements for its Section 232 loan. We are pleased your office concluded that we generally complied with the terms of the owner and operator regulatory agreements and HUD requirements with the only proposed issue of non-compliance being a potential lack of express prior authorization from HUD for renovations made to the property.

Following are Belle Maison's responses/comments regarding the Recommendations and Findings:

Recommendation 1: Obtain retroactive HUD approval for its remodeling activities or repay \$106,465 to its reserve for replacement fund for the unapproved remodeling expenses.

- Belle Maison believes de-facto retroactive HUD approval for its remodeling activities was obtained when HUD approved the Reserve for Replacement Requests (form HUD-9250).
- If additional information is requested or required to obtain retroactive HUD approval, Belle Maison will promptly provide the additional information.

15704 Medical Arts Plaza Hammond, Louisiana 70403 / (985) 542-0110 / FAX (985) 542-8619

Comment 1

Comment 1

Recommendation 2: Provide HUD information related to all remodeling activities that occurred between December 2011 and July 2015 to ensure compliance with the regulatory agreement and HUD requirements.

- Belle Maison believes information related to the remodeling activities from December 2011 to July 2015 has been provided to HUD via the Reserve for Replacement Requests forms and accompanying supporting documentation.
- If additional information is requested or required by HUD for these activities during this time period, Belle Maison will promptly provide the additional information.

Comment 2

Recommendation 3: Implement written policies that include procedures for determining and documenting whether renovations require prior HUD approval.

- Belle Maison believes this recommendation does represent best practices and plans to draft a written policy that includes procedures for determining and documenting whether renovations require prior HUD approval. Belle Maison has pulled the applicable portions of the Section 232 Handbook for reference.

Comment 1

General Comments:

Belle Maison would like to clarify that Belle Maison and its mortgage lender were aware that remodeling projects require HUD approval. The only potential misunderstanding was regarding how to determine when the scope of the remodel project required prior HUD approval. Belle Maison did not believe these cosmetic renovations required prior HUD approval. Belle Maison would also like to note that if these same remodel projects were completed today, the current requirements in the Section 232 Handbook would not require prior HUD approval.

In closing, Belle Maison would like to acknowledge the professionalism and courtesy displayed by the audit team. We are in the business of caring for those who cannot care for themselves, which means we must quickly change plans when the unexpected arises. The audit team was both flexible and understanding throughout the engagement; a real pleasure to work with.

Sincerely,



Brent Guitreau, CPA, NFA
CFO

OIG Evaluation of Auditee Comments

Comment 1 The facility believed that de-facto retroactive HUD approval for its remodeling activities was obtained when HUD approved the reserve for replacement requests; and that information related to remodeling activities from December 2011 to July 2015 had been provided to HUD via the reserve for replacement request forms and accompanying supporting documentation. The facility also asserted that it and its lender were aware that remodeling projects required HUD approval. It further asserted that the only potential misunderstanding was regarding how to determine when the scope of the remodel project required prior HUD approval and it did not believe that the cosmetic renovations (discussed in the draft report) required prior HUD approval.

After we issued the draft report, the facility and HUD provided additional criteria and documentation that was initially requested during the audit. Based upon our review of this additional criteria and documentation, we agree that the renovations did not require prior HUD approval. Additionally, the facility had sufficient documentation to support that it had HUD approval after the renovations were completed when HUD authorized reimbursements from the facility's reserve for replacement fund. Therefore, we revised the report accordingly.

Comment 2 The facility believed that recommendation 3 (recommendation 1C in the draft report) represented best practices and plans to draft a written policy that includes procedures for determining and documenting whether renovations require prior HUD approval. We acknowledge the facility for updating its policies and procedures.