U.S. Department of Housing and Urban Development, Office of Residential Care Facilities

HUD's Monitoring of the Financial Performance of Section 232 Nursing Homes

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Office of Audit, Region 1
Boston, MA

Audit Report Number: 2018-BO-0001
September 17, 2018

To: Timothy Gruenes, Director, Office of Asset Management and Lender Relations, HI

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From: Ann Marie Henry, Regional Inspector General for Audit, 1AGA

Subject: HUD's Office of Residential Care Facilities Did Not Always Have and Use Financial Information to Adequately Assess and Monitor Nursing Homes

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of HUD's monitoring of the financial performance of Section 232 nursing homes.

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 website. 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 617-994-8380.

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HUD Did Not Always Have and Use Financial Information to Adequately Assess and Monitor Nursing Homes

Highlights

What We Audited and Why

We audited the U.S. Department of Housing and Urban Development's (HUD) monitoring of the financial performance of Section 232 nursing homes based on the size of their program, the inherent risks in the program, the length of time since our last audit, and the inclusion of this review in the annual audit plan. Our audit objective was to determine whether HUD had sufficient financial information and used this information to adequately assess and monitor the financial status of the nursing homes.

What We Found

HUD did not always have and use sufficient financial information to adequately assess and monitor nursing homes. Specifically, it (1) allowed four defaulted nursing homes to remain in its portfolio for up to 6½ years; (2) made a partial payment to help one nursing home return to solvency, and it went bankrupt 14 months later; (3) insured a nursing home that did not operate as a single-asset entity and a nursing home that did not submit a marketing plan; (4) did not enforce its regulatory agreements at six nursing homes; and (5) did not properly classify nine nursing homes as troubled. In addition, HUD did not require owners, operators, and lenders to routinely submit financial data that were sufficient, accurate, complete, and timely. These deficiencies occurred because HUD's actions did not always identify and address the root causes of a nursing home's financial challenges. As a result, HUD could lose more than $32.1 million for the defaulted mortgages and owed more than $10 million in carrying costs. It did not act on ineligible expenses of more than $7.8 million, unsupported expenses of more than $8.9 million, and accrued expenses of more than $44.4 million. Additionally, nine nursing homes, with more than $82.4 million in HUD-insured mortgages, were at risk of default.

What We Recommend

We recommend that the Director of Asset Management and Lender Relations, Office of Residential Care Facilities, (1) develop, implement, and enforce action plans with defined completion dates to address each nursing home's challenges; (2) require support for more than $8.9 million in expenses and documentation for the validity of the more than $44.4 million in accounts payable; (3) require repayment of more than $7.8 million in ineligible expenses; and (4) follow up on inaccurate, incomplete, conflicting, and late financial data.

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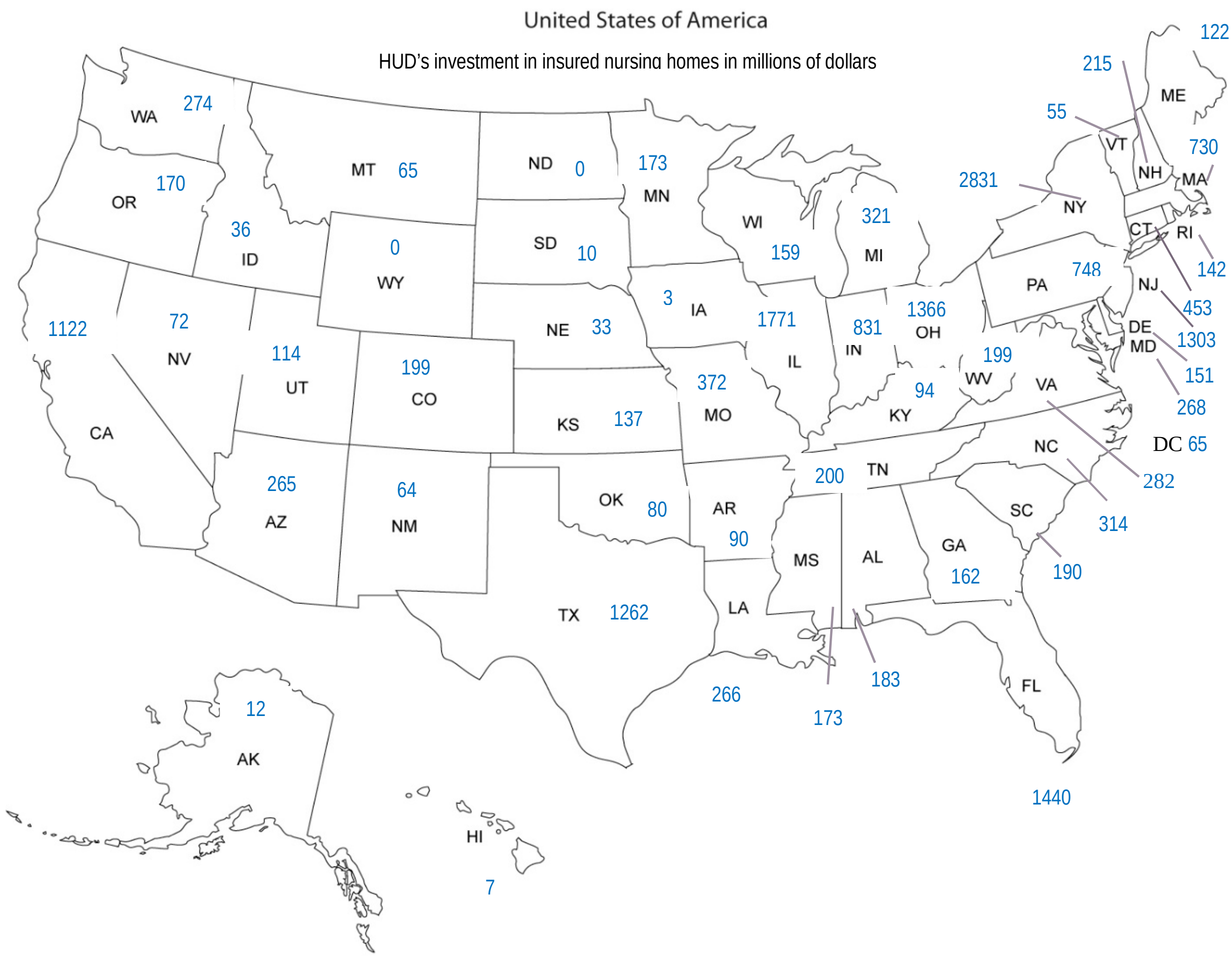
Background and Objective

In 1959, Congress created Section 232 of the National Housing Act, which authorized the United States Government to insure mortgages for nursing homes. The U.S. Department of Housing and Urban Development (HUD) has handled these mortgages since its creation in 1965. Since then, Congress has made many changes to the Section 232 program. Currently, eligible mortgages may be for purchase, refinance, new construction, substantial rehabilitation, or a combination of these. HUD also insures mortgages to install fire safety equipment in such properties.

As of March 8, 2018, HUD had insured 2,458 nursing home mortgages, with a collective principal balance exceeding $19.6 billion. HUD had insured mortgages in 48 States and the District of Columbia. HUD did not insure nursing homes in North Dakota and Wyoming.[1]



[1] Appendix F lists HUD's investment by State.

Nursing homes must have a regulatory agreement. Regulatory agreements among HUD, the owners, and the operators[2] govern the operation of the nursing home. Each regulatory agreement is executed at the initial closing of the HUD-insured mortgage. This regulatory agreement continues while HUD is the insurer, holder, or owner of the mortgage. Over the life of the Section 232 program, HUD has changed the format and language in its regulatory agreements. The version of the regulatory agreement signed at the closing of the mortgage applies for the duration of the mortgage. Nursing home owners and operators are responsible for any violations of the regulatory agreements and may be subject to adverse actions if violations occur. The lender holding the mortgage is not a party to the regulatory agreement. HUD services insured mortgages, monitors risk, and minimizes claims.[3] HUD's goal is to work in partnership with the owner and lender to ensure that (1) each HUD-insured mortgage is financially and operationally strong; (2) each nursing home provides a safe, quality place of residence; and (3) the mortgage remains viable for its term. Nursing homes generate revenue by filling beds with patients, caring for those patients, and billing responsible parties for the patients' care. These responsible parties include Medicare, Medicaid, private insurers, and patients.

Our audit objective was to determine whether HUD had sufficient financial information and used this information to adequately assess and monitor the financial status of the nursing homes. Specifically, we evaluated financial indicators, including utilization,[4] payments, profitability, and solvency, and determined what monitoring and actions HUD had taken to protect its investment.

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[2] Not every HUD-insured mortgage has an operator.
[3] If the owner fails to make a mortgage payment and the mortgage is in default for more than 30 days, the lender may file an insurance claim with HUD.
[4] Utilization is the percentage of beds occupied versus available.

Results of Audit

Finding 1: HUD's Monitoring Was Not Effective in Addressing Problems at 18 Financially Challenged Nursing Homes

HUD's monitoring was not effective in addressing problems at any of the 18 financially challenged nursing homes reviewed. Specifically, HUD (1) allowed four defaulted nursing homes to remain in its portfolio for up to 6½ years; (2) made a partial payment to help one nursing home return to solvency, and it went bankrupt 14 months later; (3) insured a nursing home that did not operate as a single-asset entity as required and a nursing home that did not submit a marketing plan as required; (4) did not enforce its regulatory agreements at six nursing homes; and (5) did not properly classify nine nursing homes' mortgages as troubled.[5] These deficiencies occurred because HUD's actions did not always identify and address the root causes of a nursing home's financial or operational challenges. HUD actively pursued a strategy of delaying assignment[6] while it worked with the lenders, owners, operators, and management agents (as appropriate) to turn around the mortgage. As a result, HUD could lose more than $32.1 million for the four defaulted mortgages and owed more than $10 million in carrying costs, lost more than $9.7 million in a bankruptcy sale, and placed more than $82.4 million at increased risk of default. Also, HUD did not take action on ineligible expenses of more than $7.8 million, unsupported expenses of more than $8.9 million, and accrued expenses of more than $44.4 million.

[5] The numbers do not total to 18 because some properties had multiple issues.

[6] Assignment occurs when a nursing home owner does not pay its HUD-insured mortgage and the lender decides to claim the insurance benefits. If a lender notifies HUD that it is eligible for the insurance benefits but has decided to work with the owner to refinance the mortgage, it is delaying assignment of the HUD-insured mortgage.

Defaulted Mortgages Remained in HUD's Portfolio After the Date of Default

HUD allowed four defaulted nursing homes to remain in its portfolio for up to 6½ years. Collectively, these nursing homes had an unpaid principal balance of more than $40.4 million.

Property name	Date of default	Days - years[7] since default	Unpaid principal balance
Plaza Village Senior Living	9/1/2011	2,380 - 6.52	$9,904,519
Immanuel Campus of Care	7/1/2012	2,076 - 5.68	12,411,882
Mary Scott Nursing Center[8]	12/1/2012	1,923 - 5.26	3,564,128
Bel-Air Nursing Home	5/1/2016	676 - 1.85	14,600,659
Total			**40,481,188**

In these four cases, HUD, the lenders, the owners, the operators, and the management agents (as appropriate)[9] discussed refinancing or modifying the HUD-insured mortgage. These nursing homes experienced a combination of low utilization, issues in billing for services, issues in collecting revenues due, owners and operators with difficulty in committing to a course of action, violations of their regulatory agreements, and unresolved notices of violation.[10]

For the purpose of an insurance claim, regulations[11] define default as the failure of the owner to make any payment due under the HUD-insured mortgage. If a default continues for 30 days, the lender is entitled to get the benefits of the insurance provided for the mortgage.[12] HUD requires lenders insuring nursing homes to request a 90-day extension before filing an insurance claim, which HUD may further extend at the written request of the lender.[13] If HUD grants the requested extension, HUD also requires that lenders assist the owner in arranging refinancing to cure the default and avoid an insurance claim. This criterion also includes the requirement that lenders cooperate with HUD in taking reasonable steps to avoid an insurance claim. The regulation states that HUD is responsible for taking actions other than refinancing to avoid a claim, while the lender is responsible for working with the owner to refinance to avoid a claim. HUD's criteria do not limit how long lenders and owners may take to refinance. Additionally, HUD does not have specific criteria to address delinquent[14] or defaulted mortgages that would not benefit from refinancing.

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7 This is the number of days and years between the date of default and March 8, 2018.
8 We issued the Mary Scott Nursing Center, Dayton, OH, audit report number 2017-CH-1009 on September 30, 2017.
9 Not every HUD-insured property has an operator or a management agent.
10 Appendix C discusses each nursing home.
11 This definition is available at 24 CFR (Code of Federal Regulations) 207.255(a)(1)(i).
12 This regulation is available at 24 CFR 207.255(a)(3).
13 This regulation is available at 24 CFR 207.258(a)(2).
14 A HUD-insured mortgage is delinquent when the owner does not make a mortgage payment on time.

When the owners default and the lenders properly notify HUD as the defaults occur, HUD is responsible for the accumulating interest and fees. For these properties, HUD was responsible for accrued interest of more than $6.9 million and other carrying costs of more than $3 million.[15]

Property name	Date of default	Accrued interest	Mortgage insurance premiums	Taxes	Insurance	Total
Plaza Village Senior Living	9/1/2011	$3,201,662	$336,293	$262,961	$131,511	$3,932,427
Immanuel Campus of Care	7/1/2012	1,760,439	159,826	0	1,106,611	3,026,876
Mary Scott Nursing Center[16]	12/1/2012	734,794	53,501	5,643	228,474	1,022,412
Bel-Air Nursing Home	5/1/2016	1,291,599	153,938	310,031	328,709	2,084,277
Total		**6,988,494**	**703,558**	**578,635**	**1,795,305**	**10,065,992**

These deficiencies occurred because HUD's actions did not always identify and address the root causes of a nursing home's financial or operational challenges. Additionally HUD actively pursued a strategy of delaying assignment while it worked with the lenders, owners, operators, and management agents (as appropriate) to turn around each mortgage. As of March 8, 2018, HUD had not paid a claim on these four mortgages totaling more than $40.4 million. To determine the potential loss to HUD for defaulted nursing homes, we calculated the loss ratio for nursing homes sales. From 2011 to 2018, HUD sold 22 nursing homes, with a total unpaid principal balance exceeding $87.4 million. In these sales, HUD recovered more than $17.3 million, or 20 percent, of the unpaid principal balance. With a loss ratio of 80 percent, HUD could lose more than $32.1 million for these mortgages.

Property name	Unpaid principal balance	Estimated loss to HUD
Plaza Village Senior Living	$9,904,519	$7,923,615
Immanuel Campus of Care	12,411,882	9,929,506
Mary Scott Nursing Center[17]	3,213,139	2,570,511
Bel-Air Nursing Home	14,600,659	11,680,527
Total	**$40,130,199**	**$32,104,159**

As part of the auditee comments[18], HUD advised that the owners of two other nurisng homes, Prospect Height Care Center and Medford Care Center, had brought their mortgages current in July 2018. Propect Heights Care Center's three HUD-insured mortgages had been in default

15 Interest and other carrying costs were as of February 2018.
16 We issued Mary Scott Nursing Center, Dayton, OH, audit report number 2017-CH-1009 on September 30, 2017.
17 We issued Mary Scott Nursing Center, Dayton, OH, audit report number 2017-CH-1009 on September 30, 2017. This figure includes a deduction of $350,989 for principal that we reported in a prior audit of the nursing home.
18 The auditee comments are available in Appendix B,

from August 2016 to July 2018 with a total unpaid principal balance of more than $33.3 million while Medford Care Center's HUD-insured mortgage had been in default from November 2017 to July 2018 with an unpaid principal balance of more than $5.4 million. Since regulations[19] allow a nursing home owners to cure a default with a payment, we reduced the estimated loss to HUD and the interest and carrying costs to be paid by HUD. This reduced HUD's estimated loss to more than $32.1 million and the interest and carrying costs to more than $10 million.[20]

Partial Payment Did Not Help a Nursing Home Return to Viability

In 2009, HUD insured a $20.2 million mortgage at Hebrew Home, which refinanced a previous HUD-insured mortgage from 1987. HUD had documented financial problems at Hebrew Home since 2001. The owner defaulted on the HUD-insured mortgage in September 2012. In June 2015, HUD attempted to limit an insurance claim by paying the lender more than $11 million (a partial payment of more than $8.3 million and interest of more than $2.7 million). To recover its payment to the lender, HUD created a second mortgage for more than $11 million in June 2015. On August 15, 2016, just over a year later, the owners voluntarily filed for bankruptcy relief. In December 2016, the bankruptcy court sold the property to a new entity, which assumed the mortgage with the lender. The bankruptcy discharge, dated December 13, 2016, granted HUD $1.3 million and eliminated the second mortgage with HUD; therefore, HUD lost more than $9.7 million.

Regulations allow HUD to make partial payments on a mortgage.[21] Whenever HUD receives notice that a lender intends to file an insurance claim and assign the mortgage to HUD, HUD may request that the lender accept partial payment of the claim and modify the mortgage. However, HUD has to follow specific criteria when making a partial payment of claim, and one of these criteria is that the partial payment would be sufficient to restore the financial viability of the project. This deficiency occurred because HUD did not ensure that the partial payment would sufficiently reduce monthly mortgage payments to restore the financial viability of the project. Details on this nursing home and HUD's actions to assist the nursing home are in appendix C.

Two Nursing Homes Did Not Adequately Complete the Insurance Process

Nursing homes go through a process to obtain a HUD-insured loan. HUD did not ensure that two nursing homes completed all of the steps of this process.

In 2007, HUD insured Jamaica Hospital[22] Nursing Home's mortgage of $43.1 million. HUD and the owner signed a regulatory agreement in February 2007, which included a rider.[23] This rider granted a 6-month waiver of the HUD requirement that the nursing home be a single-asset

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[19] This regulation is available at 24 CFR 207.256a.

[20] We did not update the outstanding interest and carrying costs on the remaining four loans. These amounts are still as of February 2018.

[21] This regulation is available at 24 CFR 232.256.

[22] Despite its name, Jamaica Hospital Nursing Home is not a hospital.

[23] A rider is an addition to a document (in this case a mortgage), which is often attached on a separate piece of paper.

entity.[24] Nursing homes must be single-asset entities to participate in HUD's Section 232 insured mortgage program. Before obtaining HUD insurance, this nursing home was consolidated with a related company, a nearby hospital. The waiver granted the nursing home time to change its legal structure so that it could be eligible for the Section 232 program. The hospital provided the nursing home with services and supplies, which the hospital charged to the nursing home on an estimated-cost basis. Although the related companies (the nursing home and the hospital) changed their legal structure to allow the nursing home to become a single-asset entity, these companies did not change their financial operations. The nursing home used the estimated costs in its December 31, 2016, audited financial statements. In these statements, the nursing home identified that it owed the hospital more than $44.4 million in accounts payable and allowed the hospital to charge more than $8.9 million in unsupported expenses to the nursing home.

HUD's regulatory agreement with the nursing home requires that expenses charged to the nursing home be necessary to the operation and reasonable in price. A single-asset entity, as a stand-alone company, should not pay expenses based on estimates.

This nursing home had submitted annual audited financial statements to HUD since 2011. These statements identified that the nursing home paid a related company based on estimates instead of actual expenses, but HUD did not question the use of estimates. These statements identified that there was a large payable, but HUD did not question the large payable. When we brought these issues to HUD's attention, it stated that the nursing home must renegotiate its relationship with the related hospital and retroactively adjust the amounts charged from 2007 through 2018. As of March 8, 2018, Jamaica Hospital Nursing Home had not defaulted and owed more than $36.5 million on its HUD-insured mortgage.

In 2012, HUD insured an $8.1 million mortgage for Mainland Manor Rehab and Nursing Center, which refinanced a previous HUD-insured mortgage. As part of the refinance, HUD's underwriter recognized that the property had low utilization. The underwriter recommended that HUD require a marketing plan that included strategies, timelines, and goals. HUD provided no evidence that it ensured that a marketing plan was implemented at the 2012 refinance. HUD's 2014 and 2015 risk assessments identified that the property continued to have utilization issues. In October 2016, the owner transferred all patients from this nursing home to nearby facilities and closed the nursing home. The owner informed HUD that the decision to close the facility temporarily was due to the 3-year loss of more than $4.5 million. Despite closing the facility, the owner continued to pay the mortgage, although this nursing home was not generating revenue. As of March 8, 2018, the owner had not defaulted and owed more than $7.4 million on the HUD-insured mortgage.

These deficiencies occurred because HUD did not evaluate whether the related nursing home and hospital changed their financial operations after the nursing home became a single-asset entity. In addition, HUD did not address the underwriter's recommendation to implement a marketing plan to increase utilization. As a result, HUD had more than $43.9 million in two HUD-insured mortgages with an increased risk of default. Addititionally, a nursing home paid more than $8.9

[24] As a single-asset entity, the mortgaged nursing home must be the only asset of the borrower.

million in unsupported expenses and allowed a questionable accounts payable of more than $44.4 million.

Regulatory Agreements at Six Nursing Homes Were Not Enforced

Every HUD-insured nursing home is required to have a regulatory agreement among HUD, the owners, and the operators[25] that governs the operation of the nursing home. This regulatory agreement continues while HUD is the insurer, holder, or owner of the mortgage. When the owner pays off the mortgage, the regulatory agreement ends.

Regulatory agreements require owners and operators to pay expenses that are reasonable in price and necessary for the operation of the nursing home. Regulatory agreements also require that nursing homes maintain proper financial records and prohibit owners and operators from removing assets from the nursing home without HUD's approval. Owners may not withdraw assets or income unless the nursing home has surplus cash available. Withdrawals are limited to the amount of surplus cash available and the frequency of withdrawals is defined in the regulatory agreement. Surplus cash is the amount of cash remaining after the nursing home pays its mortgage, deposits a required amount into its reserve for replacement account, pays its bills, and makes any other deposits required of the nursing home.

We found the following issues signifying that HUD did not enforce its regulatory agreements at six nursing homes.

Name	Issues	Amount
Bishop Wicke Health and Rehabilitation Center	Unreasonable or unnecessary expenses	$2,924,477
	Improper financial records	$3,177,634
Shawnee Christian Nursing Center	Subtraction from real or personal property	$815,973
Golden Hill Health Care Center	Unreasonable or unnecessary expenses	$1,419,218
	Unauthorized distributions	$242,702
Plaza Village Senior Living	Encumbrance with additional loan	$2,330,000
Immanuel Campus of Care	Unreasonable or unnecessary expenses	$110,892
Mainland Manor Rehab and Nursing Center	Subtraction from real or personal property	Not monetized
	Total	**$11,020,896**

For example, HUD insured a $9.6 million refinance of a non-HUD-insured mortgage for the Bishop Wicke Health and Rehabilitation Center in 2012. In 2013, HUD's Real Estate Assessment Center identified that the owner donated more than $3.1 million to a related

[25] Not every HUD-insured mortgage has an operator.

foundation and repaid more than $2.9 million on a loan. HUD's Real Estate Assessment Center referred these two matters to HUD's Departmental Enforcement Center staff, which contacted the independent auditor and the nursing home. The independent auditor stated that the donated funds were not project funds, but funds from bequests and the accumulated earnings on the bequests. The repayment of the loan from a related company was made between September 30, 2011, and September 30, 2014. The nursing home was in a non-surplus-cash position and should not have made payments on this loan. HUD's Departmental Enforcement Center staff directed the owner to reimburse the nursing home. The nursing home had not recovered the funds. According to the regulatory agreement, the owner must maintain proper financial records. Additionally, the regulatory agreement requires either that transfers of project funds have HUD approval before the transfer or that transfers are made only from surplus cash. Bequests from third parties to a related company should not be included in the nursing home's financial records. As of March 8, 2018, the owner had not defaulted and owed $8.3 million on the HUD-insured mortgage.

As another example, in 2007, HUD insured the $6.6 million mortgage of Shawnee Christian Nursing Center, which refinanced a prior non-HUD-insured mortgage of this 159-bed nursing home. In 2015, the owner violated the regulatory agreement when it removed 27 beds from the nursing home without HUD's required written approval. These 27 beds represented 17 percent of the revenue production. Removing beds subtracts from the nursing home's ability to generate revenue. In 2016, HUD identified that the nursing home also commingled its accounts with multiple related companies, also a violation of the regulatory agreement. According to the regulatory agreement, all rents and receipts of the project must be deposited in the name of the project to be disbursed for the expenses of the project or distribution of surplus cash. While HUD identified these issues, it did not direct the nursing home to correct them. HUD should have required the nursing home to return the 27 beds to operation or pay down the mortgage by 17 percent ($815,973). In addition, HUD should have required that the owner stop commingling accounts. These issues increased the risk of default of the HUD-insured mortgage. As of March 8, 2018, the owner had not defaulted and owed more than $4.8 million on its HUD-insured mortgage.

In a third example, HUD insured the refinance of Golden Hill Health Care Center[26] for more than $5.6 million in 2010. HUD identified more than $1.4 million in loan payments and $242,702 in unauthorized distributions between 2013 and 2015. HUD's Departmental Enforcement Center identified that the loans were inappropriate unless they were made before HUD insured the mortgage. The owner stated that the loans were made before HUD insured this mortgage. However, the nursing home was in a non-surplus-cash position and should not have made payments on these loans. HUD formally referred the unauthorized distributions to HUD's Departmental Enforcement Center on May 30, 2017. According to the regulatory agreement, transfers of project funds required either prior HUD approval or that such transfers be made only from surplus cash. The transfers did not have HUD approval, and the nursing home did not generate surplus cash during this time. While HUD properly identified the issues of the

[26] While this property is part of a master lease, the property did not make these loans or transfer these funds to other properties within the master lease.

inappropriate loans, the unauthorized payments on these loans, and the unauthorized distributions, HUD did not enforce its regulatory agreement by directing the owner to return the funds to the nursing home. The unauthorized loan payments and the unauthorized distributions increased the risk of default for this HUD-insured mortgage. As of March 8, 2018, the owner had not defaulted and owed more than $4.5 million on its HUD-insured mortgage. The details for Plaza Village Senior Living, Immanuel Campus of Care, and Mainland Manor Rehab and Nursing Center are in appendix C.

These deficiencies occurred because HUD did not enforce all of its rights under the regulatory agreements with the owners. As a result, nursing homes paid more than $7.8 million in ineligible expenses. See appendix E.

HUD Misclassified Nursing Homes' Mortgages as Potentially Troubled

HUD classified nine nursing homes as potentially troubled, when each property had significant challenges that should have classified it as troubled. These nine nursing homes are Middlesex Health Care Center, Bishop Wicke Health and Rehabilitation Center, Golden Hill Health Care Center, Jamaica Hospital Nursing Home, Mainland Manor Rehab and Nursing Center, Mecklenburg Health Care Center, Shawnee Christian Nursing Center, The Highlands Health Care Center, and West River Health Care Center.

HUD had a team of experienced staff members who gave extra attention to troubled nursing homes. This attention varied depending on the nature of the trouble at the nursing home but generally included monthly conferences with the lender, owner, and operator and additional reports from the owner-operator to HUD. Potentially troubled nursing homes did not receive this extra attention from HUD. Therefore, if HUD had properly classified these nine nursing homes as troubled, it would have provided additional monitoring to these properties.

For example, the independent auditors who conducted the 2016 audit of Jamaica Hospital Nursing Home reported substantial doubt about the nursing home's ability to continue to operate. HUD categorized this nursing home as potentially troubled in September 2014 and did not change its assessment based on this ongoing concern. When a nursing home's ability to continue operations is questioned, HUD's investment in the insured mortgage is at risk of default.

Also, HUD insured a mortgage at West River Health Care Center for $6.4 million in 2010, which refinanced a prior mortgage. HUD did not insure the prior mortgage. HUD categorized this nursing home as potentially troubled in September 2014 but did not assess its owner annual financial statements from 2010 through 2016. In 2015, HUD began collecting and reviewing quarterly operator financial statements in addition to the owner financial statements but did not pursue the owner and operator for submitting inaccurate operator financial data. In this operator data, the operator reported 5 quarters of utilization from 104 to 109 percent. Utilization in excess of 100 percent is not possible because multiple people may not occupy the same bed at the same time. Nursing homes generate revenue by filling beds with patients; caring for these patients; and billing Medicare, Medicaid, and private insurers for the patients' care. Without accurate utilization data, HUD cannot properly evaluate a nursing home's financial condition and determine whether HUD's investment in the insured mortgage is at risk of default. As of

March 8, 2018, the owner had not defaulted and owed more than $5.7 million on its HUD-insured mortgage.

In 2011, in a third example, HUD insured a mortgage for Middlesex Health Care Center[27] for $8 million, which refinanced a prior HUD-insured mortgage. HUD identified this nursing home as potentially troubled in October 2017 despite 4 years of owner financial scores that were well below the baseline. HUD established a baseline of 70 for scores on owners' audited financial statements, and this nursing home's scores ranged from a high of 33 to a low of 10 from 2013 to 2016. These quarterly data showed continued operating losses. With this continued pattern of operating losses, HUD's investment in the insured mortgage was at risk of default. As of March 8, 2018, the owner had not defaulted and owed more than $7.2 million. Details for the other seven nursing homes are in appendix C.

This condition occurred because HUD did not routinely reevaluate nursing homes to ensure that it correctly classified each nursing home's troubled status. As result, HUD had more than $82.4 million[28] in nine HUD-insured mortgages with an increased risk of default.

Conclusion

HUD's monitoring had not been effective in addressing issues at 18 financially challenged nursing homes. These deficiencies occurred because HUD's actions did not always identify and address the root causes of a nursing home's financial or operational challenges. HUD actively pursued a strategy of delaying assignment while it worked with the lenders, the owners, the operators, and the management agents (as appropriate) to turn around the mortgage. Further, HUD did not routinely reevaluate nursing homes to ensure that it correctly classified each nursing home's troubled status. As a result, HUD could lose more than $32.1 million for the four defaulted mortgages and owed more than $10 million in carrying costs, lost more than $9.7 million in a bankruptcy sale, and placed more than $82.4 million at increased risk of default. Also, HUD did not take action on ineligible expenses of more than $7.8 million, unsupported expenses of more than $8.9 million, and accrued expenses of more than $44.4 million.

Recommendations

We recommend that the Director of Asset Management and Lender Relations, Office of Residential Care Facilities,

1A. Work with the owners, lenders, operators, and management agents (as applicable) to develop and implement an action plan for potentially troubled and troubled nursing homes.[29] Each plan should include an analysis of the root causes of that nursing home's challenges and define specific and measureable steps that address the root causes. Each step should have a defined completion date.

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27 We issued, Middlesex Health Care Center, Middletown, CT, audit report number 2014-BO-1004 on June 29, 2018.

28 With a loss ratio of 80 percent, HUD could lose more than $65.9 million in claims (appendix D).

29 Two properties, Chatsworth at Wellington Green and Moran Manor Healthcare Center, paid off their HUD-insured mortgages.

1B. Implement the action plan for the four defaulted nursing homes to protect HUD's investment of $41,435,357.[30] This amount represents the collective funds put to better use for these nursing homes. Appendix E lists the funds to be put to better use by nursing home.

1C. Develop and implement policies and procedures to address delinquent or defaulted mortgages that would not benefit from refinancing.

1D. Refer regulatory agreement violations to the Departmental Enforcement Center within 30 days of HUD having identified it and work with the Departmental Enforcement Center to develop a plan for resolving the violation. Any revisions to the plan must be accepted by the Departmental Enforcement Center.

1E. Review and revise the policies and procedures for making partial payments of claims to check that each decision to make a partial payment of claim ensures that the payment restores the subject nursing home to financial viability to avoid a repeat of the situation that led to the loss on Hebrew Home.

1F. Require Jamaica Hospital Nursing Home to provide support for $8,974,000 paid to its related company. Any amount that the owner cannot support as reasonable in price and necessary to the nursing home should be repaid to the nursing home.

1G. Require Jamaica Hospital Nursing Home to provide support for $44,483,000 in accounts payable. Any amount that the owner cannot support as reasonable in price and necessary to the nursing home should be removed from the accounts payable.

1H. Require the owners of Bishop Wicke Health and Rehabilitation Center, Plaza Village Senior Living, Golden Hill Health Care Center, Immanuel Campus of Care, and their related companies to reimburse the nursing homes for the ineligible expenses of $7,027,289.

1I. Require Shawnee Christian Nursing Center to return 27 beds to operation or pay down the mortgage by $815,973.

1J. Define the troubled and potentially troubled classifications for nursing homes and develop specific measures to identify when and how nursing homes are classified.

1K. Develop and implement policies and procedures to revisit the classifications at least annually.

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[30] This figure includes a deduction for principal and interest at a particular nursing home, which we reported in a prior audit of that nursing home (Mary Scott Nursing Center, Dayton, OH, Section 232 Loan Program, audit report number 2017-CH-1009 on September 30, 2017). This total amount includes HUD's estimated loss and carrying costs ($32,104,159 + $10,065,992 = $42,170,151). In addition, we deducted the $734,794 recognized in the prior report for an adjusted total of $41,435,357.

Finding 2: HUD Did Not Hold Owners, Operators, and Lenders Accountable for Submitting Inaccurate, Incomplete, Conflicting, and Untimely Financial Data

HUD did not require owners, operators, and lenders to routinely submit financial data on nursing home operations that were accurate, complete, and timely as required. This condition occurred because HUD did not routinely evaluate the submissions for accuracy, completeness, and timeliness. In addition, HUD had no policy to penalize operators and did not impose penalties on owners that did not submit accurate and complete data in a timely manner. Inaccurate, incomplete, conflicting, and untimely data limit HUD's ability to make decisions about nursing home performance.

Operators and Lenders Submitted Inaccurate, Incomplete, Conflicting, and Late Data to HUD

Quarterly financial data did not provide accurate, complete, and timely information about the financial operations of nursing homes. HUD developed the 232 Healthcare Portal to collect operator financial data and process business transactions. Since 2015, HUD had collected and reviewed quarterly financial data. HUD required operators to submit the quarterly financial data to their lenders within 60 days of the end of each quarter, except for the fiscal yearend quarter, which was 90 days. Lenders entered the data into the 232 Healthcare Portal using a template, definitions, and a data format developed by HUD. The definitions and data format described how lenders should enter data into the 232 Healthcare Portal.

Of the 18 nursing homes reviewed, only 16 were required to submit financial data to HUD because the other two loans were paid off before HUD began requiring submission of quarterly data. In our analysis of these 16 nursing homes, we found that the operators and lenders for 10 nursing homes provided inaccurate data, 12 provided incomplete data, 12 provided data that conflicted with data in other HUD systems, and 16 provided data after the required due date.

Insured property	Inaccurate	Incomplete	Conflicting	Late
Mary Scott Nursing Center[31]	1	1	1	1
Immanuel Campus of Care	1	1	1	1
Bel-Air Nursing Home	1	1	1	1
Hebrew Home	1	1	1	1
Plaza Village Senior Living	1	1	1	1
Middlesex Health Care Center	0	1	0	1
Bishop Wicke Health and Rehabilitation Center	1	0	0	1
Golden Hill Health Care Center	1	0	1	1
Jamaica Hospital Nursing Home	0	0	1	1
Mainland Manor Rehab and Nursing Center	0	0	1	1
Medford Care Center	1	1	1	1
Mecklenburg Health Care Center	0	1	1	1
Prospect Heights Care Center	0	1	1	1
Shawnee Christian Nursing Center	0	1	0	1
The Highlands Health Care Center	1	1	0	1
West River Health Care Center	1	1	1	1
Totals	**10**	**12**	**12**	**16**

Note: The number 1 indicates a data deficiency, and 0 indicates no deficiency.

As an example of inaccurate data, the Golden Hill Health Care Center reported a negative $6 million in expenses, while Hebrew Home reported a quarterly mortgage payment that was more than four times the total mortgage amount. Expenses represent the cumulative amount that a nursing home pays to vendors for goods and services. Having a negative expense account balance is generally unusual because it indicates income rather than an expense. Monthly mortgage payments should not exceed the total amount of the mortgage. Incomplete data were evidenced by blank fields and/or missing quarterly statements. As an example of conflicting data, the nursing homes reported that they made mortgage payments in their operator financial data, while the lenders reported that they did not make mortgage payments in their Multifamily Delinquency and Default Reporting System reports. Untimely data are data reported after the required date. For example, Bel-Air Nursing Home submitted its operator financial statements 116 to 299 days after the end of the quarter. In addition, Bel-Air Nursing Home submitted only three of the six required financial statements. The combination of inaccuracies, omissions,

[31] We issued Mary Scott Nursing Center, Dayton, OH, audit report number 2017-CH-1009 on September 30, 2017.

conflicts, and untimeliness made the data unreliable and insufficient to report on the financial operations of the nursing homes.

HUD requires operators to submit financial statements quarterly within 60 to 90 calendar days after the end of each fiscal quarter. HUD did not ensure that the data in the submitted operator financial statements were accurate and complete. Properly implemented with accurate data, HUD and lenders could use the 232 Healthcare Portal to identify which nursing homes faced challenges. This condition occurred because HUD did not routinely evaluate the quarterly financial submissions for accuracy, completeness, and timeliness. In addition, HUD had no policy to penalize operators that did not submit accurate and complete data in a timely manner.

Owner Annual Financial Statements Were Not Adequately Assessed or Poor Results Persisted

Owners must submit annual audited financial statements in accordance with their regulatory agreement with HUD. HUD used the owner financial statement data to calculate five ratios. Based on the ratio values and the established thresholds for each ratio, HUD calculated a performance score between 10 and 100, which established the financial risk for a nursing home. A score below 60 meant that the nursing home was high risk. For the sampled properties, HUD generally received these financial statements but in some instances, did not assess these financial statements. In addition, HUD assessed some financial statements as high risk in multiple years. For example, the owners of West River Health Care Center submitted annual audited financial statements yearly for 2010 through 2016, but HUD did not assess these financial statements. In another example, the owners of Middlesex Health Care Center submitted annual audited financial statements for 2002 through 2016. HUD did not assess these statements for 2002 through 2012. HUD assessed the financial statements for 2013, 2014, 2015 and 2016 as 33, 10, 10, and 21, respectively. These examples and others described in appendix C show that HUD did not address poor financial statement scores.

Conclusion

HUD did not ensure that owners, operators, and lenders routinely submitted accurate, sufficient, complete, and timely financial data on nursing home operations as required. This condition occurred because HUD did not routinely evaluate the financial submissions for accuracy, completeness, and timeliness. In addition, HUD had no policy to penalize operators and did not impose penalties on owners that did not submit accurate and complete data in a timely manner. Inaccurate, incomplete, conflicting, and untimely data limit HUD's ability to make informed and timely decisions on how to help nursing homes ensure that they repay their HUD-insured mortgages.

Recommendations

We recommend that the Director of Asset Management and Lender Relations, Office of Residential Care Facilities,

2A. Develop and implement computerized controls to flag blank data fields and illogical financial data.

2B. Develop and implement procedures to require owners, operators, and lenders to submit accurate and complete financial data.

2C. Develop and implement internal controls to routinely compare financial data on mortgage payments to Multifamily Delinquency and Default Reporting System data on mortgage payments and follow up on any conflicting data.

2D. Develop and implement procedures for referring operators who fail to provide required financial statements to the Departmental Enforcement Center.

2E. Develop and implement metrics to evaluate each nursing home's financial data for changes in utilization, payments, profitability, and solvency (debt service credit ratios).

Scope and Methodology

We performed our work at our office at 10 Causeway Street, Boston, MA, and HUD's office at 451 Seventh Street SW, Washington, DC, between April 2017 and May 2018. Our audit covered the period October 1, 2011, through September 30, 2016, but was expanded to include information on the selected nursing homes to show a complete picture of HUD's monitoring actions from October 1, 1998 to March 8, 2018.

To accomplish our objective, we

- Reviewed applicable laws, regulations, HUD handbooks, and other HUD policies and procedures posted on websites.
- Obtained and analyzed the regulatory agreements, mortgage notes, management agent agreements (if any), and master lease agreements (if any).
- Evaluated the public land records and corporate filings for the sampled nursing homes in comparison with the data filed with HUD.
- Reviewed electronic and paper correspondences among HUD, lenders, owners, operators (if applicable), and management agents (if applicable).
- Interviewed and followed up with HUD personnel.
- Selected a focused sample of 18 nursing homes experiencing financial challenges. We decided to use a focused sample because we knew enough about the nursing home population to identify a relatively small number of items of interest that were higher in risk. We identified nursing homes experiencing low utilization, mortgage delinquencies, late payments, profitability issues, solvency issues, unpaid principal balances exceeding $29 million,[32] legal issues, concurrent HUD-insured mortgages, participation in a portfolio,[33] or any combination of these items. Because this is not a statistical sample, the results of our work cannot be projected.
- Reviewed and analyzed the available information in HUD's Integrated Real Estate Management System, TransAccess System, Multifamily Delinquency and Default Reporting System, Financial Assessment Subsystem for the Federal Housing Administration, and Online Property Information and Integration Suite.
- Obtained and analyzed operator financial data in the 232 Healthcare Portal.

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32 Mortgages with a large unpaid principal balance represent greater risk to the insurance fund if there is an insurance claim.

33 A portfolio is two or more nursing homes that have common owners. If one nursing home in a portfolio is in default, other nursing homes owned by the same owner may be at greater risk of default.

To achieve our audit objective, we used the computer-processed data from HUD's Integrated Real Estate Management System, Multifamily Delinquency and Default Reporting System, Financial Assessment Subsystem for the Federal Housing Administration, TransAccess data repository, and Healthcare Portal. These systems rely on data provided to HUD by lenders, nursing home owners, and nursing home operators participating in the origination or operation of nursing homes with HUD-insured mortgages. We did not access computer systems and source documents available at the lenders, owners, operators, and management agents.[34] However, we determined that it was reasonable to use this information because this is the information that HUD used to monitor the financial performance of its insured nursing homes.

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.

[34] Not every nursing home has an operator or a management agent.

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:

- HUD's enforcement of the regulatory agreement that defines the relationships among HUD, the owner, and the operator (as applicable).
- HUD's oversight of the financial data that operators submit to HUD each quarter.
- HUD's oversight of the audited financial statements that owners submit to HUD each year.

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.

Significant Deficiencies

Based on our review, we believe that the following items are significant deficiencies:

- HUD's actions did not always identify and address the 18 nursing homes' financial and operational challenges (finding 1).
- HUD did not routinely evaluate the owners', operators', and lenders' financial submissions for accuracy, completeness, and timeliness (finding 2).

Appendixes

Appendix A

Schedule of Questioned Costs and Funds To Be Put to Better Use

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1B			$41,435,357[35]
1F		$8,974,000	
1G			44,483,000
1H	$7,027,289		
1I	815,973		
Totals	**7,843,262**	**8,974,000**	**85,918,357**

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.

2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. By implementing these recommendations, HUD will avoid paying more than $41.4 million to lenders for defaulted mortgages, interest, and carrying costs, and a nursing home will avoid paying more than $44.4 million for ineligible or unreasonable expenses.

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[35] This figure includes a deduction for principal and interest at the Mary Scott Nursing Center, 2017-CH-1009, issued September 30, 2017, which we reported in a prior audit of that nursing home.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

WASHINGTON, DC 20410-8000
OFFICE OF HOUSING

OFFICE OF HOUSING

August 24, 2018

MEMORANDUM FOR: Ann Marie Henry, Regional Inspector General for Audit, 1AGA

FROM: Roger M. Lukoff, Deputy Assistant Secretary, Healthcare Programs, HP

Roger A. Lewis for

SUBJECT: Response to Draft Audit Report, "HUD's Monitoring of the Financial Performance of Section 232 Nursing Homes—Office of Residential Care Facilities" (ORCF)

This memorandum responds to your draft audit report titled, "Office of Residential Care Facilities Did Not Always Have and Use Financial Information to Adequately Assess and Monitor Nursing Homes." ORCF pursues continuous improvement and welcomes any information and constructive recommendations that can foster improvement. However, ORCF is providing clarification and correction to some of the conclusions in the draft report and we respectfully request adjustments to the findings and audit recommendations as detailed below.

Response to Draft Finding 1: "HUD's Monitoring Was Not Effective in Addressing Problems at 18 Financially Challenged Nursing Homes"

ORCF requests that the finding be reworded. The finding suggests that *monitoring* can address a facility's financial problems. ORCF emphasizes monitoring, not only internally but also by the servicing lender. Also, ORCF continuously looks for ways to improve monitoring as part of a broader effort to manage and mitigate risks. Ultimately, it is the borrower and its operator who must address financial challenges. ORCF's actions were not consistently documented regarding financially challenged nursing homes.

Comment 1

Ref to OIG Evaluation

ORCF's detailed response to the project-specific conclusions are included in our Appendix C Response. Some questionable findings are repeated in numerous project summaries, and thus ORCF is also broadly addressing some of those immediately below. Moreover, OIG's narrative discussion in "Finding 1" includes various questionable generalizations, which also follow.

Comment 2

Throughout this finding, the OIG asserts that for many properties financial statements were "not assessed" before a project's risk classification was determined. Having examined iREMS, ORCF understands how OIG might have made this conclusion. A column on the iREMS Financial Statements page entitled "Performance Value/Color" in many cases, indicates "Not Assessed" on some or all of the borrower's audited financial statements. In fact, that column is populated through an automated calculation designed for multifamily projects; the column often will not populate for a skilled nursing facility's AFS due to its unique attributes (e.g., how a lessee operator is reflected in the statement). ORCF does, however, utilize the final column on that page to show that the financial statement has been reviewed and closed.

Comment 3

Regarding the assertion that no "root cause analysis" was performed on ORCF properties, the OIG may have concluded this because the tabs in the iREMS Risk Mitigation section entitled "Root Problem/Mitigation Strategy were not populated."

ORCF was not involved in designing the "Root Problem/Risk Mitigation" tab, which Multifamily apparently requested as part of its transformation-related SPICE analysis effort (Score, Prioritize, Investigate, Classify, Execute), and ORCF does not know the extent to which the tab still has some Multifamily applicability. However, the fact that ORCF does not use that particular tab in no way suggests that its AEs fail to consider causes of decline when examining a borrower/operator's mitigation strategy. Former positions of our Risk Mitigation Branch include SNF Chief Financial Officer, SNF Director of Nursing, SNF Administrator, and DEC analyst. They certainly would not consider the parties' mitigation or turnaround strategies without cognizance of how or why performance had become weak. As review of iREMS confirms, AEs routinely use the Problem Statement and Project History tabs to memorialize discussions and actions.

As discussed in response to the OIG's recommendations, ORCF does have very well considered procedures for having parties analyze performance problems and implement appropriate strategies to address them.

The OIG's broad generalizations in Finding 1 include the statement, **"Defaulted Mortgages Remained in HUD's Portfolio After the Date of Default."** While even a well-managed mortgage insurance program will generally have a small

Ref to OIG Evaluation	
Comment 4	percentage of mortgages in default, the OIG suggests that ORCF has allowed six defaulted loans to remain in its portfolio for an unwarranted amount of time. In fact, two of those six loans have now been brought current, whereas insisting on earlier assignments would have led to certain claims of nearly $40,000,000. Regarding the remaining four properties (with total combined UPB also approximately $40,000,000), the OIG suggests that one or more other (unspecified) alternatives should have been pursued. This conclusion involves the benefit of hindsight. Disposition strategies are based on professional evaluations of the project data and holding costs available at the time to the Risk Mitigation division. Ultimately these strategies do not come without risk, and the overall measure of a successful job should acknowledge that a certain fail rate is normal in relation to the universe as a whole. The specifics of these loans are addressed in the Appendix C Response.
Comment 5	In its Finding 1 Narrative, the OIG also addresses a partial payment of claim, stating **"Partial Payment of Claim Did Not Help a Nursing Home."** ORCF believes that this assertion is mistaken. Although the facility did experience post-PPC financial problems, the record reflects that the PPC decision was supported when the PPC was made. Moreover, despite the post-PPC difficulties, ORCF sustained a much smaller loss than would have occurred (using the OIG's recovery estimate methodology) in the absence of a PPC. The facility is now operational and current on its mortgage. Details are contained in the Appendix C Response.
Comment 6	In its Finding 1 Narrative, the OIG also asserts**, "Two Nursing Homes Did Not Adequately Complete the Insurance Process."** A key OIG assertion as it relates to Jamaica Hospital Nursing Home (namely, that the borrower was not a single asset entity as required) involves a transaction that occurred before ORCF was involved and that did not involve ORCF processes. As the record reflects, however, the borrower did subsequently come into compliance with the single asset entity requirement. ORCF recognizes that there have been questions with the allocation of expenses between the subject facility and a related facility, but as the record reflects ORCF is working to address these issues, and the mortgage remains current. ORCF requests this assertion be removed; ORCF views this audit as an opportunity to consider and improve existing processes, and this concern predates ORCF involvement.
Comment 7	The second of the two nursing homes referenced is Mainland Manor Rehab. The OIG asserts that the underwriter recommended that HUD require a marketing plan but that one was not forthcoming. That is not accurate, as discussed in the Appendix C Response. The draft audit goes on to state that "since HUD did not take appropriate and timely action to correct issues at Mainland Manor Rehab and

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Nursing Center," the principal balance was at risk of default. On the contrary, HUD's actions diminished the risk of default brought upon by significant market changes, as discussed in the Appendix C Response.

Comment 8

The narrative discussion of Finding 1 goes on to state, **"Regulatory Agreements at Six Nursing Homes Were Not Enforced."** These projects are addressed individually in the Appendix C Response, but in general (a) the DEC's conclusions are often inconsistent with ORCF's and the DEC's conclusions, and (b) where there has been an improper distribution or expenditure, it has been or is being addressed.

Comment 9

The OIG's final point in the narrative discussion of Finding 1 is that **"HUD Misclassified Nursing Homes' Mortgages as Potentially Troubled"** and, more specifically, that the OIG found nine properties listed as potentially troubled that the OIG believes should have been designated as troubled. The OIG discusses two of these properties in its Finding 1 narrative section and the other seven in Appendix C. In reaching this conclusion, the OIG relies on its review of financial statements. ORCF has a very extensive set of criteria for designating a project as troubled, which involves consideration of a number of other factors, and the determination is not exclusively tied to the financial statements. ORCF discusses this in response to the Finding 1 recommendations, below.

Response to Draft Recommendations in Finding 1

Draft Recommendation 1A. Work with the owners, lenders operators and management agents (as applicable) to develop and implement an action plan for potentially troubled and troubled nursing homes. Each plan should include an analysis of the root causes of that nursing home's challenges and define specific and measurable steps that address the root causes. Each step should have a definite completion date.

ORCF Response to Draft Recommendation 1A:

Comment 10

We request this Recommendation be revised. Based on our detailed Appendix C Response, we believe ORCF has demonstrated that it has effectively worked with lenders, operators, and other project parties as appropriate to develop effective actions to address troubled and high-risk properties. We agree that a summation of plans and action steps should be more consistently memorialized in iREMS.

Ref to OIG Evaluation

Comment 10

Turning around a troubled or high risk property requires that the AE work closely with the lender, and that the lender and HUD seek cooperation from the borrower and operator using available leverage while recognizing that breach of the FHA loan's controlling documents is often not the primary concern of either the borrower or operator, who may be faced with more impactful CMS penalties, licensure issues, marketing concerns, etc. Depending on the circumstances, this may involve the lender and HUD discerning not what OIG terms "*the* root cause" but the *multitude* of converging circumstances leading to the downturn, the parties' current operational and financial capacity, and the market and regulatory environment.

A turnaround effort thus involves the plan proffered by the borrower/operator *and also* the strategy of HUD and the lender in the event they determine the borrower's plan is not working. The borrower's plan may initially emerge only verbally, with confirming notation only by the lender or HUD. The HUD/lender strategy involves the ongoing evaluation of the borrower's plan and borrower's progress, and an ongoing weighing of whether further steps to avoid a claim are warranted. If the OIG reviews the Problem Statement and Project History screen of projects in the draft audit that are currently with the Risk Mitigation Division, OIG will see illustrations of these ongoing efforts.

Comment 11

ORCF has a very detailed Monthly Surveillance Report and accompanying punch list that guide AE's in identifying root causes and addressing emerging risks and provides criteria for referring higher risk projects to the Turnaround Team. ORCF also has a newly drafted Turnaround Punchlist that provides an even more prescriptive approach for evaluating the seriousness of Troubled projects referred to that team and walks the AE through specific action and documentation steps that we believe address OIG's overall concern. ORCF is confident this punchlist will help assure broad consistency in action steps while also allowing for the uniqueness of each project's circumstances. Although ORCF has not yet implemented that Punchlist, ORCF would be amenable to an OIG recommendation for its prompt implementation.

ORCF also would like to highlight that our prescriptive approach is supplemented and enhanced by guidance on specific actions that often involve troubled and high risk projects. Examples include:

- CMS Notification of Imposition Process
- REAC-FASS – Late filer protocol
- REAC-PASS – Process for Elective Referrals to DEC

Ref to OIG Evaluation

- REAC-PASS – Below 31 Pre- and Post-Site Visit review punch list
- REAC-PASS – 31 and Over Inspection Score review punch list
- REAC-PASS – Notice of Violation Letters to Borrower/Operator and AE Procedures
- REAC Guidance for Lenders
- Risk Notification & Improvement Plans – Lender's & Operator's risk notification docs

Additional guidance is contained in the AE Standard Work Reference Guide, which is being provided to the OIG. Thus, ORCF has guidance covering the continuum of risk conditions on a property that is not assigned to the Risk Mitigation Branch.

Comment 12

ORCF does recognize the value of assuring *overall* consistency with how plans are memorialized. Towards that end, ORCF would propose that Draft Recommendation 1A be revised to read as follows:

> To help assure close attention to high risk properties, implement the newly drafted Troubled Property Punchlist. Continue to train AEs on punchlists and procedures related to servicing as needed, including memorializing action steps and target dates in iREMS for addressing project challenges.

Comment 13

Draft Recommendation 1B: Implement the action plan for the six defaulted nursing homes to protect HUD's investment of $74,839,181. This amount represents the collective funds to be put to better use for these nursing homes. Appendix E lists the funds to be put to better use by nursing home.

ORCF Response to Draft Recommendation 1B:

We request this recommendation be reworded for clarity. In particular, the recommendation suggests that currently no project-specific plan is being implemented for these six projects. In fact, ORCF *has worked and continues to proactively work to mitigate the risk* at these projects, including active involvement of and reliance on the Departmental Enforcement Center where appropriate. Moreover, two of these six properties, accounting for approximately half of the UPB cited by OIG, have been brought current.

In ORCF's response to the detailed conclusions of fact set forth in Appendix C, ORCF corrects and provides context for many of the OIG's conclusions upon which this recommendation is based and summarizes each project's current status.

Ref to OIG Evaluation

ORCF would suggest the recommendation be reworded as follows:

> Review and update the action plan for each of the six defaulted projects, edit the plan as appropriate to assure that it is specific and is consistent with the current Troubled Properties Punchlist, and continue to implement the plan as revised.

Draft Recommendation 1C: Develop and implement policies and procedures to address delinquent or defaulted mortgages that would not benefit from refinancing.

ORCF Response to Draft Recommendation 1C:

Comment 14

We request this recommendation be removed. These matters are addressed in the extensive policies referenced in response to Draft Recommendation 1A. Additional examples would relate to change in parties or to collateral, including:

- Change of Participant/Ownership (formerly TPA Lite/Modified/Full) – Lender checklist, Lender narrative, and AE review punch list
- Change of Operator (formerly part of TPA docs) – Lender checklist, Lender narrative, and AE review punch list
- Change of Management Agent (formerly part of TPA docs) – Lender checklist, Lender narrative, and AE review punch list
- Change in Collateral/Capital Improvements – Lender checklist and narrative and AE review punch list

Draft Recommendation 1D: Enforce its regulatory agreements and take all measures available to HUD for any nursing home that does not implement its specific defined, measurable steps by its completion date.

ORCF Response to Draft Recommendation 1D:

This recommendation cannot be acted upon appropriately as currently worded. We request several edits:

Comment 15

- Reference to Departmental Enforcement Center. HUD enforcement of a regulatory violation occurs through the Departmental Enforcement Center, generally via OGC representatives working with the DEC. Directing ORCF to "enforce its regulatory agreements" does not accurately reflect the responsible enforcement party and therefor this should be edited accordingly.

Ref to OIG Evaluation

- The language "all measures available" is overly broad in the context of mutually exclusive alternatives and since prudent risk mitigation can sometimes call for ongoing revision to a contemplated course of action.
- ORCF requests amending Recommendation 1D to state:

> Refer to the Departmental Enforcement Center regulatory agreement violations when, within 30 days of HUD having identified the violation, the party committing the violation has neither (a) resolved the violation nor (b) provided ORCF an acceptable plan for resolving the violation. When an acceptable plan (or incremental elements of the plan) are not timely met, evaluate whether a DEC referral is appropriate or whether, for reasons stated in the internal record, a revision to the plan of resolution is warranted.

Draft Recommendation 1E: Review and revise policies and procedures for making partial payments of claims to check that each decision to make a partial payment of claim ensures that the payment restores the subject nursing home to financial viability to avoid a repeat of the situation that led to the loss on Hebrew Home.

ORCF Response to Draft Recommendation 1E:

Comment 16

We request this recommendation be removed for several reasons. First, ORCF now has a thorough detailed punchlist addressing procedures for partial payments of claims, a punchlist aht post-dates the date of this PPC and is available to the OIG. Second, this PPC did in fact follow established guidelines and was appropriate based on information then available. The file supports the underwriting conclusions then reached.

Additionally, the OIG recommendation appears based on an inference that in not warranted. The OIG infers that if a project does not fully perform post-PPC, then the approval of the PPC was made in violation of program requirements. Yet, nothing in the CFR or other policy publications suggests this, and underwriting findings for a PPC are necessarily prospective. In this regard, per the CFR language, one of the findings on which a decision to make a PPC is based, is:

> The relief resulting from partial payment, when considered with other resources available to the project, *would be* sufficient to restore the financial viability of the project.
>
> (24 CFR 232.256(b)(2) (emphasis added)

Ref to OIG Evaluation

Comment 17

Finally, ORCF notes that the draft report cites 24 CFR 207.258b with respect to partial payment of claims. If retained, this reference should be amended to be 24 CFR 232.256, a provision published to deal specifically with partial payments of claims on Section 232 loans.

Comment 18

Draft Recommendation 1F: Require Jamaica Hospital Nursing Home to provide support for $8,974,000 paid to its related company. Any amount that the owner cannot support as reasonable in price and necessary to the nursing home should be repaid to the nursing home.

ORCF Response to Draft Recommendation 1F:

Although the facts presented by the OIG are incomplete, ORCF concurs in general with the recommendation that the mortgagor must be able to support fees paid for services to the IOI hospital.

Draft Recommendation 1G: Require Jamaica Hospital Nursing Home to provide support for $44,483,000 in accounts payable. Any amount that the owner cannot support as reasonable in price and necessary to the nursing home should be removed from the accounts payable.

ORCF Response to Draft Recommendation 1G:

Although the facts presented by the OIG are incomplete, ORCF concurs in general with the recommendation that the mortgagor must be able to support fees charged as accounts payable to the IOI hospital.

Comment 19

Draft Recommendation 1H: Require the owners of Bishop Wicke Health and Rehabilitation Center, Plaza Village Senior Living, Golden Hill Health Care Center, Immanuel Campus of Care, and their related companies to reimburse the nursing homes for the ineligible expenses of $7,027,289.

ORCF Response to Draft Recommendation 1H:

We request this recommendation be removed. ORCF disagrees with the recommendation as to each property. Specifically:

Ref to OIG Evaluation

- Bishop Wicke Health and Rehabilitation Center—ORCF disagrees with this recommendation. See explanation in Appendix C Response, including explanation of DEC referral and DEC conclusion.
- Plaza Village Senior Living-- ORCF disagrees with this recommendation. See explanation in Appendix C Response, including explanation of DEC referral and DEC conclusion.
- Golden Hill Health Care Center-- ORCF disagrees with this recommendation. See explanation in Appendix C Response, including explanation of DEC referral and DEC conclusion.
- Immanuel Campus of Care-- ORCF disagrees with this recommendation. See explanation in Appendix C Response, including explanation of DEC referral and DEC conclusion.

Draft Recommendation 1I: Require Shawnee Christian Center to return 27 beds to operation or pay down the mortgage by $815,973.

ORCF Response to Draft Recommendation 1I:

Comment 20

We request this draft recommendation be removed. The factual conclusions on which this is based are erroneous, as fully explained in the ORCF response to Appendix C. The number of licensed beds did not change, and the conversion from double occupancy to single occupancy rooms was accounted for in the loan modification.

Draft Recommendation 1J: Define the troubled and potentially troubled classifications for nursing homes and develop specific measures to identify when and how nursing homes are classified.

ORCF Response to Recommendation 1J:

Comment 21

Comment 11

We request this recommendation be removed. ORCF has a very thorough system in place for determining whether a project should be designated troubled and transferred to the Risk Mitigation Branch. "See Transfers to the Risk Mitigation Branch" in the AE Reference Guide. Additionally, ORCF has the Monthly Surveillance Report, which provides AEs with information on key variables, and a punchlist provides detailed guidance for using that data in evaluating a property's risk rating. See more extensive discussion in response to Recommendations 1A and 1C, above

Ref to OIG Evaluation

Comment 22

Draft Recommendation 1K: Develop and implement policies and procedures to revisit the classifications at least annually.

ORCF Response to Recommendation 1K: We request this recommendation be removed as ORCF is monitoring its properties for trends and risk classification on an ongoing basis, not merely annually.

<u>Draft Finding 2: HUD Did Not Hold Owners, Operators, and Lenders Accountable for Submitting Inaccurate, Incomplete, Conflicting and Untimely Financial Data</u>

Comment 23

ORCF requests that the reference to owners be removed from this finding. The portion of this finding related to owners is the OIG's determination that **"Owner Annual Financial Statements Were Not Assessed or Poor Results Persisted."** The determination rests heavily on the conclusion that ORCF does not assess owner financial statements. As noted in ORCF's response to Finding 1, ORCF understands how OIG might have reached this conclusion, but the conclusion is not accurate. A column on the iREMS Financial Statements page entitled "Performance Value/Color" in many cases, indicates "Not Assessed" on some or all of the borrower's audited financial statements. In fact, that column is populated through an automated calculation designed for multifamily projects; the column often will not populate for a skilled nursing facility's AFS due to its unique attributes (e.g., how a lessee operator is reflected in the statement). ORCF does, however, utilize the final column on that page to show that the financial statement has been reviewed and closed.

With regard to the Finding 2 discussion of owner financial statements and the conclusion that in some instances "Poor Results Persisted," ORCF is of the opinion that responses to poor borrower performance are much more closely within the scope of Finding 1 and should be not be also included as part of Finding 2.

Comment 24

Obtaining timely and accurate *operator* financial statements is, however, a challenge that needs to be addressed, and ORCF welcomes the OIG's role in illuminating this issue.

We believe it is worthy of calling out that until ORCF itself initiated significant regulatory reform (the "Accountability Rule"), no operator had an obligation (separate from a borrower role) to report financial data to either the lender or HUD. Through regulatory reform, ORCF changed that. The magnitude of that change has

Ref to OIG Evaluation

been hugely beneficial to our risk monitoring and management capability, but we acknowledge and concur that it is essential that the quarterly operator data received is accurate and reliable and that we continue our improvement efforts towards that end.

Draft Recommendation 2A: Develop and implement computerized controls to flag blank data fields and illogical financial data.

Comment 25

ORCF Response to Draft Recommendation 2A: ORCF requests that this recommendation be combined with Recommendation 2B because the two processes are inextricably related.

Implementing computerized controls and flags appears to be the most effective way to ensure that lenders (servicers) are submitting "accurate and complete financial data." Overall, we agree with the recommendation and have already proposed several computerized enhancements for the Healthcare Portal that would evaluate the data inputs and immediately provide feedback to the lenders about numbers that are missing or fall outside expected variance and would provide them with an opportunity for correction.

Draft Recommendation 2B: Develop and implement procedures to require owners, operators, and lenders to submit accurate and complete financial data.

Comment 25

ORCF Response to Draft Recommendation 2B: We request that Recommendations 2A and 2B be combined, or that 2B be eliminated; the successful implementation of 2A will help to ensure that lenders submit more accurate and complete financial data by providing instant feedback as mentioned previously. We suggest they be combined to read:

> Develop and implement computerized controls to flag blank dta fields and illogical financial data to ensure owners, operators, and lenders submit accurate and complete financial data.

Draft Recommendation 2C Develop and implement computerized controls to flag blank data fields and illogical financial data to ensure owners, operators, and lenders submit accurate and complete financial data.

Ref to OIG Evaluation

Comment 26

ORCF Response to Draft Recommendation 2C: ORCF requests this recommendation be removed. This recommendation cannot be implemented as presented. The quarterly financial statements submitted are of the operator (typically lessee-operator), and the operator is generally making a lease payment rather than a mortgage payment. The financial statements of the borrower entity itself are typically only annual and are submitted ninety days after the end of the borrower's fiscal year. In addition, ORCF utilizes the Multifamily Delinquency and Default Reporting (MDDR) system data at least twice monthly to evaluate late payments and defaults and there is little value to be derived from comparing this data to other sources as it is the official record of late mortgage payments for HUD.

Draft Recommendation 2D: Develop and implement policies and procedures to ensure that owners and operators pay penalties for failing to provide accurate and complete data in a timely manner.

Comment 27

ORCF Response to Draft Recommendation 2D: ORCF requests this recommendation be revised. Neither ORCF nor Housing more broadly is vested with the authority to impose civil money penalties. Moreover, referrals to the DEC already occur per established protocols with respect to owner financial statements. Accordingly, this draft recommendation should be amended to state:

> Develop and implement procedures for referring to the Departmental Enforcement Center operators who fail to provide required financial statements.

Comment 28

Draft Recommendation 2E: Develop and implement metrics to evaluate each nursing home's financial data for changes in utilization, payments, profitability, and solvency (debt service credit ratios).

ORCF Response to Draft Recommendation 2E: ORCF requests this recommendation be removed. ORCF has already developed metrics to evaluate each nursing home's financial data in the form of its Monthly Surveillance Report, also referenced as the Risk Surveillance Dashboard (RSD). The dashboard is posted to the ORCF Asset Management SharePoint and is refreshed monthly. The RSD is compiled from several data sources, including the quarterly operator statements from the Portal, the MDDR (delinquency) report, REAC physical scores, CMS Star Ratings, Special Focus Facility and Critical Tags. The RSD calculates debt service coverage (DSC) ratios from the Portal data and uses this as a key metric for determining project solvency. The RSD calculates an overall score

OIG Evaluation of Auditee Comments

Comment 1. HUD acknowledged the findings and recommendations. HUD provided an appendix and additional supporting documentation, which we evaluated and made the necessary revisions to our report. This information can be made available upon request.

We did not reword the finding because HUD works in partnership with the owner and lender to ensure each FHA-insured mortgage is financially and operationally strong, that each property provides a safe, quality place of residence, and that the HUD-insured mortgage remains viable for the term of the mortgage. While the borrower is responsible for repaying the HUD-insured mortgage, HUD faces the risk of default for the duration of the HUD insured mortgage and must monitor the operation of the nursing home to minimize that risk and ensure the viability of the HUD-insured mortgage. HUD agreed that it did not consistently document its actions. Without a proper history of the actions taken to address an issue, HUD's ability to address financial challenges at a nursing home and minimize a claim is diminished.

Comment 2. HUD's assertion that it uses financial data that was assessed does not address the finding that its monitoring was not effective. We did not rely on the column "Performance Value /Color" in the Integrated Real Estate Management System, but rather determined through our complete assessment of the available data that the assessment, even if it were done, was not sufficient.

Comment 3. We did not use the "Root Problem/Risk Mitigation" tab as the basis for our root cause analysis. Again, our conclusion was based on an assessment of all available data. HUD's failure to memorialize discussions and actions could explain the lack of this information.

Comment 4. The two borrowers whose loans have been in default for the shortest duration have made payments to bring their loans current in July 2018. At March 8, 2018, these loans for Medford Care Center and Prospect Heights Care Center totaled $38,819,705. HUD's loss ratio has been 80% of the unpaid principal balance. We adjusted recommendation 1B by $31,055,764, which is the estimated loss for Medford Care Center and Prospect Heights Care Center (80% of $38,819,705 unpaid principal balance). However, HUD did not address the other four defaulted mortgages whose delinquencies were at least 2 years and, in one case, 7 years.

HUD's response also did not address the $12 million in interest and carrying costs that became its responsibility because it delayed the assignment at six defaulted loans. We adjusted recommendation 1B by $2,348,060, which is the interest and carrying costs for Medford Care Center and Prospect Heights Care Center. HUD remains responsible for more than $10 million in interest and carrying costs for the other four properties, as of February 2018. As HUD points out, its strategy of delaying assignments has risks. These risks include the unpaid principal balance of the loans that HUD recognizes and the interest and carrying costs that become HUD's responsibility due to its strategy of delaying assignment. The longer a mortgage's assignment is delayed the higher the amount of the outstanding interest and carrying costs and most likely, the greater chance of a claim. Additionally, we examined the appendix and supporting documentation that HUD provided. This information did not change our conclusions regarding the four defaulted mortgages.

Comment 5. We disagree with HUD's belief that our Finding 1, which stated that Partial Payment Did Not Help a Nursing Home Return to Viability, was a mistake. HUD asserts that Hebrew Homes experienced financial challenges after the partial payment of claim in 2015; however, Hebrew Homes experienced financial challenges for the preceding 14 years. HUD identified this in its consistent low scores for the owner's audited financial statements from 2001 to 2014. HUD also did not have a smaller loss on the mortgage for Hebrew Homes. For Hebrew Homes, HUD had two loans in 2016–a HUD-insured, first loan for $11 million and a second loan directly with HUD for another $11 million. In December 2016, the bankruptcy court awarded HUD $1.3 million and discharged the second loan, so HUD lost 88 cents on every dollar of unpaid principal balance. This is more than the 80 cents on every dollar that is HUD's average loss in other sales of nursing home loans. The bankruptcy court also sold the nursing home to a new entity who, with HUD's agreement, assumed the HUD-insured, first loan then valued at more than $10.7 million. HUD stated that the transfer of the first loan to a new entity means that HUD will not have to pay on that HUD-insured mortgage; however, the July 2018 surveillance report identified that Hebrew Homes, operating under the new owner, was troubled with an unpaid principal balance of more than $10.1 million. Since the transferred mortgage was HUD-insured, HUD may have to pay another insurance claim for this troubled nursing home.

Comment 6. HUD is responsible for HUD-insured mortgages for the duration of the mortgage insurance up to 40 years. While HUD has changed its organizational structure, the current organizational structure is responsible for nursing homes from prior organizational structures and addressing any challenges created. Also, HUD requested that the assertion that the owner did not become a single asset entity be removed. We did not remove it because the audit showed that the hospital and nursing home have behaved as a consolidated entity through 2016, even though the nursing home legally established itself as a single asset entity in 2009, as required. The nursing home and hospital demonstrated this behavior by allowing the hospital to charge expenses to the nursing home using estimated costs. Additionally, in 2016, the independent public auditors for this nursing home reported their concerns about the nursing homes' ability to continue to operate. If the owner defaults, HUD will face a claim of more than $36.5 million.

Comment 7. While we note the activities HUD has undertaken, they did not return this nursing home to a financially sound operation. Also, we did not change our conclusion because HUD did not provide any evidence of a marketing plan.

Comment 8. While we agree that working across divisions may pose challenges, HUD must ensure that its collective actions protect its investments. HUD did not provide evidence that improper distributions or improper expenditures were returned to the nursing homes. The supporting documentation that HUD provided did not change our conclusions.

Comment 9. We did not rely solely on a review of financial statements in reaching our conclusions. We also reviewed regulatory agreements, mortgages, problem statements, project histories, and correspondence between HUD, lenders, owners, operators, and management agents. HUD advised that its criteria to determine whether a project is troubled included regulatory agreement violations, but it did not classify projects with regulatory agreement violations as troubled.

Comment 10. HUD's appendix and supporting documentation did not provide a basis for changing recommendation 1A. While a summation of plans and actions in a consistent location in HUD's Integrated Real Estate Management System is a good starting point, HUD needs to establish and implement defined steps with defined completion dates and consequences to owners who do not return to paying their mortgage on time. Again, our assessment was not based solely on financial statement analysis.

Comment 11. While the surveillance report is generated monthly, some of the factors used in its creation come from annual reports and rely on the owners and operators promptly reporting changes in their circumstances. As HUD pointed out, owners and operators are not always prompt at identifying and reporting changes in their circumstances. While HUD has a number of punch lists to track the status of a nursing home, the existence or addition of a punch list does not return a nursing home owner to paying the mortgage on time or hold a nursing home owner accountable for not paying a mortgage on time. In addition, there is no definitive criteria for the classifications of troubled or potentially troubled or timeframes for review and updating.

Comment 12. We did not revise recommendation 1A as HUD suggested. Implementing a newly-drafted troubled property punch list is a starting point. HUD also needs to ensure that each plan has defined steps, defined completion dates, and defined consequences for owners who do not complete steps on time. In addition, these actions need to be documented to ensure corrective action is taken and in a timely manner.

Comment 13. We did not revise recommendation 1B as HUD suggested. We agree that HUD has taken action on the defaulted nursing homes. However, without a definitive action plan we cannot comment on the plan or its progress. In addition, for the remaining four defaulted mortgages, these mortgages have been in default for anywhere from 2 to 7 years. We revised the value in recommendation 1B to recognize that the owners of Medford Care Center and Prospect Heights Care Center brought their mortgages current. We reduced recommendation 1B by $31,055,764, which was the estimated loss for Medford Care Center and Prospect Heights Care Center. We also reduced recommendation 1B by $2,348,060, which was the interest and carrying costs for Medford Care Center and Prospect Heights Care Center.

Comment 14. We did not remove recommendation 1C as HUD suggested. HUD's checklists address tasks associated with nursing homes and can be useful tools in specific situations. These checklists do not specifically address delinquent or defaulted mortgages that would not benefit from refinancing.

Comment 15. We have amended recommendation 1D to include the Departmental Enforcement Center. The enforcement measures available are time sensitive and the Office of Residential Care Facilities and the Departmental Enforcement Center will need to work together with parallel proceedings to ensure that HUD's interests are properly protected.

Comment 16. HUD asserts that the partial payment of claim followed guidance and recommendation 1E be removed. However, our concern with the partial payment of claim was the fact that it did not result in the financial viability of the project for fourteen months. Even though HUD disagreed, they provided a new punch list to amend its guidance. While this punch list addressed financial viability, it does not identify anything different from the existing handbook.

Comment 17. We amended the reference from 24 CFR 207.258b to 24 CFR 232.256; which is a provision published to deal specifically with partial payments of claims on Section 232 loans.

Comment 18. For both recommendations 1F and 1G, HUD states that our facts are incomplete, but agreed with the recommendation. HUD did not state what facts it believes are missing; however, we believe that the significant facts have been presented in the audit report.

Comment 19. We did not remove or modify recommendation 1H as HUD suggested because HUD did not provide sufficient evidence to change our assessment for these properties.

Comment 20. We did not remove recommendation 1I as suggested. The regulatory agreement does not reference the number of beds licensed. Converting rooms from double occupancy to single occupancy, without prior HUD approval, is a violation of the regulatory agreement. HUD did not provide evidence that it waived this requirement.

Comment 21. We did not remove recommendation 1J as suggested because our report points out nine instances where HUD's very thorough system classified nursing homes as potentially troubled, when each property had significant challenges that should have classified it as troubled.

Comment 22. We did not remove recommendation 1K as suggested because HUD agreed that it did not consistently document its actions regarding the monitoring of its properties. HUD revisiting its classification at least annually can add to a history of HUD's evaluations of a nursing home and minimize the claims. HUD can use its existing Integrated Real Estate Management System to record and track these classifications and the reasons for any changes.

Comment 23. Our conclusion did not rely solely on the owner financial statements. Again, it was based on an assessment of all available data. We have revised the report to state "Owner Annual Financial Statements Were Not Adequately Assessed or Poor Results Persisted." However, HUD needs to address the limitations of its system to record its assessment of the owner's annual financial statements. For example, the independent public auditors for Jamaica Hospital Nursing Home reported their concerns about the nursing homes' ability to continue to operate in 2016. If the owner defaults, HUD will face a claim of more than $36.5 million. HUD's opinion that responses to poor borrower performance aligns with Finding 1 does not address how HUD is holding owners and operators accountable for inaccurate, incomplete, conflicting, and untimely Financial Data; therefore, we did not amend the audit report.

Comment 24. Until HUD amended the regulations, an operator that was independent of the owner had no obligation to report operator financial data to HUD. This change benefits HUD's ability to monitor the risk of HUD-insured mortgage default, but it is essential that operator report accurate and reliable quarterly operator financial data. HUD acknowledged and concurred that it is essential that HUD receives accurate and reliable quarterly operator data. HUD stated that it continues its efforts to improve its use of the operator financial data. In addition, HUD needs to continue to monitor the changes in the industry and identify other regulatory changes needed to protect its investment.

Comment 25. We disagree with the combination of the two recommendations. Recommendation 2A deals with developing computerized controls to assess the data while 2B deals with developing procedures to require the submission of accurate and complete data.

Comment 26. We did not remove recommendation 2C as requested. HUD insured mortgages where the owner is the operator and HUD insured mortgages where the owner and operator are separate entities. Since operators do not make mortgage payments, there should be no confusion. When the operator is the owner, the owner submits the quarterly financial statements. The owners' quarterly financial statements should equal the total of the three monthly payments in the Multifamily Delinquency and Default Report.

Comment 27. We have updated the recommendation to develop and implement procedures for referring operators who fail to provide required financial statements to the Departmental Enforcement Center.

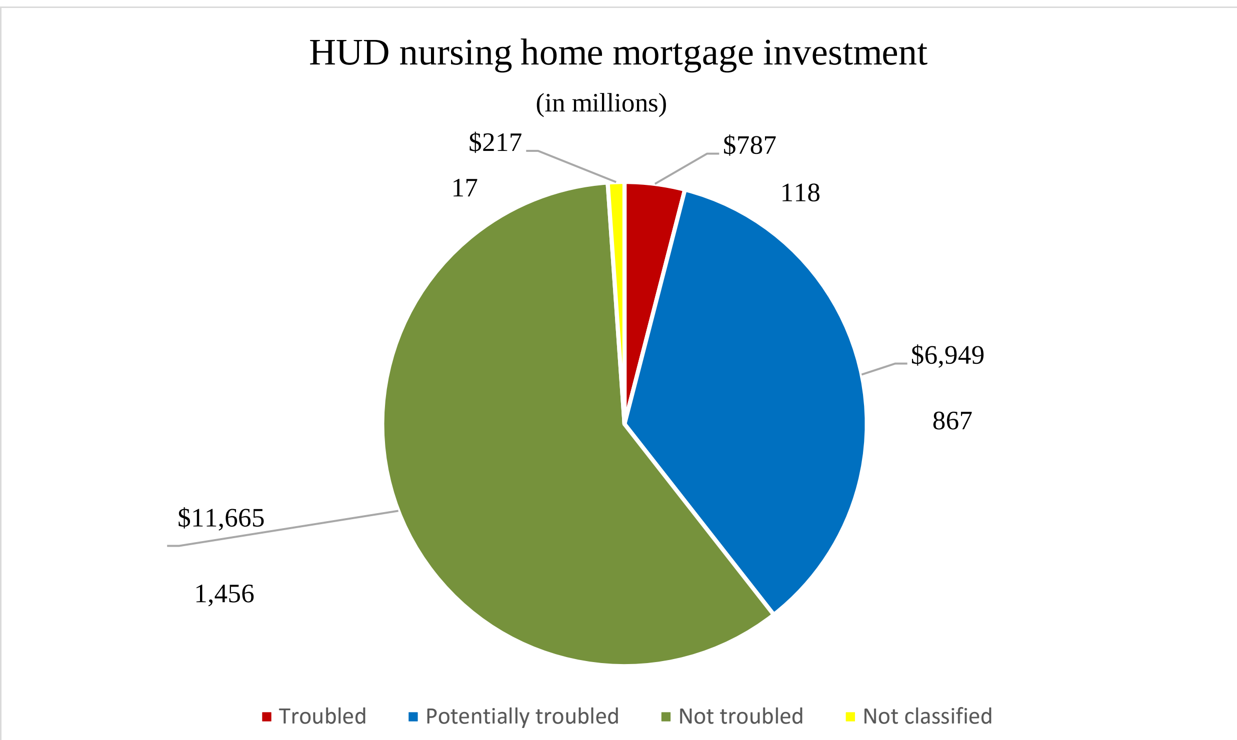
Comment 28. We did not remove recommendation 2E as requested. While the surveillance report is generated monthly, some of the factors used in its creation come from annual reports and rely on the owners and operators promptly reporting changes in their circumstances. With accurate, systemic, quarterly operator data, HUD has access to ***quarterly*** utilization, payments, profitability, and solvency at the operator level. This is a powerful tool available to HUD to allow HUD to begin its intervention.

Appendix C

Analysis of Individual Nursing Homes

As part of our audit, we examined the effectiveness of HUD's actions to address financial challenges at 18 nursing homes. We examined HUD's actions to address the nursing homes' financial challenges regarding utilization, payments, profitability, and solvency. To accomplish this objective, we examined quarterly operator financial data, owners' annual financial scores, HUD's electronic and paper correspondence, public land records, corporate filings, regulatory agreements, mortgages, mortgage notes, management agent agreements, and master lease information.[36]

HUD insured 2,458 mortgages for nursing homes that had a collective unpaid principal balance of more than $19.6 billion as of March 8, 2018. For each insured mortgage, HUD conducted a risk assessment in which it determined the riskiness of each mortgage and entered this assessment into its Integrated Real Estate Management System. In this assessment, HUD evaluated utilization, defaults, delinquencies, and the personal knowledge of its staff to determine the risk associated with each mortgage. Using this assessment, HUD identified 985 troubled or potentially troubled nursing homes with an unpaid principal balance of more than $7.7 billion as of March 8, 2018.



[36] Not every nursing home has an operator or a management agent.

Utilization is the percentage of beds filled in relationship to the number of beds available. Nursing homes generate revenue by filling beds with patients, caring for those patients, and billing responsible parties for the patients' care. Nursing homes do not generate revenue if they do not fill their beds. Utilization may not exceed 100 percent because nursing homes may not fill beds with more than one patient at a time. For an insurance claim, regulations[37] define default as the failure of the owner to make any payment due under the HUD-insured mortgage. If a default continues for a minimum of 30 days, the lender may receive the benefits of the HUD insurance identified in the mortgage.[38] Regulations[39] allow a nursing home to cure a default with a payment.

Profitability measures whether a nursing home reported that it earned a profit in its audited financial statements. HUD's regulatory agreement with each nursing home requires owners to submit annual audited financial statements. Nursing homes that do not earn a profit have a greater risk of not paying their mortgage on time as required. Solvency, sometimes called debt service credit ratio, measures a nursing home's ability to meet its long-term financial obligations, such as a HUD-insured mortgage. Solvency is essential to staying in business as it represents a nursing home's ability to continue operations into the near future. Solvency values greater than one identify that a nursing home's assets exceed its debt obligations and it has sufficient assets to pay its debts.

HUD regulations[40] require operators to submit financial data quarterly within 60 calendar days after the end of the quarter, except for the quarter that ends the fiscal year. For the final fiscal yearend, HUD requires operators to submit financial data within 90 calendar days. When a nursing home owner is the same legal entity as the operator, the owner must submit the operator financial data.

In addition to the owner-operator structure, HUD has nursing homes that are part of a master lease. HUD approves mortgages for individual properties. However, HUD noticed that an increasing number of mortgages had a common or corporate ownership structure, which significantly increased the concentration risk should the ownership entities encounter financial, market, or legal risks. To counteract these additional risks, HUD began requiring owners of multiple properties to provide additional support in the form of a master lease. HUD uses portfolios to indicate a group of nursing homes with common ownership. HUD has 314 portfolios of nursing homes with 2,282 mortgages, while its total inventory[41] is 2,458 mortgages. Because HUD set the regulatory environment at the initial closing of the HUD-insured mortgage, some ownership entities have mortgages that are part of a master lease, while other mortgages with the same ownership entity are not part of the master lease. The master lease structure allows any financial deficiency at one facility to be supported by income from other facilities included in the master lease. However, a master lease does not pool the assets of all nursing

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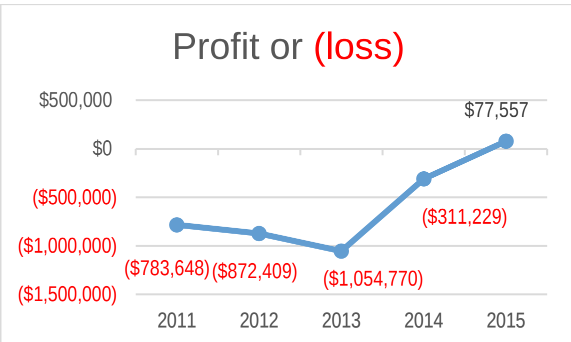
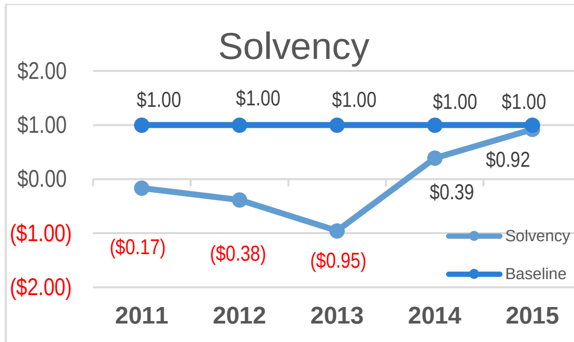
[37] This definition is available at 24 CFR 207.255(a)(1)(i).
[38] This regulation is available at 24 CFR 207.255(a)(3).
[39] This regulation is available at 24 CFR 207.256a.
[40] This regulation is available at 24 CFR 232.1009.
[41] This inventory includes skilled nursing facilities, assisted living facilities, and board and care facilities.

homes for underwriting a single mortgage loan for multiple nursing homes. The mortgage for each nursing home must meet HUD's underwriting standards on its own merit.

Mary Scott Nursing Center, Dayton, OH

In 2001, HUD insured a $5 million mortgage for Mary Scott[42] Nursing Center, a 108-bed nonprofit nursing home in Dayton, OH. In 2012, the owner defaulted on its HUD-insured mortgage, but HUD did not classify this nursing home as troubled until October 2014. This nursing home was selected because of its delinquency of more than 1,000 days, 5 years of low utilization and insolvency, and 4 years of unprofitability.





HUD did not take action when it did not get data in a timely manner, and changes in lenders' complicated turnaround and delaying assignment increased HUD's future outlay.

<u>HUD did not take action when it did not get data in a timely manner</u>. HUD did not receive information from the lender or the owner in a timely manner. The owner and lenders explored obtaining a new loan, refinancing the existing loan, or modifying the existing loan. When the correction plan involves a loan, the timeline to correct the situation is dependent on the timeline for the lender to complete the refinancing. The owner and lenders had not refinanced or modified the existing loan in 5 years. HUD also had not foreclosed on the defaulted loan in 5 years. Additionally, the operator financial data for this nursing home were inaccurate, incomplete, conflicting, and late.

<u>Changes in lenders complicated HUD's ability to obtain information</u>. HUD works through the lenders to monitor properties. Changes in the lender can complicate the turnaround of a nursing home, as each new lender must become familiar with the nursing home, its challenges, and the actions already taken. HUD insured the mortgage with the first lender in 2001. In 2005, the first lender assigned the mortgage to a second lender, which assigned it to a third lender in 2008. That lender assigned it to a fourth lender in 2013. HUD's insured mortgage for this nursing home did not limit transfers by lenders.

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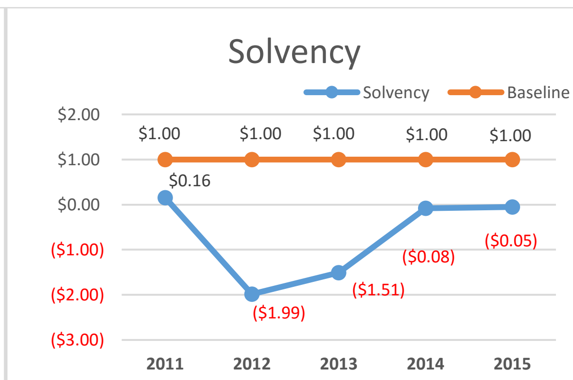
[42] We issued Mary Scott Nursing Center, Dayton, OH, audit report number 2017-CH-1009 on September 30, 2017.

HUD is responsible for the accumulating interest and carrying costs in addition to the unpaid principal balance. The owner defaulted on December 1, 2012. The lender elected to delay assignment and work with the owner to remedy the default. HUD approved this action and delayed assignment from 2012 to 2018. While delaying assignment delays when HUD pays an insurance claim, HUD assumes responsibility for the unpaid interest and carrying costs, including the mortgage insurance premiums, taxes, and insurance. The interest and carrying costs continue to accrue until the owner pays the delinquent amounts or HUD pays an insurance claim.

HUD did not take appropriate and timely action to correct issues. As a result, the mortgage balance was at a high risk of being assigned to HUD. If the owner did not make the mortgage payments, HUD would have to pay the lender more than $3.5 million in unpaid principal balance as of March 8, 2018. Additionally, HUD would have to pay $734,794 in delinquent interest, $53,501 in mortgage insurance premiums, $5,643 in taxes, and $228,474 in insurance according to figures as of February 2018.

Immanuel Campus of Care, Peoria, AZ

In 2006, HUD insured a $14.8 million mortgage at the 338-bed nursing home, Immanuel Campus of Care, located in Peoria, AZ. In addition to the nursing home, the property has 190 assisted living units on the same site. This nursing home defaulted in July 2012, but HUD did not classify it as troubled until October 2016. This nursing home was selected because of 3 years of utilization below 80 percent, its delinquency of more than 1,000 days, 5 years of unprofitability and solvency issues.



HUD did not pursue the owner and operator for submitting conflicting data. The owner reported to HUD 3 years of utilization below 80 percent between 2011 and 2015; however, the operator also reported that utilization was between 99 and 101 percent for the quarters between March 2016 and March 2017. Utilization in excess of 100 percent is not possible because multiple people may not occupy the same bed at the same time. Operator financial statements showing that the property had paid its mortgage contradicted HUD's documentation on delinquencies.

HUD and the lender focused on modifying the existing mortgage. In February 2013, HUD and the lender began discussing low utilization concurrent with a loan modification. HUD documented the low utilization from February 2013 through January 2017. The owner's initial default was in March 2012. The owner made a late payment and then defaulted again in June 2012 and had not made a payment since July 2012. This nursing home generated income that ranged from $205,619 as of March 31, 2017, to $767,787 as of June 30, 2016; however, this income was not sufficient to pay the nursing home's expenses. From the default in July 2012 to October 2013, HUD and the lender focused on modifying the existing mortgage without addressing how to increase the declining utilization. Changes in the lender also delayed the processing of the proposed loan modification and refinancing due to the need for the new lender to become familiar with the nursing home.

Loan modification was not viable. HUD and the lender reported that the loan modification was difficult due to the nursing home's revenue not supporting the cost of operations, a prepayment penalty, declining utilization, the addition of a behavior unit, and a lockout provision.[43] With revenue not supporting the cost of operations and declining utilization, any refinance of the mortgage would not support the long-term viability of the property.

HUD is responsible for the accumulating interest and carrying costs in addition to the unpaid principal balance. While the owner defaulted on July 1, 2012, the lender elected to delay assignment and work with the owner to remedy the default. HUD approved this action and delayed assignment from 2012 to 2018. While delaying assignment delays when HUD pays an insurance claim, HUD assumes responsibility for the unpaid interest and the carrying costs, including the mortgage insurance premiums, taxes, and insurance. The interest and carrying costs continue to accrue until the owner pays the delinquent amounts or HUD pays an insurance claim.

HUD did not address owner complacency. HUD's efforts were hampered by owner complacency, as the owner did not provide HUD with accurate financial data, would not commit to a course of action, did not develop industry contacts, and stated that correction of the property's issues was in "God's hands."

HUD did not pursue a regulatory agreement violation. The nursing home violated its regulatory agreement by paying $110,892 to a third party for debt service for bonds issued by an entity related to the nursing home. Paying debt service on bonds issued by a related company was a transfer of project funds. According to the regulatory agreement, transfers of project funds must be made only from surplus cash. Surplus cash is the amount of cash remaining after the nursing home pays its mortgage, deposits a required amount into its reserve for replacement account, pays its bills, and makes any other deposits required of the nursing home. Because this nursing home did not generate surplus cash, any payment was not appropriate.

HUD did not take appropriate and timely action to correct these issues. As a result, the mortgage balance was at a high risk of being assigned to HUD. If the owner did not make the mortgage payments, HUD would have to pay the lender more than $12.4 million in unpaid principal as of March 8, 2018. Additionally, HUD would have to pay more than $1.7 million in delinquent

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[43] Lockout is a provision in some HUD-insured mortgages in which the mortgage does not allow the owner to refinance for a defined period.

interest, $159,826 in mortgage insurance premiums, and more than $1.1 million in insurance according to figures as of February 2018.

Bel-Air Nursing Home, Milwaukee, WI

In 2010, HUD initially endorsed Bel-Air Nursing Home's mortgage of more than $15.6 million at the 185-bed nursing home in Milwaukee, WI. HUD identified this nursing home as troubled in December 2015, and the owner defaulted in May 2016. Bel-Air Nursing Home was selected for review because it was delinquent on its mortgage and had profitability and solvency issues for 4 years.

HUD did not assess the owner-audited financial statements. HUD did not assess the owner financial statements for 5 consecutive fiscal years from 2012 through 2016.

Bel-Air Nursing Home had low utilization. In October 2014, HUD stated that through September 2014, utilization was at 50 percent. In September 2015, HUD stated that utilization had plateaued around 60 percent. Review of the quarterly operator financial statements determined that this pattern continued, with utilization at 61 percent for the quarter ending March 31, 2016, and 60 percent for the next 2 quarters. In November 2017, HUD documented that the Bel-Air Nursing Home had struggled since its construction in 2010.

Available operator financial statements showed intermittent income and losses. Bel-Air Nursing Home showed net operating income of $533,962 for the quarter ending March 31, 2016. It showed a net operating loss of $992,145 for the quarter ending June 30, 2016, and a net operating loss of $581,531 for the quarter ending September 30, 2016. In addition, Bel-Air Nursing Home's quarterly operator financial statements did not include all debt for 3 quarters. Additionally, its quarterly operator financial data were 59 to 239 days late.

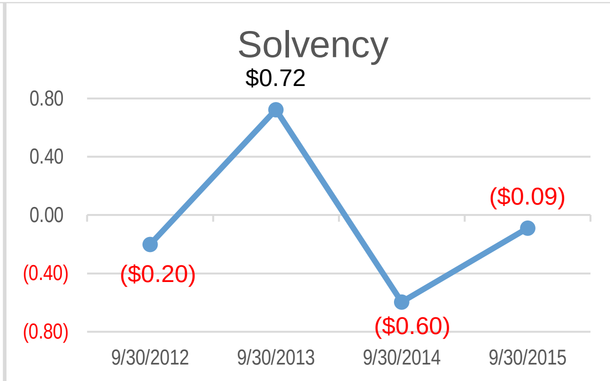
HUD is responsible for the accumulating interest and carrying costs in addition to the unpaid principal balance. The owner defaulted on May 1, 2016. The lender elected to delay assignment and work with the owner to remedy the default. HUD approved this action and delayed assignment from 2016 to 2018. While delaying assignment delays when HUD pays an insurance claim, HUD assumes responsibility for the unpaid interest and carrying costs, including the mortgage insurance premiums, taxes, and insurance. The interest and carrying costs continue to accrue until the owner pays the delinquent amounts or HUD pays a claim.

HUD did not take appropriate and timely action to correct the issues. As a result, the mortgage balance was at a high risk of being assigned to HUD. If the owner did not make the mortgage payments, HUD would have to pay more than $14.6 million in unpaid principal balance as of March 8, 2018. Additionally, HUD would have to pay more than $1.2 million in delinquent interest, $153,938 in mortgage insurance premiums, $310,031 in taxes, and $328,709 in insurance according to figures as of February 2018.

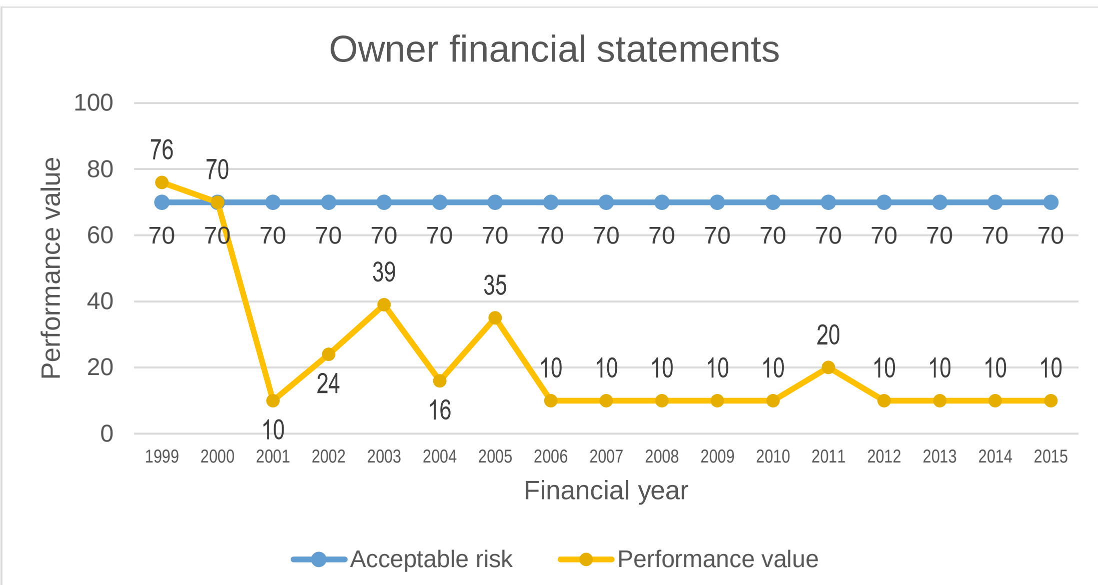
Hebrew Home, West Hartford, CT

In 2009, HUD insured a $20.2 million mortgage at the 334-bed nursing home in West Hartford, CT, which refinanced a previous HUD-insured mortgage from 1987. The owner defaulted in September 2012, but HUD did not identify the nursing home as troubled until September 2016.

Hebrew Home was selected for review because it was delinquent on its mortgage and had profitability and solvency issues for 4 years.



Annual financial statements showed a pattern of financial problems. Under the regulatory agreement(s), the owners must submit annual financial statements. HUD assesses these statements each year with a score of 70 as a baseline. HUD assessments for fiscal years 2001 through 2015 were below the baseline and showed a high risk of mortgage default.



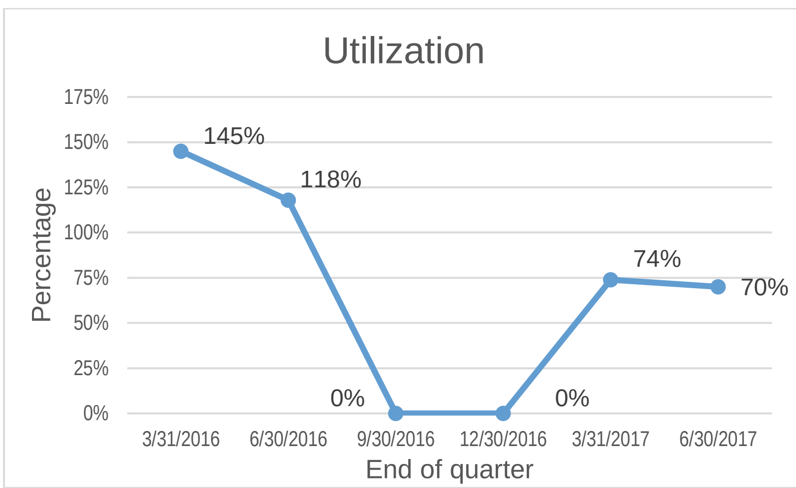
The owner of Hebrew Home defaulted on the August 2012 payment. HUD decided to pay part of the mortgage to the lender to reduce the debt at Hebrew Home. HUD calls this a partial payment of claim. (See subsection – “HUD paid more than $11 million to the lender.”)

The owner attempted to impose conditions on HUD’s partial payment of claim. During the partial payment process in August 2013, the owner attempted to impose six conditions on the modified mortgage, including defining the maximum amount of the modified mortgage, providing a new definition of surplus cash, and eliminating the prohibition on borrowing. The owner stated that the modified mortgage could not exceed $9.4 million at 2.9 percent interest for 30 years because the owner estimated that the nursing home would not generate sufficient cash to service a larger debt. Defining the maximum amount of the modified mortgage would have required additional HUD funds to pay down a larger partial payment of the mortgage. HUD rejected all six conditions.

HUD paid more than $11 million to the lender. In June 2015, HUD paid the lender more than $11 million and modified the June 2009 mortgage to an unpaid principal balance of just over $11 million for 26.25 years[44] at 3.35 percent interest. HUD created a second mortgage with the owner in June 2015 for just over $11 million. The owner filed for voluntary bankruptcy in August 2016. In December 2016, the bankruptcy court sold the nursing home, and the new owner paid HUD $1.3 million to eliminate the second mortgage and assumed the HUD-insured mortgage with the lender. As a result, HUD lost more than $9.7 million in the bankruptcy proceedings.

HUD did not address incomplete and conflicting operator financial data. Assessment of the quarterly operator financial data for utilization, delinquency, profitability, and solvency for the quarters ending March 31, 2016, through June 30, 2017, showed that Hebrew Home did not submit data for 2 quarters and conflicting data were submitted.

The nursing home had utilization issues.



Utilization may not exceed 100 percent because more than one person may not occupy a bed at the same time. Hebrew Home's five operator financial statements ranged from 15 to 52 days late.

HUD did not take appropriate and timely action to correct issues at Hebrew Home and lost more than $9.7 million in the bankruptcy sale of the nursing home.

Plaza Village Senior Living, National City, CA

In 2010, HUD insured a $10.6 million mortgage at the 85-bed nursing home, Plaza Village Senior Living, located in National City, CA. HUD classified this property as troubled in July

[44] HUD kept the original term of the mortgage.

2011, and the owner defaulted in September 2011. Plaza Village Senior Living was selected due to its delinquency of more than 1,000 days.

HUD is responsible for the accumulating interest and carrying costs in addition to the unpaid principal balance. The owner defaulted on September 1, 2011. The lender elected to delay assignment and work with the owner to remedy the default. HUD approved this election and delayed assignment from 2011 to 2018. While delaying assignment delays when HUD pays an insurance claim, HUD assumes responsibility for the unpaid interest and the carrying costs, including the mortgage insurance premiums, taxes, and insurance. The interest and carrying costs continue to accrue until the owner pays the delinquent amounts or HUD pays a claim.

The owner violated the regulatory agreement. In 2010, the owner violated this agreement when it secured a $2.3 million loan and pledged Plaza Village Senior Living as collateral for this loan. The owner defaulted on this loan, and that lender foreclosed in January 2012 and claimed a percentage of the property. Pledging the HUD-insured nursing home as collateral without prior HUD approval was a violation of the regulatory agreement. HUD worked with its Departmental Enforcement Center to draft a notice of violation but did not send the notice. If HUD had foreclosed on its insured mortgage when the owner defaulted in 2011, the second lender would not have had the opportunity to foreclose on its loan in 2012. No action against the owner had occurred as of February 2018.

HUD did not assess annual financial statements. HUD did not assess Plaza Village Senior Living's annual owner financial statements from 2011 through 2015. Assessment of the annual owner financial statement could have identified the inappropriate loan before the foreclosure.

The nursing home had severe utilization issues. HUD identified that Plaza Village Senior Living had severe utilization issues from April 2011 through November 2016. In April 2013, the owner filed for bankruptcy, which was dismissed in January 2014.

The nursing home did not meet the criteria for a partial payment of claim. In May 2014, HUD permitted a transfer of physical assets to a new owner. HUD identified that the new owner was slowly increasing utilization. The management agent changed in February 2016. In the fall of 2016, HUD attempted to make a partial payment of claim concurrent with a transfer to a new owner. In November 2016, this new company backed out of the deal. In December 2016, the lender submitted a request for a partial payment of claim; however, HUD had questions regarding utilities, management fees, and the financial data to support the requested amount. Once HUD's questions were resolved, the financial data showed that the facility did not meet the criteria for a partial payment of claim.

Quarterly operator financial data were not accurate or timely. Plaza Village Senior Living's quarterly operator financial data from January 2016 through March 2017 did not report all of the debt in 4 of 5 quarters. Its five quarterly operator financial statements ranged from 24 to 31 days late.

HUD did not take appropriate and timely action to correct issues at Plaza Village Senior Living. We determined that the mortgage balance was at a high risk of being assigned to HUD. If the owner did not make the mortgage payments, HUD would have to pay more than $9.9 million in unpaid principal balance as of March 8, 2018. Additionally, HUD would have to pay more than $3.2 million in delinquent interest, $336,293 in mortgage insurance premiums, $262,961 in taxes, and $131,511 in insurance according to figures as of February 2018.

Chatsworth at Wellington Green, Wellington, FL

In 2011, HUD initially endorsed a $31.8 million mortgage at the 120-bed nursing home, Chatsworth at Wellington Green, located in Wellington, FL. The owner declared bankruptcy in April 2014, but HUD did not classify this property as troubled until September 2014. Chatsworth at Wellington Green was selected due to its not reaching final endorsement, its delinquency on its mortgage, and its large mortgage balance.

The owners violated the regulatory agreement by signing two settlement agreements. After the initial endorsement, the general contractor building the nursing home declared bankruptcy and did not complete the nursing home. The insurance company, which had executed a performance bond for the general contractor, stepped in as the general contractor. In August 2012, the owner and the insurance company entered into a settlement agreement, which identified that the nursing home owed more than $1.2 million and required payment within 30 days. Chatsworth at Wellington Green did not pay as required. After a year, the insurance company pursued legal action to require the nursing home to pay the $1.2 million. In November 2013, the owner of Chatsworth at Wellington Green and the insurance company entered into a new settlement agreement, which granted more time to the nursing home to finalize its refinance efforts. It planned to use the proceeds from refinance to pay the settlement agreement. During 2014, the owner paid nearly $700,000 to the insurance company. The owner did not obtain HUD approval for either settlement agreement. Each of the settlement agreements is an encumbrance of the nursing home. The regulatory agreement between HUD and the owner, signed February 24, 2011, did not permit any encumbrance of the nursing home without the prior written approval of HUD.

The owner declared bankruptcy and decided to sell the property. In February 2014, HUD stated that the general contractor's bankruptcy was the root cause of the rolling delinquency and that cash flow was tight due to the owner's paying construction expenses. These construction expenses were part of the settlement agreement.[45] The owner declared personal bankruptcy in April 2014. In September 2014, HUD identified that the settlement agreements with the insurance company violated the regulatory agreement because the owner did not obtain prior HUD approval. At the same time, the owner presented HUD with an agreement to sell the nursing home and pay off the HUD-insured mortgage. HUD prioritized clearing the sale to recover the unpaid principal balance of the mortgage instead of pursuing the regulatory agreement violation.

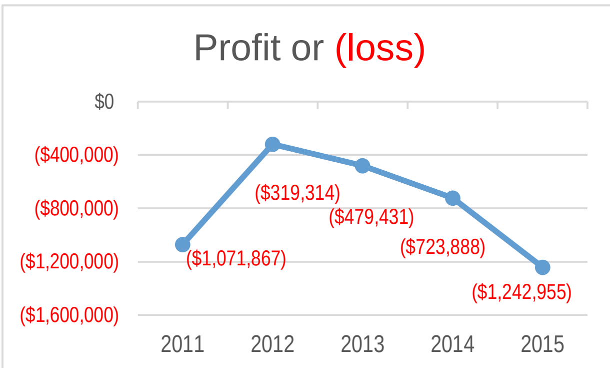
The owners paid off the HUD-insured mortgage. In October 2014, the owners sold the nursing home and paid off the HUD-insured mortgage. Paying off the mortgage eliminated the regulatory agreement with HUD. With the payment of the HUD-insured mortgage, HUD

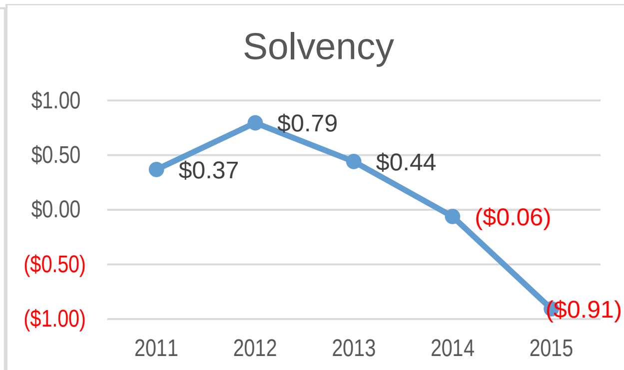
[45] Typically, owners use the proceeds obtained at final endorsement of the HUD-insured mortgage to pay construction expenses. This property did not go to final endorsement.

suffered no financial loss but did not take appropriate and timely action to address the issues at Chatsworth at Wellington Green.

Middlesex Health Care Center, Middletown, CT

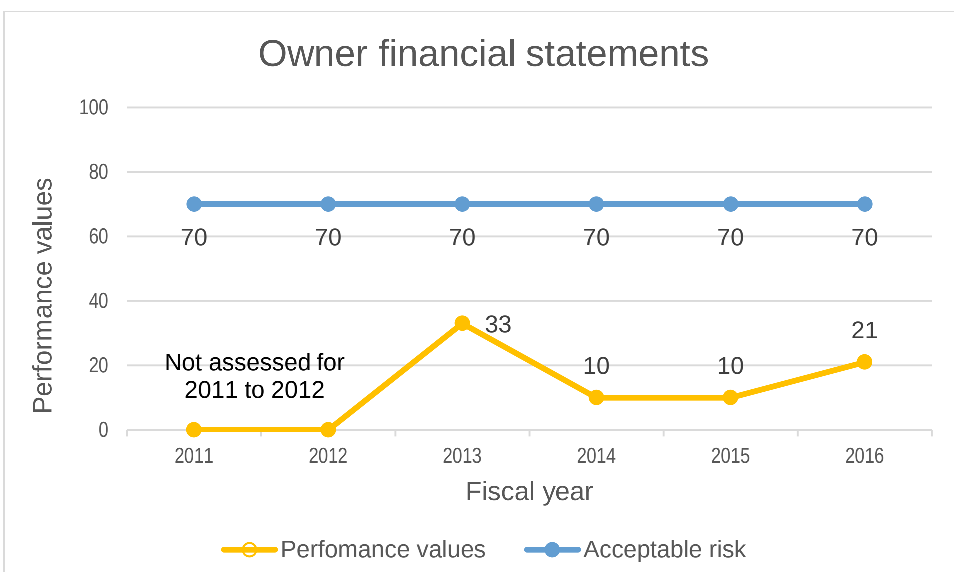
In 2011, HUD insured an $8 million mortgage at the 150-bed nursing home, Middlesex Health Care Center, located in Middletown, CT. Middlesex Health Care Center was selected for review because it had 5 years of profitability and solvency issues and was part of a portfolio.



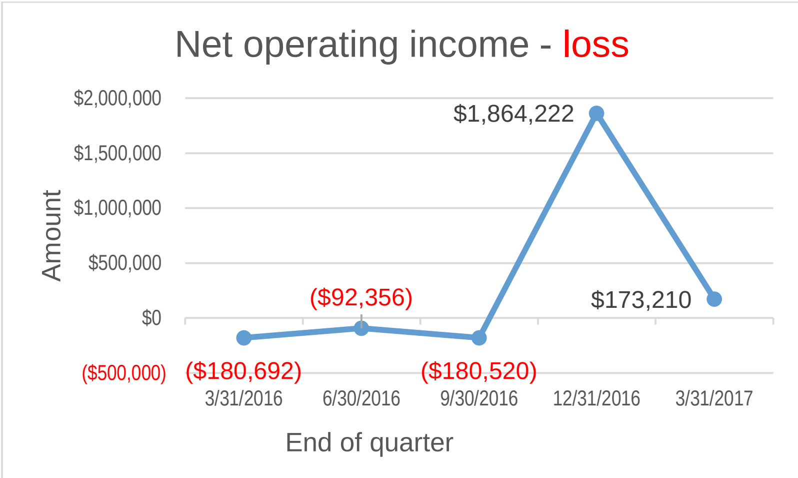


The owner operates additional properties under a master lease, but Middlesex Health Care Center is not part of this master lease.

<u>HUD identified the property as potentially troubled despite financial scores</u>. HUD identified Middlesex Health Care Center as potentially troubled in October 2017. Under its regulatory agreement, the nursing home owner must submit annual financial statements. HUD assesses each financial statement with a numeric score from 10 to 100. HUD considers scores above 70 to be an acceptable risk. HUD assessments for 2013 through 2016 were well below the baseline.



In 2015, HUD began collecting and reviewing quarterly operator financial data from Middlesex Health Care Center. These data showed that this nursing home continued to have operating losses. Additionally, the operator's financial statements did not include all of the debt for 5 quarters, and the owner submitted its data 15 to 30 days late.



<u>HUD should have identified this nursing home as troubled</u>. From 2011 to 2015, the owner's audited financial statements reported to HUD that this nursing home was not profitable and did not have sufficient assets to service its debt. Additionally, the operator financial data submitted for 2016 and 2017 showed that the operating losses continued. Continued operating losses and insufficient assets to meet its debts increased the risk that the owner might default on the HUD-insured mortgage. HUD needs complete and timely data to make informed and timely monitoring decisions. HUD did not take appropriate and timely action to correct the issues at Middlesex Health Care Center, and more than $7.2 million in unpaid principal balance was at risk of default.

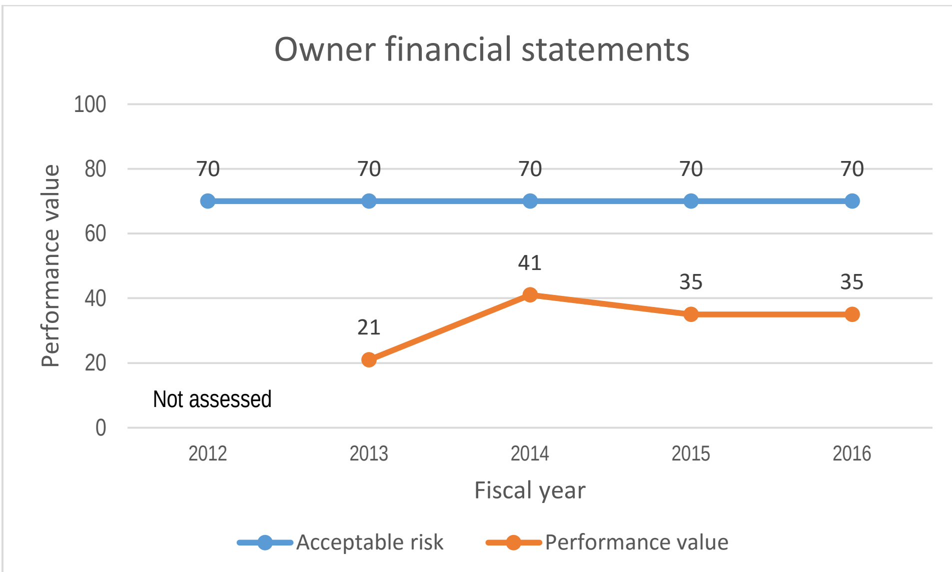
Bishop Wicke Health and Rehabilitation Center, Shelton, CT

In 2012, HUD insured a $9.5 million mortgage at the 120-bed nursing home, Bishop Wicke Health and Rehabilitation Center, located in Shelton, CT. Bishop Wicke Health and Rehabilitation Center was selected for review because it was part of a portfolio and had profitability and solvency issues for 5 years.

<u>The owner violated the regulatory agreement</u>. In 2013, HUD identified that the owner donated more than $3.1 million to a related foundation and repaid more than $2.9 million on a loan. When HUD followed up on the issue, it was told that the donated funds were not project funds, but funds from bequests and the accumulated earnings on the bequests. Bequests from third parties to a related company should not be included in the nursing home's financial records. HUD's regulatory agreement with the owner requires the nursing home to maintain proper financial records and that either transfers of project funds have HUD approval before the transfer or transfers are made only from surplus cash. The nursing home did not have prior HUD approval for the donation and did not generate surplus cash. The loan repayments to a related company happened between September 30, 2011, and September 30, 2014. This nursing home

was in a non-surplus-cash position and should not have made payments on a loan to a related company. HUD directed the owner to reimburse the nursing home in July 2015, but it had not done so.

HUD identified the property as potentially troubled in September 2017 despite financial scores and a patient care issue. HUD assesses each owner's financial statement with a numeric score from 10 to 100. Scores above 70 are an acceptable risk, scores from 60 to 70 are a cautionary risk, and scores below 60 are a high risk. HUD assessments for 2013 through 2016 were well below the baseline.



Additionally, a patient fell, suffered head trauma, and later died due to this injury. The Centers for Medicare & Medicaid Studies stated that the nursing home's provider agreement was at risk as a result. Loss of the provider agreement would negatively impact revenue as the nursing home could not bill Medicaid or Medicare for services provided to patients. In 2017, HUD learned that the Centers for Medicare & Medicaid Service had decided not to penalize this nursing home.

The operator financial data were not complete or timely. In 2015, HUD began collecting and reviewing quarterly operator financial data. These data showed that the nursing home had 3 quarters of losses and 4 quarters of profits. The operator financial data from October 2015 through June 2017 also did not accurately report the debt in each of the 7 quarters. In addition, the seven operator financial statements ranged from 16 to 121 days late.

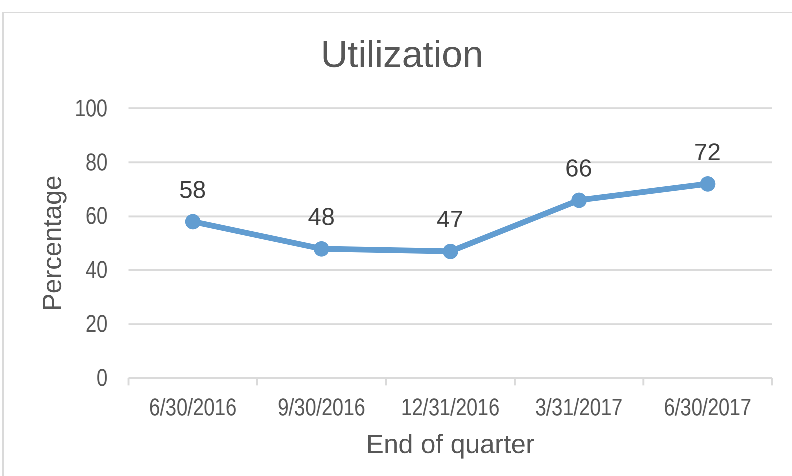
HUD should have identified this nursing home as troubled. From 2012 to 2016, the owner's audited financial statements reported to HUD that this nursing home was not profitable and did not have sufficient assets to service its debt. HUD should have identified this nursing home as troubled due to the regulatory agreement violations, the 5-year pattern of unprofitability and insolvency, the submission of inaccurate and late operator financial data, and the death of a patient, which risked the loss of this nursing home's ability to participate in the Medicare and Medicaid programs. Violations of the regulatory agreement, the potential loss of the ability to participate in Medicare, and continued operating losses and inability to pay its debts all increased the risk that the owner might default on the HUD-insured mortgage. HUD needs accurate and timely data to make informed and timely monitoring decisions. Since HUD did not take appropriate and timely action to enforce correction at Bishop Wicke Health and Rehabilitation Center, the unpaid principal balance of more than $8.3 million was at risk of default.

Golden Hill Health Care Center, Milford, CT

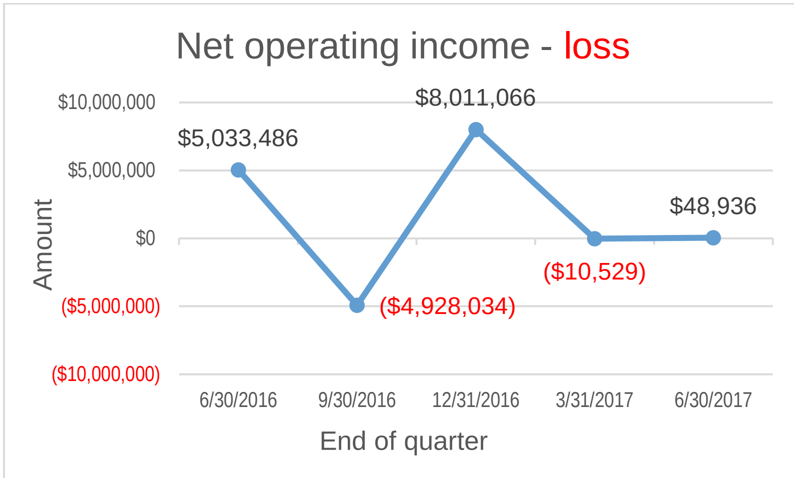
In 2010, HUD insured a $5.6 million mortgage at the 120-bed nursing home, Golden Hill Health Care Center, located in Milford, CT. HUD classified this nursing home as potentially troubled in September 2014. Golden Hill Health Care Center was selected for review because it was part of a portfolio and had profitability and solvency issues for 5 years. It is part of a master lease that includes two other properties reviewed.

The owner violated the regulatory agreement. Between 2013 and 2015, HUD identified more than $1.4 million in inappropriate loan payments to a related party and $242,702 in unauthorized distributions. HUD told the nursing home that the loans were inappropriate unless they were made before the HUD-insured mortgage. The nursing home stated that the loans predated the HUD-insured mortgage but provided no evidence to support its claim. HUD's regulatory agreement requires that expenses be reasonable in price and necessary to the nursing home's operations. HUD did not obtain evidence that these loans were necessary to the nursing home's operations. The regulatory agreement also requires that transfers of project funds either have prior HUD approval or be made from surplus cash. The transfers did not have HUD approval, and the nursing home did not generate surplus cash. HUD formally referred the unauthorized distributions to HUD's Departmental Enforcement Center on May 30, 2017. While HUD properly identified the issues of the inappropriate loans, the unauthorized payments on these loans, and the unauthorized distributions, HUD did not enforce its regulatory agreement by directing the owner to return the funds to the nursing home.

The nursing home had utilization issues. Golden Hill Health Care Center had a history of low utilization.



Quarterly financial data showed that income and loss varied from quarter to quarter. Golden Hill Health Care Center's quarterly net operating income and loss ranged from ($4.9 million) to $8 million.



Golden Hill Health Care Center's quarterly operator financial statements did not include all of the debt for 4 of 5 quarters. In addition, the five operator financial statements ranged from 15 to 25 days late.

HUD should have identified this nursing home as troubled. From 2011 to 2015, the owner's audited financial statements reported to HUD that this nursing home was not profitable and did not have sufficient assets to service its debt. HUD should have identified this nursing home as troubled due to the regulatory agreement violations, the 5-year pattern of unprofitability, insolvency, and the low utilization. Additionally, the operator financial data submitted to HUD were inaccurate, conflicting, and late. Violations of the regulatory agreement, continued operating losses, and the inability to pay its debts all increased the risk that the owner might default on the HUD-insured mortgage. HUD needs accurate and timely data to make informed and timely monitoring decisions.

Since HUD did not take appropriate and timely action to correct issues at Golden Hill Health Care Center, the unpaid principal balance of more than $4.5 million was at risk of default.

Jamaica Hospital Nursing Home, Richmond Hills, NY

In 2007, HUD insured a $43.1 million mortgage at the 226-bed nursing home, Jamaica Hospital[46] Nursing Home, located in Richmond Hills, NY. HUD classified this nursing home as potentially troubled in September 2014. Jamaica Hospital Nursing Home was selected for review because its unpaid principal balance was above $29 million and it had profitability and solvency issues for 4 years.

HUD granted a waiver to allow this nursing home to receive a HUD-insured mortgage. HUD granted this nursing home a 6-month waiver of the HUD requirement that participants be a

[46] Despite its name, Jamaica Hospital Nursing Home is not a hospital.

single-asset entity.[47] Before obtaining the HUD-insured mortgage, this nursing home was consolidated with a related company, a nearby hospital. The waiver granted the consolidated entity time to change its legal structure so that its nursing home could become a single-asset entity to be eligible for the Section 232 program.

Even after the related companies changed their legal structure, the hospital continued to provide the nursing home with services and supplies, which the hospital charged to the nursing home on an estimated-cost basis. The nursing home used the estimated costs in its December 31, 2016, audited financial statements to HUD. In these statements, the nursing home identified that it owed the hospital more than $44.4 million in accounts payable and paid more than $8.9 million in expenses to the nursing home. HUD's regulatory agreement with the nursing home requires that expenses charged to the nursing home be necessary to its operation and reasonable in price.

HUD did not use available information. This nursing home had submitted annual audited financial statements to HUD each year since 2011. HUD did not identify or question the use of estimates or the large payables. HUD stated that the nursing home must renegotiate its relationship with the related hospital in a manner acceptable to HUD and retroactively adjust the amounts charged to the nursing home from 2009 through the current year. Properly implemented, this plan could ensure that the expenses charged to the nursing home were necessary to its operation and reasonable in price. In addition to identifying that the nursing home owed the hospital more than $44.4 million, as of December 31, 2016, the independent public accountant reported that it had substantial doubt about the nursing home's ability to continue to operate.

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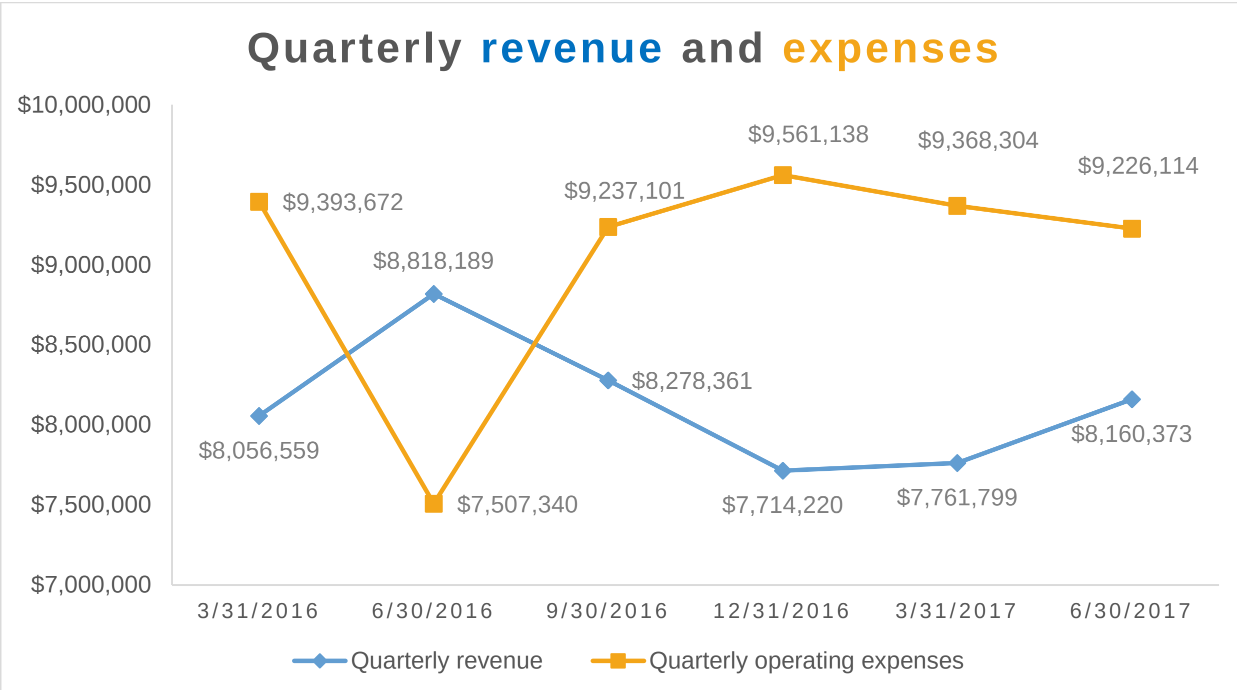
[47] As a single-asset entity, the mortgaged nursing home must be the only asset of the borrower.

Quarterly operator financial statements showed that losses continued. Jamaica Hospital Nursing Home's expenses exceeded its revenue for 5 of 6 quarters.



Jamaica Hospital Nursing Home's operator submitted five of six financial statements 3 to 30 days late and submitted one statement in a timely manner.

HUD should have identified this nursing home as troubled. HUD should have identified this nursing home as troubled due to the independent auditor's doubt about the nursing home's ability to continue to operate, the violations of the regulatory agreement, and the 4-year pattern of unprofitability and insolvency. Additionally, the operator financial data submitted to HUD were conflicting and late. When independent auditors question a nursing home's ability to continue operations, HUD's investment in the insured mortgage is at risk of default. Violations of the regulatory agreement, continued operating losses, and the inability to pay its debts also increased the risk that the owner might default on the HUD-insured mortgage. HUD needs accurate and timely data to make informed and timely monitoring decisions.

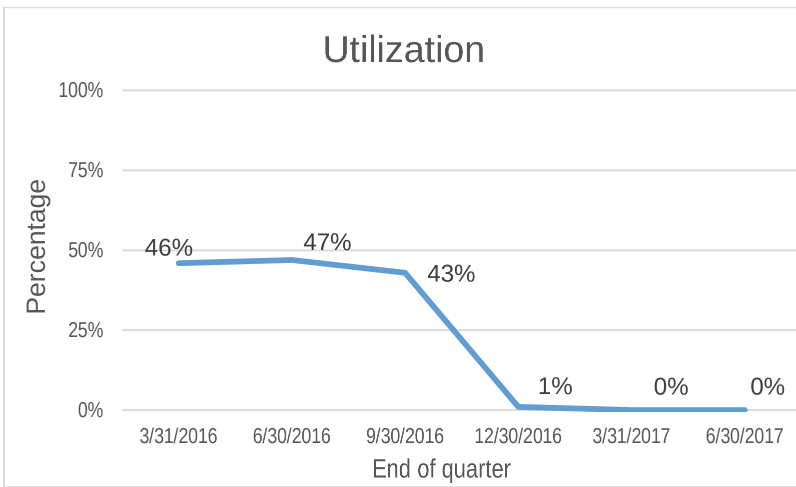
HUD did not take appropriate and timely action to correct issues at Jamaica Hospital Nursing Home. This inaction placed the remaining mortgage of more than $36.5 million at risk of default. Also, HUD did not question more than $8.9 million in unsupported expenses to a related company and more than $44.4 million in unreasonable accounts payable to a related company.

Mainland Manor Rehab and Nursing Center, Pleasantville, NJ

In 2012, HUD insured the $8.1 million mortgage at the 140-bed nursing home, Mainland Manor Rehab and Nursing Center, located in Pleasantville, NJ. HUD classified this property as potentially troubled in March 2017. Mainland Manor Rehab and Nursing Center was selected for review because it had utilization issues for 3 years and profitability and solvency issues for 5 years.

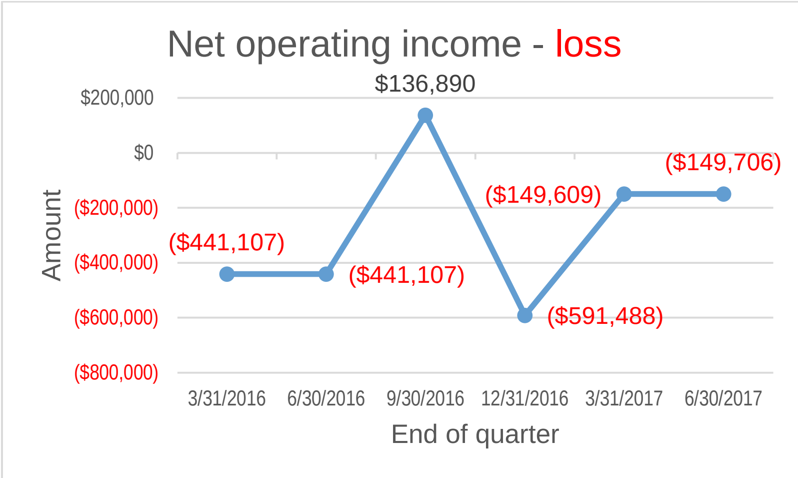
The owner closed the facility without HUD's permission, violating the regulatory agreement. The owner closed Mainland Manor Rehab and Nursing Center in October 2016, and HUD was unaware of the closure until the owner informed HUD 5 months later. Changing the inherent nature of the nursing home without prior HUD approval is a violation of the regulatory agreement. In response to HUD, the owner stated that the decision to close the facility was due to a 3-year loss of more than $4.5 million. As of December 2017, the owner planned to sell the property or convert it to another use, such as a drug rehabilitation facility. Selling the property would remove the nursing home from the Section 232 portfolio.

The nursing home had utilization issues. When the nursing home refinanced in 2012, HUD's underwriter recognized that the nursing home had low utilization and recommended a marketing plan. HUD did not require or implement a marketing plan, and the property continued to have utilization issues.



With the nursing home closed, it did not generate any revenue; however, the owner continued to pay the mortgage.

Operating income and loss varied greatly. Mainland Manor Rehab and Nursing Center had 5 quarterly net operating losses and 1 quarter of net operating income. Profitability ranged from a quarterly profit of $136,890 to a quarterly operating loss of $591,488.



Mainland Manor Rehab and Nursing Center had 6 quarters of solvency issues. Its six quarterly operator financial statements ranged from 3 to 39 days late.

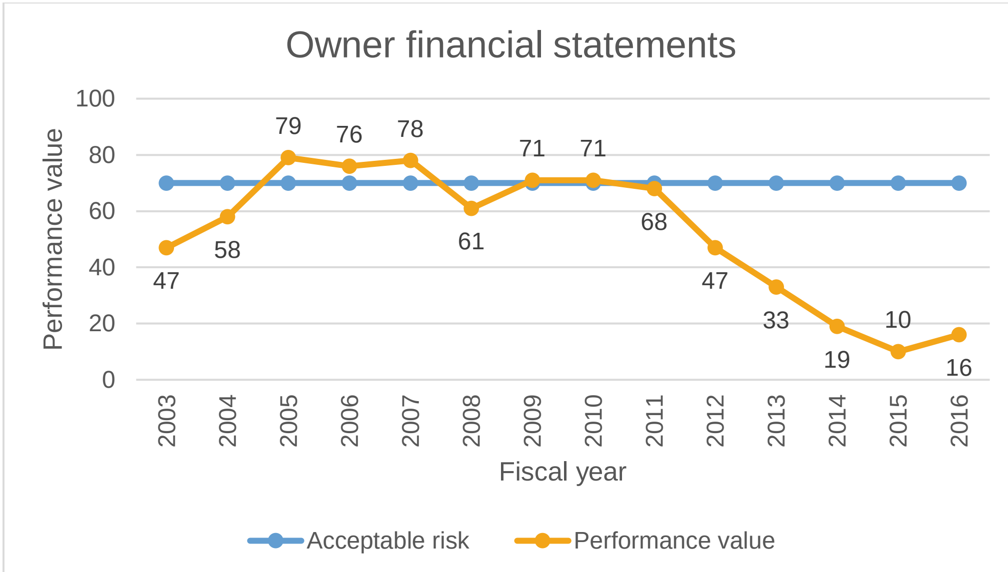
HUD should have identified this nursing home as troubled due to the violation of the regulatory agreement and the 5-year pattern of unprofitability and insolvency. Additionally, the operator financial data submitted to HUD were conflicting, and late. Violations of the regulatory agreement, continued operating losses, and the inability to pay its debts also increased the risk that the owner might default on the HUD-insured mortgage. HUD needs accurate and timely data to make informed and timely monitoring decisions.

Since HUD did not take appropriate and timely action to correct issues at Mainland Manor Rehab and Nursing Center, the unpaid principal balance of more than $7.4 million was at risk of default.

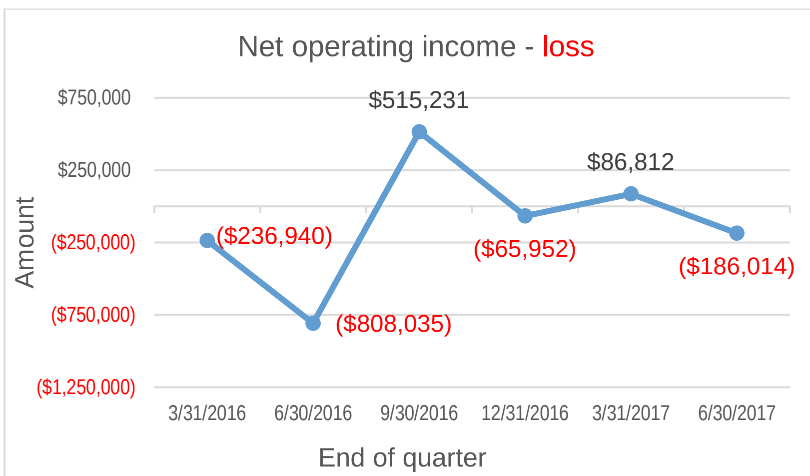
Medford Care Center, Medford, NJ

In 2002, HUD insured a $6.9 million mortgage at the 180-bed nursing home, Medford Care Center, located in Medford, NJ. This nursing home had defaulted a number of times, including December 2016 and most recently November 2017, but HUD classified this property as potentially troubled in October 2014. Medford Care Center was selected because it had utilization, profitability, and solvency issues for 5 years. The business that owned Medford Care Center had parties in common with the business that owned Prospect Heights Care Center.

HUD's analysis of the owner's audited financial statements showed that risk had increased dramatically between 2012 and 2016. Under its regulatory agreement with HUD, the owner must submit annual audited financial statements. HUD assesses these statements each year with a score of 70 as a baseline. Medford Care Center's owner annual financial statements showed that the mortgage was at a high risk of default from 2012 through 2016.



<u>Operator financial data showed no utilization data and variability in profitability and solvency</u>. Medford Care Center reported no utilization data for 6 quarters. It had 4 quarters of net operating losses and 2 quarters of net operating income.



Medford Care Center had 4 quarters of solvency issues, 1 quarter of missing data, and 1 quarter with no issues. Its quarterly operator financial statements ranged from 12 to 78 days late.

HUD should have identified this nursing home as troubled due to the November 2017 default on its mortgage[48] and the 5-year pattern of unprofitability and insolvency. Additionally, the operator financial data submitted to HUD were inaccurate, conflicting, and late. HUD did not recognize how troubled this nursing home was before its owner defaulted in November 2017; however, the owner brought the mortgage current in July 2018.

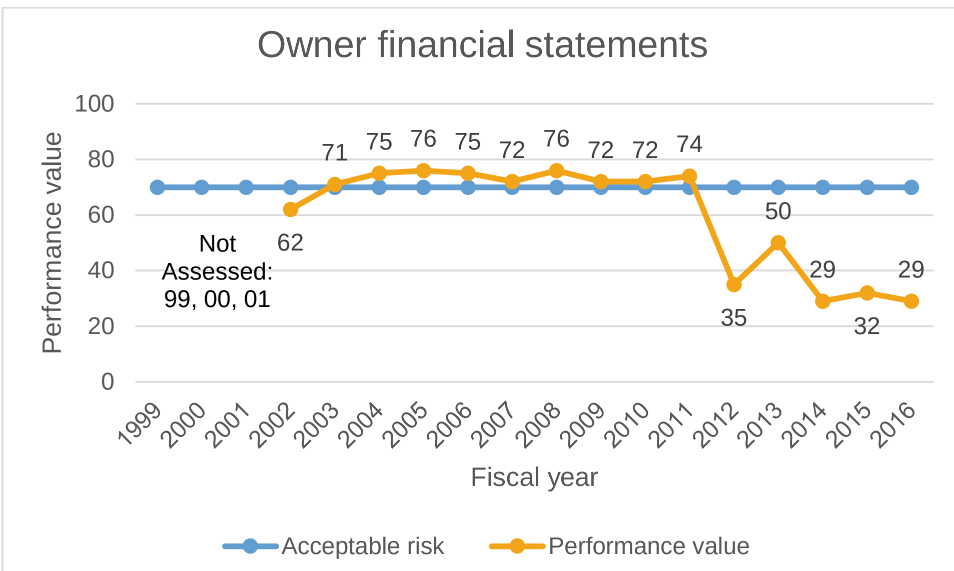
[48] In July 2018, the owner brought the mortgage current.

Mecklenburg Health Care Center, Charlotte, NC

In 2012, HUD insured a $2.4 million mortgage at the 100-bed Mecklenburg Health Care Center located in Charlotte, NC. Mecklenburg Health Care Center was selected for review because it was part of a portfolio, had profitability issues for 4 years, and had solvency issues for 5 years.

The operator did not submit complete operator financial data. Mecklenburg Health Care Center did not report utilization data for 5 quarters and for 1 quarter, reported utilization of 91 percent. It did not report delinquency data for 3 quarters; reported incomplete data for 2 quarters; and for one quarter, the data showed that it made mortgage payments. It did not report profitability data for 5 quarters and for 1 quarter, had an operating loss of $148,789. It did not report solvency data for 5 quarters, and for 1 quarter, the data showed a solvency issue. It did not submit data for 3 quarters of operator financial statements, and 3 quarters of data ranged from 30 to 121 days late.

HUD identified the nursing home as potentially troubled in February 2016 despite the drop in owner annual financial scores. Under the regulatory agreement with HUD, each owner must submit annual audited financial statements. HUD assesses these statements each year with a score of 70 as a baseline. The owner annual financial statements for this nursing home showed that scores were well below baseline and the mortgage was at a high risk of default from 2012 through 2016.



HUD should have identified this nursing home as troubled due to the 4-year pattern of unprofitability and 5-year pattern of insolvency. Additionally, the operator financial data submitted to HUD were incomplete, conflicting, and late. Continued operating losses and the inability to pay its debts also increased the risk that the owner might default on the HUD-insured mortgage. Additionally, HUD needs accurate and timely data to make informed and timely monitoring decisions.

Since HUD did not take appropriate and timely action to correct issues at Mecklenburg Health Care Center, the unpaid principal balance of more than $1.9 million was at risk of default.

Moran Manor Healthcare Center, Westernport, MD

In 2008, HUD insured the $8.5 million mortgage at the 130-bed nursing home, Moran Manor Healthcare Center, located in Westernport, MD. HUD identified this nursing home as not troubled in 2012. Moran Manor Healthcare Center was selected for review because it had utilization issues for 2 years and profitability and solvency issues for 4 years.

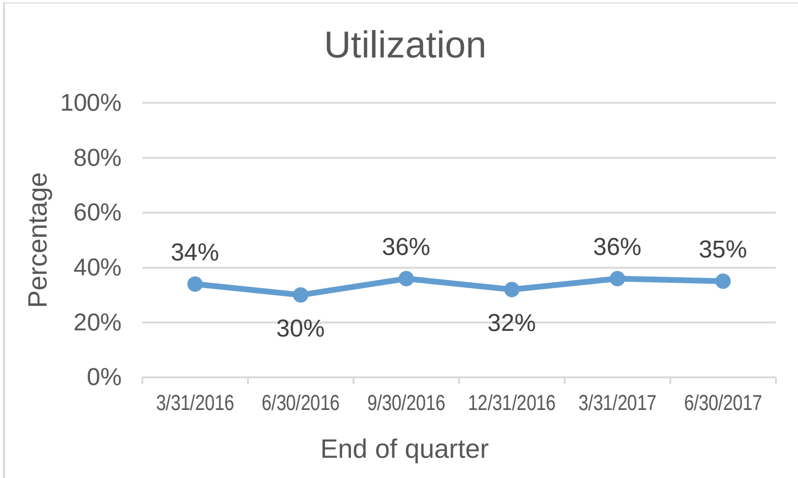
Nursing home utilization declined. Moran Manor Healthcare Center reported utilization of 88 percent in 2013, which dropped to 78 percent in 2014. Utilization had dropped, but there was no evidence of corrective action. Meanwhile, Moran Manor Healthcare Center had a net operating loss in 2013 of $770,480 and net operating loss in 2014 of $439,179.

The owner paid off the mortgage. Moran Manor Healthcare Center's owner decided to prepay the mortgage in December 2015, and the nursing home is no longer in HUD's portfolio. We did not identify any questioned costs related to Moran Manor Healthcare Center. With the payment of the HUD-insured mortgage, HUD suffered no financial loss, but it did not take appropriate and timely action to address the issues at Moran Manor Healthcare Center.

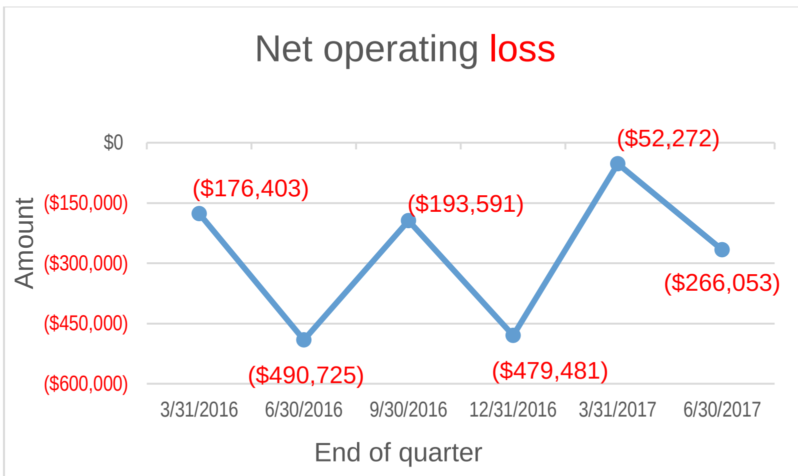
Prospect Heights Care Center, Hackensack, NJ

In 2009, HUD insured three mortgages at Prospect Heights Care Center with a combined total of more than $36.3 million at the 210-bed nursing home located in Hackensack, NJ. HUD identified this nursing home as troubled in September 2016. Prospect Heights Care Center was selected for review because its three HUD-insured mortgages had an unpaid principal balance above $29 million and 5 years of utilization issues. The business that owned Prospect Heights Care Center had parties in common with the business that owned Medford Care Center.

Quarterly operator financial data identified utilization issues. Its quarterly financial statements showed that utilization ranged from 30 to 36 percent.



The nursing home had 6 quarters of operating losses. Prospect Heights Care Center had 6 continuous quarters of net operating losses ranging from $52,272 to $490,725.



Prospect Heights Care Center had 5 quarters of solvency issues.

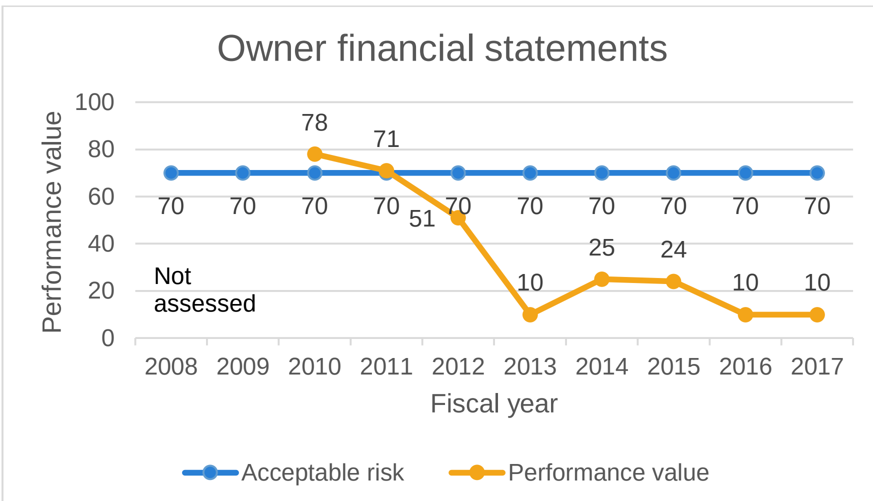
The owner defaulted on August 1, 2016. The lender elected to delay assignment and work with the owner to cure the default. HUD approved this measure and delayed assignment from 2016 to 2018. The owner brought the mortgage current in July 2018.

Shawnee Christian Nursing Center, Herrin, IL

In 2007, HUD insured a $6.6 million mortgage at the 159-bed nursing home, Shawnee Christian Nursing Center, located in Herrin, IL. Shawnee Christian Nursing Center was selected for review because it had profitability and solvency issues for 5 years.

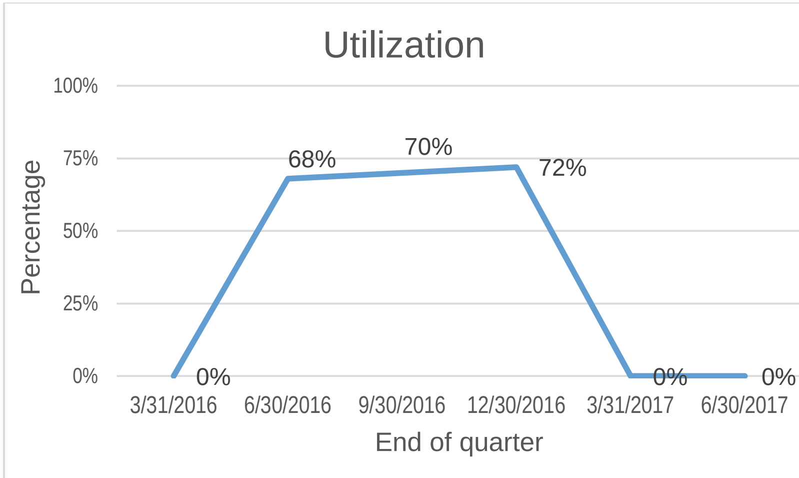
The owner violated the regulatory agreement. Shawnee Christian Nursing Center violated its regulatory agreement when it removed 27 beds without HUD's permission. It removed 12 beds in April 2015 and another 15 beds in July 2015. Removing beds subtracts from the nursing home's ability to generate revenue. By removing these beds, the nursing home removed 17 percent of the revenue-producing facilities. The regulatory agreement prohibited owners and operators from subtracting from the personal or real assets of the nursing home. In 2016, HUD identified that the nursing home also commingled its accounts with multiple related companies, another violation. The regulatory agreement also required that all nursing home receipts be deposited in its name to be disbursed for nursing home expenses or distribution of surplus cash. While HUD identified these issues, it did not direct the nursing home to correct them. HUD should have required the nursing home to return the 27 beds to operation or pay down the mortgage by 17 percent. Seventeen percent of the mortgage of $4.8 million is $815,973. HUD should also have required the owner to stop commingling accounts.

<u>HUD identified the nursing home as potentially troubled in July 2016 despite a drop in financial scores</u>. Shawnee Christian Nursing Center's owner financial statement scores ranged from 10 to 78, showing the financial status as high risk from 2013 to 2017.

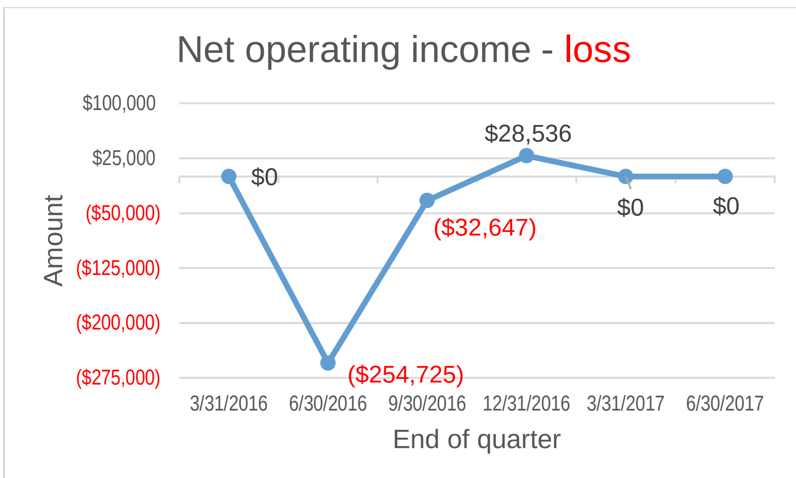


<u>The operator did not submit all required financial data</u>. Shawnee Christian Nursing Center did not submit quarterly operator financial data for the quarters ending March 31, 2016, and March 31, 2017, and did not report all of the debt in 3 quarters. Its four quarterly operator financial statements ranged from on time to 61 days late. It submitted incomplete data for the quarter ending June 30, 2017, and HUD took no action to obtain the missing data.

<u>Available operator financial data showed low utilization and operating losses</u>. The available operator financial data showed that utilization ranged from 68 to 72 percent.



Shawnee Christian Nursing Center was not profitable.



HUD should have identified this nursing home as troubled due to the violations of the regulatory agreement and the 5-year pattern of unprofitability and insolvency. Additionally, the operator financial data submitted to HUD were incomplete and late. Violations of the regulatory agreement, continued operating losses, and the inability to pay its debts all increased the risk that the owner might default on the HUD-insured mortgage. HUD needs complete and timely data to make informed and timely monitoring decisions. The reduction in revenue potential, the commingled accounts, and the omitted operator financial data increased the risk of default of the HUD-insured mortgage. As of March 8, 2018, the owner had not defaulted and owed more than $4.8 million on its HUD-insured mortgage. Also, HUD did not require the nursing home to return the 27 beds to operation or pay down $815,973 on its mortgage.

The Highlands Health Care Center, Cheshire, CT

In 2010, HUD insured a $6.8 million mortgage at the 120-bed nursing home, The Highlands Health Care Center, located in Cheshire, CT. The Highlands Health Care Center was selected for review because it was part of a portfolio and had profitability and solvency issues for 5 years.

The Highlands Health Care Center was part of a master lease, and we reviewed two other nursing homes, Golden Hill Health Care Center and West River Health Care Center, which operated under the same master lease.

HUD identified the nursing home as potentially troubled in September 2014 without assessing annual owner financial statements. HUD identified this property as potentially troubled in September 2014 but did not assess this nursing home's annual owner financial statements from 2010 through 2016. By not assessing the financial statements, HUD could have missed opportunities to identify and correct issues at The Highlands Health Care Center.

Quarterly operator financial data showed profits and negative expenses. HUD began collecting and reviewing quarterly operator financial statements in addition to the owner financial statements. We examined 6 quarters of operator financial statements. The operator submitted five of six quarterly operator financial statements late and did not submit one. The Highlands Health Care Center's quarterly operator financial statements for the period ending September 30, 2016, reported a net operating loss of more than $5.4 million. Its quarterly operator financial statements in the other four periods reported a profit. The quarterly operator financial statements for the period ending December 31, 2016, reported inaccurate expenses of negative $8.3 million. Its quarterly operator financial statements also did not report all debt in 3 quarters. Additionally, the quarterly operator financial statements ranged from 15 to 25 days late.

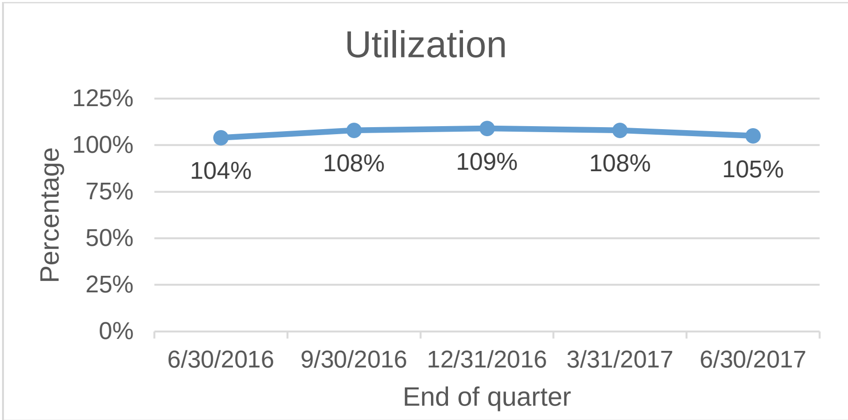
HUD should have identified this nursing home as troubled due to the 5-year pattern of unprofitability and insolvency. Additionally, the operator financial data submitted to HUD were inaccurate, incomplete, and late. Continued operating losses and the inability to pay its debts also increased the risk that the owner might default on the HUD-insured mortgage. HUD needs accurate and timely data to make informed and timely monitoring decisions. Because HUD did not take appropriate and timely action to correct issues at The Highlands Health Care Center, the mortgage of more than $5.8 million was at risk of default.

West River Health Care Center, Milford, CT

In 2010, HUD insured a $6.4 million mortgage at the 120-bed nursing home, West River Health Care Center, located in Milford, CT. West River Health Care Center was selected for review because it was part of a portfolio and had profitability and solvency issues for 5 years. West River Health Care Center was part of a master lease, which included Golden Hill Health Care Center and The Highlands Health Care Center.

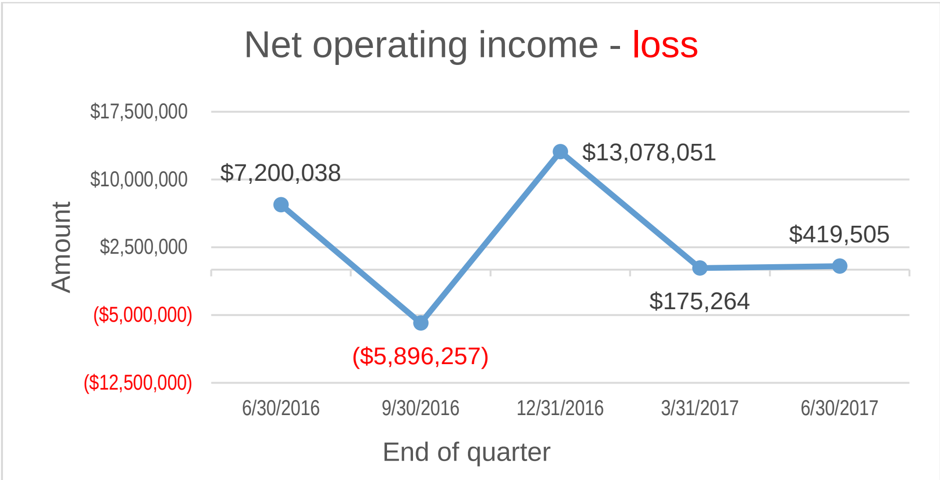
HUD identified the nursing home as potentially troubled in September 2014 without assessing owner annual financial statements. HUD identified this property as potentially troubled in September 2014 but did not assess West River Health Care Center's annual owner financial statements from the fiscal year ending December 31, 2010, through December 31, 2016. By not assessing the owner financial statements, HUD could have missed opportunities to identify issues at the nursing home.

HUD did not pursue the owner and operator for submitting inaccurate and unreliable operator financial data. West River Health Care Center had 5 quarters of utilization from 104 to 109 percent. Utilization in excess of 100 percent is not possible because multiple people may not occupy the same bed at the same time.



The solvency data for West River Health Care Center were also unreliable. The debt service credit ratio ranged from 150 to negative 57. West River Health Care Center's five operator financial statements were 15 to 26 days late.

Operating income and loss varied greatly. West River Health Care Center had quarterly operating results that ranged from an operating loss of more than $5.8 million to operating income of more than $13 million. The quarterly data were unreliable, and HUD did not document why there were variations in the quarterly operating results.



HUD should have identified this nursing home as troubled due to the 5-year pattern of unprofitability and insolvency. Additionally, the operator financial data submitted to HUD were incomplete, inaccurate, conflicting, and late. Continued operating losses and the inability to pay its debts also increased the risk that the owner might default on the HUD-insured mortgage. HUD needs accurate, consistent, and timely data to make informed and timely monitoring decisions. Because HUD did not take appropriate and timely action to correct issues at West River Health Care, the HUD-insured mortgage of more than $5.7 million was at risk of default.

Appendix D

Schedule of Mortgages

Schedule of estimated losses for defaulted mortgages

Property name	Date of default	Unpaid principal balance defaulted	Estimated loss to HUD (80%)
Plaza Village Senior Living	9/1/2011	9,904,519	7,923,615
Immanuel Campus of Care	7/1/2012	12,411,882	9,929,506
Mary Scott Nursing Center[49]	12/1/2012	$3,213,139[50]	$2,570,511
Bel-Air Nursing Home	5/1/2013	14,600,659	11,680,527
Totals		**40,130,199**	**32,104,159**

Schedule of mortgages at risk

Property name	Unpaid principal balance at risk	Estimated loss to HUD (80%)
Middlesex Health Care Center	$7,221,468	$5,777,174
Bishop Wicke Health and Rehabilitation Center	8,382,772	6,706,218
Golden Hill Health Care Center	4,540,699	3,632,559
Jamaica Hospital Nursing Home	36,502,430	29,201,944
Mainland Manor Rehab and Nursing Center	7,462,991	5,970,393
Mecklenburg Health Care Center	1,952,134	1,561,707
Shawnee Christian Nursing Center	4,805,178	3,844,142
The Highlands Health Care Center	5,874,054	4,699,243
West River Health Care Center	5,732,794	4,586,235
Totals	**82,474,520**	**65,979,615**[51]

49 We issued Mary Scott Nursing Center, Dayton, OH, audit report number 2017-CH-1009 on September 30, 2017.
50 This figure includes a deduction of $350,989 for principal that we reported in a prior audit of the nursing home.
51 This total is $1 less due to rounding.

Appendix E

Tables of Questioned Costs and Funds To Be Put to Better Use by Nursing Home

Table of questioned costs

Property name	Ineligible	Unsupported	Total
Immanuel Campus of Care	110,892	0	110,892
Plaza Village Senior Living	2,330,000	0	2,330,000
Bishop Wicke Health and Rehabilitation Center	2,924,477	0	2,924,477
Golden Hill Health Care Center	1,661,920	0	1,661,920
Jamaica Hospital Nursing Home	0	8,974,000	8,974,000
Shawnee Christian Nursing Center	815,973	0	815,973
Totals	**7,843,262**	**8,974,000**	**16,817,262**

Appendix E

Table of funds to be put to better use

Property name	Estimated loss on defaulted mortgages	Delinquent interest	Mortgage insurance premiums	Taxes	Insurance	Unreasonable accounts payable	Total
Mary Scott Nursing Center[52]	$2,570,511	$0[53]	$53,501	$5,643	$228,474	$0	$2,858,129
Immanuel Campus of Care	9,929,506	1,760,439	159,826	0	1,106,611	0	12,956,382
Bel-Air Nursing Home	11,680,527	1,291,599	153,938	310,031	328,709	0	13,764,804
Plaza Village Senior Living	7,923,615	3,201,662	336,293	262,961	131,511	0	11,856,042
Jamaica Hospital Nursing Home	0	0	0	0	0	44,483,000	44,483,000
Totals	**32,104,159**	**6,253,700**	**703,558**	**578,635**	**1,795,305**	**44,483,000**	**85,918,357**

52 We issued Mary Scott Nursing Center, Dayton, OH, audit report number 2017-CH-1009 on September 30, 2017.

53 A prior OIG audit reported the interest so we reduced this figure to $0. As of February 28, 2018, there was interest of $734,794.

Appendix E

Summary table

Property name	Questioned costs	Funds to be put to better use	Grand total
Mary Scott Nursing Center[54]	$0	$2,858,129	$2,858,129
Immanuel Campus of Care	110,892	12,956,382	13,067,274
Bel-Air Nursing Home	0	13,764,804	13,764,804
Plaza Village Senior Living	2,330,000	11,856,042	14,186,042
Bishop Wicke Health and Rehabilitation Center	2,924,477	0	2,924,477
Golden Hill Health Care Center	1,661,920	0	1,661,920
Jamaica Hospital Nursing Home	8,974,000	44,483,000	53,457,000
Shawnee Christian Nursing Center	815,973	0	815,973
Totals	**16,817,262**	**85,918,357**	**102,735,619**

[54] We issued Mary Scott Nursing Center, Dayton, OH, audit report number 2017-CH-1009 on September 30, 2017.

Appendix F

HUD's Investment by State

State	Quantity	HUD's outstanding investment
New York	180	$2,831,436,056
Illinois	191	1,771,220,879
Florida	158	1,439,580,373
Ohio	221	1,365,695,198
New Jersey	92	1,302,756,809
Texas	192	1,261,825,175
California	162	1,121,974,669
Indiana	121	830,745,039
Pennsylvania	74	747,988,950
Massachusetts	83	729,955,974
Connecticut	59	453,293,237
Missouri	61	371,691,057
Michigan	52	320,807,453
North Carolina	55	314,139,944
Virginia	40	282,263,122
Washington	50	274,289,681
Maryland	37	268,273,720
Louisiana	40	266,405,933
Arizona	30	264,544,709
New Hampshire	18	214,860,678
Tennessee	41	200,282,152
Colorado	32	198,657,015
West Virginia	23	198,654,199
South Carolina	32	189,573,345
Alabama	35	183,112,408
Minnesota	21	172,636,593
Mississippi	32	172,608,418
Oregon	29	170,259,114
Georgia	34	161,801,832
Wisconsin	25	158,899,323
Delaware	12	150,504,785
Rhode Island	25	141,784,192
Kansas	27	136,661,520
Maine	33	121,620,361
Utah	19	114,078,274
Kentucky	13	94,420,163
Arkansas	18	89,797,089
Oklahoma	13	79,764,383

State	Quantity	HUD's outstanding investment
Nevada	7	72,447,394
District of Columbia	4	65,368,697
Montana	16	64,522,613
New Mexico	9	64,275,410
Vermont	12	54,839,182
Idaho	6	35,708,886
Nebraska	7	32,951,408
Iowa	10	31,425,613
Alaska	1	11,907,424
South Dakota	5	9,643,964
Hawaii	1	6,766,201
North Dakota	0	0
Wyoming	0	0
Totals	**2,458**	**19,618,720,614**