



March 29, 2022

MEMORANDUM NO:
2022-KC-0801

Memorandum

TO: Roger Lukoff
Deputy Assistant Secretary, Office of Healthcare Programs, HP

//signed//

FROM: Kilah S. White
Assistant Inspector General for Audit, GA

SUBJECT: COVID-19: Challenges Faced by Section 232 Nursing Homes During the Pandemic

INTRODUCTION

We conducted a limited review of nursing home owners¹ to identify their operational challenges and needs of nursing homes in responding to the Coronavirus Disease 2019 (COVID-19) pandemic. Our objective² was to determine the biggest challenges operators of Section 232 nursing home facilities face related to the COVID-19 pandemic and whether nursing homes are prepared to meet their future financial obligations.

Most of the owners who responded to our survey indicated that nursing homes experienced financial and operational challenges during the pandemic. These challenges included staffing shortages; COVID-19 infections in residents and staff; large fluctuations in occupancy levels; rising operating costs; and difficulties in responding to local, State, and Federal requirements. We found that as of July 2021, few nursing home owners used their reserve for replacement

¹ For purposes of this review, an owner refers to a borrower of an insured Section 232 mortgage loan for one or multiple residential care facilities (also referred to as nursing home facilities). In some cases, the licensed operator of a nursing home may also be the HUD borrower. In circumstances in which the same entity is both borrower and operator, HUD may refer to them by the terms “owner-operator” or “borrower-operator.” The surveys collected to substantiate the results of the memorandum were derived from owners.

² The review did not focus on the compliance of the Office of Residential Care Facilities (ORCF). Instead, the focus was to provide ORCF with an informational overview of the efficiency of its Section 232 program during the COVID-19 pandemic.

Office of Audit

451 7th Street SW, Room 8180, Washington, DC 20410
Phone (202) 708-0364, Fax (202) 708-1783

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funds or the U.S. Department of Housing and Urban Development's (HUD) operating loss loan program, and some nursing home owners stated during this review that they were unaware of this program. Nursing home owners primarily utilized the Small Business Administration (SBA) Paycheck Protection Program (PPP) loan authorized by the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) as well as other Federal and State programs to mitigate operational challenges.

SCOPE AND METHODOLOGY

Our audit period covered the COVID-19 pandemic during the period March 2020 to March 2021. To accomplish our objective, we developed and sent a survey questionnaire to all Section 232 nursing home owners between May and July 2021. We conducted the review remotely from March 3, 2021 to July 29, 2021.

Section 232 nursing home owners and their contact information were identified using HUD's Housing Enterprise Real Estate Management System³ (HEREMS) as well as the Centers for Medicare & Medicaid Services (CMS) Five-Star Quality Rating System. We matched the CMS data to HUD's nursing home data to ensure updated and accurate contact information.

Our universe consisted of 2,591 Section 232 nursing home loans. Of that number, 522 loans were removed due to a lack of outstanding unpaid principal balance. We removed an additional 45 loans due to duplicate Integrated Real Estate Management System (iREMS) numbers⁴. We surveyed all of the remaining 2,024 nursing home facilities associated with these loans by sending 770 emails to nursing home owners, of which 489 emails were sent to owners of a single facility and 281 emails were sent to owners of multiple facilities. We sent the multiple facility owners just one email that represented all owned nursing homes. We conducted a 100 percent sample selection because we wanted to get a national snapshot of the challenges faced by the operators of Section 232 nursing homes in responding to the COVID-19 pandemic.

We emailed survey questionnaires to owners of nursing homes in May 2021 and provided the addressees with reminders and a final response due date of July 29, 2021. During the survey period, we removed 193 emails from the 770 due to undeliverable email addresses and issues arising from some owners listing multiple email addresses, which further reduced our universe to 577 delivered emails. We received 228 complete responses⁵ during the survey period, which resulted in a response rate of 39.5 percent (228 out of 577 responses).

We relied on data obtained from HEREMS and the CMS Five-Star Rating System database for the owners' contact information. We also relied on the computer-processed data in Microsoft Forms.⁶ However, we did not perform a detailed assessment of the reliability of these systems. The results

³ HEREMS is an internal database system or application, which pulls select data fields from the Multifamily Data Warehouse, which originates in iREMS or other sources. iREMS is the official source of data on the Office of Multifamily Housing Programs' portfolio of insured and assisted properties.

⁴ The iREMS numbers are for the HUD property identification (ID) numbers, and if a property has more than one FHA loan, the property ID number would show up more than one time.

⁵ We received a total of 236 responses in Microsoft Forms, but 8 responses were not fully completed. We did not include any responses from the eight incomplete questionnaires. We only included the responses from the 228 completed questionnaires.

⁶ Microsoft Forms is an online survey creator and a part of Office 365.

of our review reflect only those nursing home owners that responded and do not represent the universe of nursing homes.

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

We determined that internal controls were not relevant to our objective. Our objective was not to evaluate or provide assurance of HUD's internal controls. Therefore, we did not assess HUD's controls or express an opinion on them. This did not have any impact on the report because our objective was answered by the responses we received from the survey questionnaire.

BACKGROUND

The Office of Healthcare Programs (OHP) is located within the Office of Housing and administers the Federal Housing Administration's (FHA) healthcare programs, which include Section 232 mortgage insurance for the Office of Residential Care Facilities (ORCF). The Section 232 program is an FHA mortgage insurance program that insures HUD-approved lenders against financial loss from mortgage defaults. Section 232 mortgage insurance is available on mortgages that finance residential healthcare facilities, such as nursing homes, assisted living facilities, and board and care facilities. The FHA mortgage insurance provides lenders with protection against losses as the result of borrowers' defaulting on their mortgage loans. The ORCF manages an insured portfolio of approximately 3,889 residential care facility Section 232 loans, according to the FHA 2020 annual management report.

The United States declared a national emergency on March 13, 2020, in response to the COVID-19 outbreak. As of January 2022, the Centers for Disease Control and Prevention (CDC) reported that there had been more than 74 million COVID-19 cases and approximately 879,971 deaths in the United States. As of January 2022, CMS reported that there had been a combined resident and staff total of more than 1.7 million COVID-19 cases and approximately 145,270 COVID-19 deaths. The communal nature of nursing homes and long-term care facilities and the population served (generally older adults, often with underlying medical conditions) put those living in nursing homes at increased risk of infection and severe illness from COVID-19.

On March 27, 2020, the CARES Act was signed into law in response to the economic fallout of the COVID-19 pandemic. The CARES Act appropriated \$2.2 trillion in economic stimulus funds, including \$300 billion in one-time cash payments to individual Americans; \$260 billion in increased unemployment benefits; the creation of the SBA PPP, which provides forgivable loans to small businesses with an initial \$350 billion in funding; \$500 billion in aid for large corporations; and \$339.8 billion to State and local governments. On April 10, 2020, disbursements started for the first \$30 billion of the \$100 billion that Congress allocated to hospitals, physicians, and other health care providers in the Public Health and Social Services Emergency Fund in the CARES Act, also known as the Provider Relief Fund.

On December 27, 2020, the Consolidated Appropriations Act of 2021 was signed into law and provided statutory authority for ORCF to insure operating loss loans under Section 223(d) of the National Housing Act to mitigate healthcare facilities' COVID-19-related temporary revenue reductions. The operating loss loan program has been a longstanding program available to healthcare facilities in cases in which there is an operating loss, which is the difference between project income and project operating expenses. Further, the statutory authority established an alternative set of criteria through which Section 223(d) loans may be issued. Overall, there is an emphasis on the borrower's⁷ exhaustion of all other available funds and also limits on the loan size and the requirement that the loss be due to COVID-19-related financial impacts.

ORCF also provided flexibility for the use of the reserve for replacement account in response to recommendations from the skilled nursing industry. The reserve for replacement account helps to defray the costs of replacing facility capital items and must be funded by the borrower and maintained by the lenders. In some circumstances, the lenders were authorized to suspend monthly deposits to the reserve for replacement and to use the reserve for replacement accounts to meet debt service payments so long as the account balance did not fall below \$1,000 per unit.

RESULTS OF REVIEW

Responsive owners stated that nursing homes experienced significant challenges to their operations during the COVID-19 pandemic. These challenges included staffing shortages; COVID-19 infections in residents and staff; large fluctuations in bed vacancies; rising operating costs; and difficulties in responding to local, State, and Federal Government requirements. Nursing home owners utilized multiple State and Federal relief programs as well as other funding sources. However, few nursing home owners used their reserve for replacement funds or HUD's operating loss loan program to assist with operational expenses.

Top COVID-19 Challenges

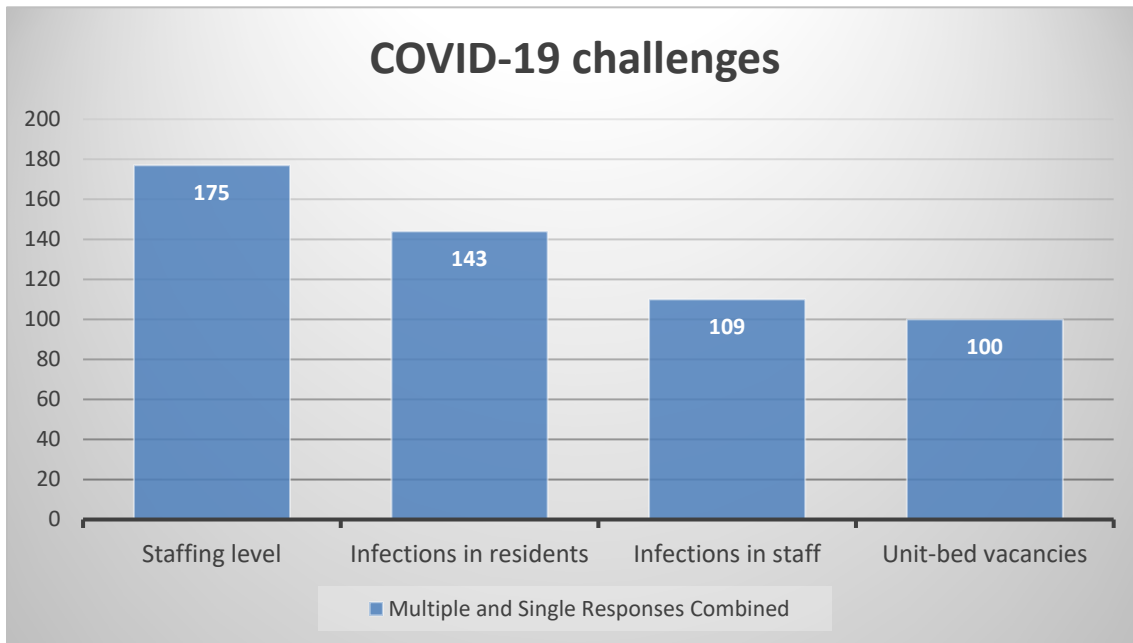
Nursing homes experienced significant operational challenges during the COVID-19 pandemic, with staffing, infections in residents, and infections in staff being the most prevalent.

We asked nursing home owners to select the top three challenges they experienced during the pandemic. The two charts below show the survey results in order from the most prevalent challenge to the least prevalent challenge: overall staffing level (175), infections in residents (143), infections in staff (109), unit-bed vacancies (100), State⁸ regulatory guidance (68), availability of personal protective equipment (PPE) (66), Federal⁹ regulatory guidance (36), other (13), and none of the above challenges (1). We combined responses by owners of multiple facilities with owners of single facilities.

⁷ In some circumstances, the borrower leases the project to a separate healthcare provider entity, which is granted the operating license from the State and which is separately approved as the operator of the facility by ORCF. This may make accessing the operating loss loans more difficult since it is the HUD-insured borrower that owns the real estate, rather than the lessee, who would have the option to apply for the operating loss loan and reserve for replacement remedies.

⁸ State refers to all nationwide States.

⁹ Federal regulatory guidance (later referred to as regulatory challenges) refers to all Federal entities who provided guidance (e.g., U.S. Department of Health and Human Services, CDC, HUD, SBA, and Medicare) throughout the COVID-19 pandemic.



Additional COVID-19 challenges	Multiple and single responses combined
State regulatory guidance	68
Availability of PPE	66
Federal regulatory guidance	36
Other	13
None of the above challenges	1

Other Challenges

Twenty-seven nursing home owners provided additional comments about their challenges related to staffing, costs, and regulations during the pandemic. Their narrative responses are summarized below.

- Category: Staffing**
 Nursing home owners stated that they were impacted by industrywide staffing shortages due to staff becoming infected with COVID-19 among other reasons. Several staff members requested extended medical leave or quit their jobs due to the pandemic. Other nursing home owners stated that they experienced challenges with retaining staff, paying increased costs associated with sick pay benefits, and protecting employees from infection.
- Category: Costs**
 Nursing home owners stated that the cost and availability of PPE created issues at the onset of the pandemic. Some nursing homes offered significant hazard pay and bonuses to incentivize staff to stay as well as pick up extra shifts. And some had to increase overall staff wages by up to 75 percent to provide for adequate staffing coverage.

- Category: Regulations

Nursing home owners stated that addressing the reporting requirements from local and State governments required a significant allotment of time. Some nursing homes stated that State and Federal regulations changed frequently, overlapped in their reporting requirements, and were not consistent, which caused confusion.

Policy Guidance

Ninety-five nursing home owners provided additional comments about challenges related to their compliance with State or Federal guidance during the pandemic. Their responses are categorized and summarized below.

- Category: Lack of Consistency

Twenty-two nursing home owners stated that the regulatory guidance from Federal, State, and local agencies was inconsistent and hard to manage with limited staff. Some nursing home owners stated that they had difficulty getting clarifications on the guidance. In addition, more than 10 nursing home owners stated that they had difficulties with inconsistent and voluminous infection control and State health department surveys.

- Category: Burdensome Reporting Requirements

Five nursing home owners stated that the reporting requirements were overly burdensome to staff and took time away from caring for nursing home residents. Some stated that they experienced difficulties in accessing and navigating reporting sites and a majority of reporting requirements requested the same data.

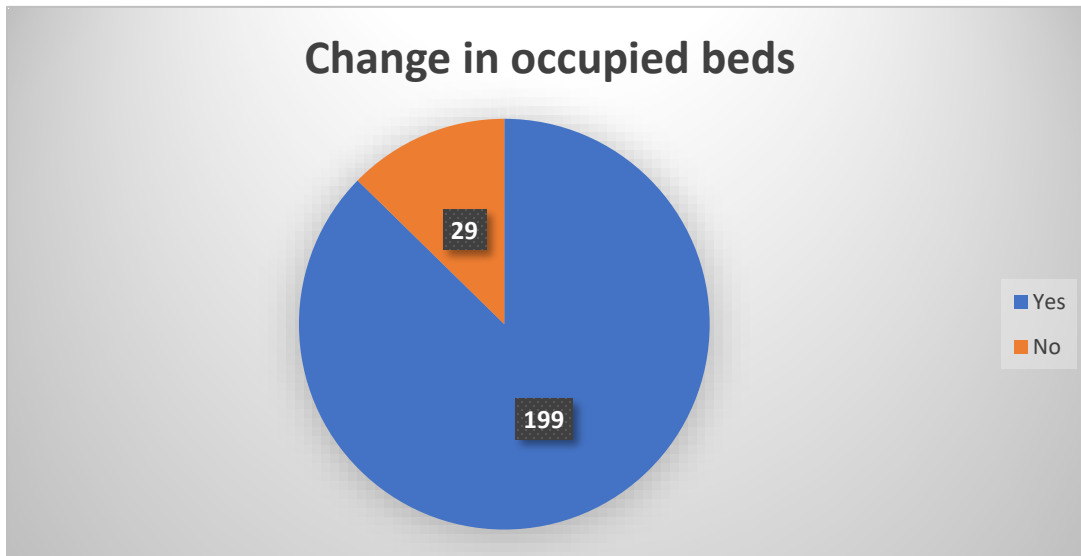
- Category: Changes in Regulations

Fourteen nursing home owners stated that there were constant changes to the regulations, which required rapid implementation. Some of the changes in regulations involved retraining staff, very large unfunded mandates for testing, PPE, and additional resources to help track and implement the changing regulations.

Occupied Beds

A majority of responsive nursing home owners stated that they experienced significant changes in occupied beds during the pandemic. We asked nursing home owners whether their facilities experienced a change in the number of occupied beds of 5 percent¹⁰ or more in any given month (from March 2020 to March 2021). The responses show that 87 percent (199 out of 228) experienced a change in the number of occupied beds of 5 percent or more.

¹⁰ The 5 percent change in the number of occupied beds is the point in time changes that occurred in any given month between March 2020 to March 2021 that were related to the COVID-19 pandemic.

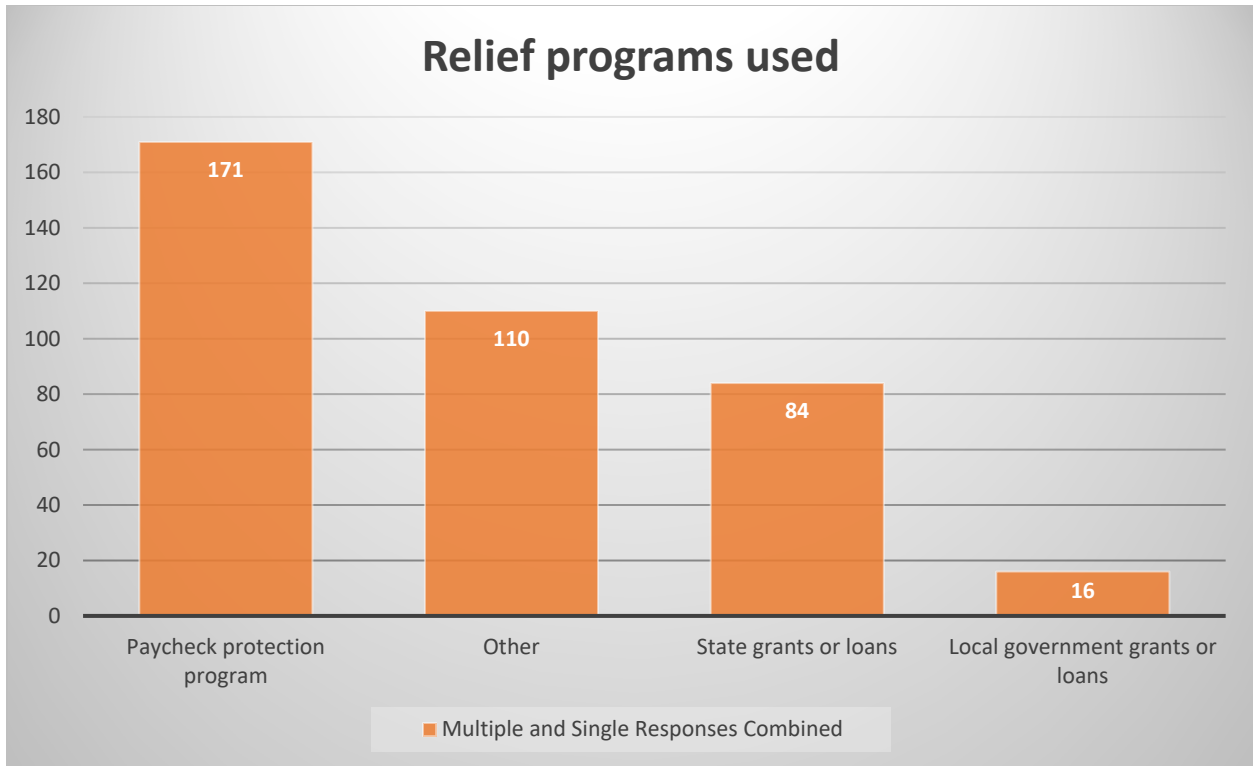


Of the 199 that did experience a change, the number of unoccupied beds ranged from 5 percent to as much as a 60 percent change in a given month.

Relief Funds Used

Nursing home owners utilized multiple State and Federal relief programs as well as other funding sources. However, few nursing home owners used their reserve for replacement funds or HUD’s operating loss loan program to mitigate lost revenue.

We asked nursing home owners to select which State or Federal pandemic relief programs they used during the pandemic. The two charts below show the survey results in order from most utilized to least utilized: utilized PPP (171), other programs (110), State grants or loans (84), local government grants or loans (16), Economic Injury Disaster Loan (11), foundation grants or loans (7), none (7), and nonprofit grants or loans (6).



Least selected relief programs used	Multiple and single responses combined
Economic Injury Disaster Loan	11
Foundation grants or loans	7
None	7
Nonprofit grants or loans	6

The chart below shows the makeup of the 110 “other programs” from the prior set of results.¹¹

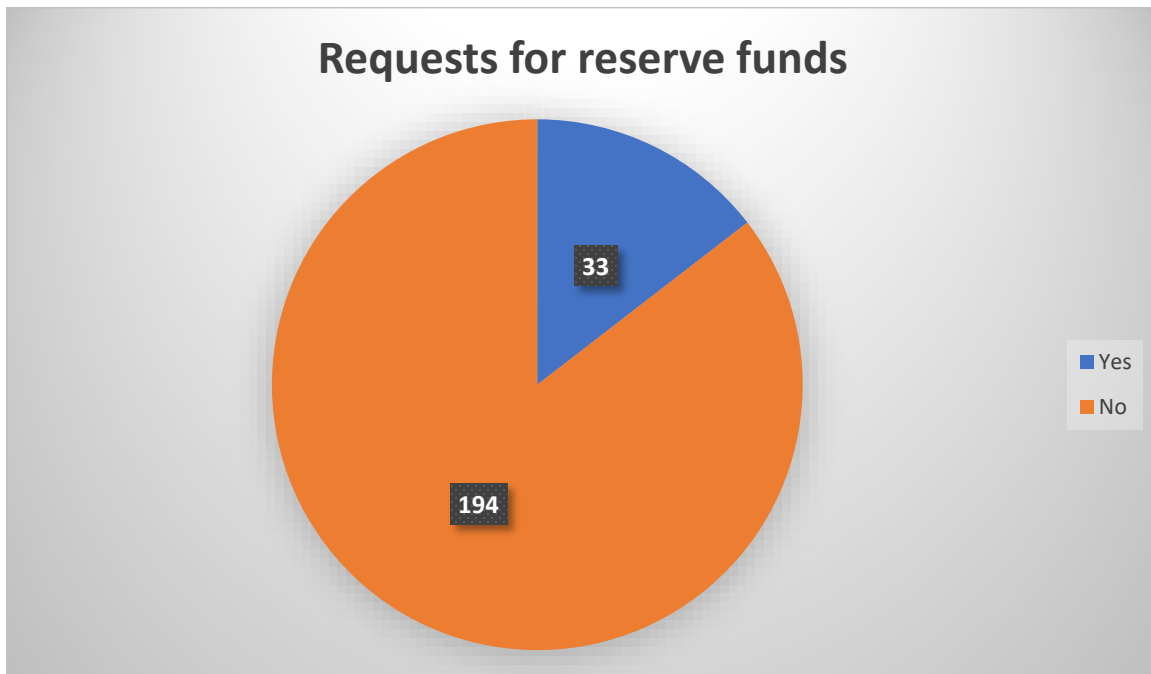
Funding program	Number of mentions
CARES Act and Federal funds	79
Provider relief funds	32
Medicare or Medicaid funds	21
State and local funds	13

Reserve for Replacement Funds

The majority of responsive nursing home owners stated that they did not use their reserve for replacement funds. The chart below shows that the reserve for replacement funds were used by 14.5 percent (33 out of 228) of respondents during the period March 2020 to March 2021.

¹¹ There were some nursing homes that used multiple funding programs within the makeup of “other programs.”

Thirty-three nursing home owners used their reserve for replacement funds, 194 nursing home owners did not, and one respondent of the 228 did not respond to this question.



HUD’s Operating Loss Loan Program

The majority of responsive nursing home owners stated that they did not apply for a Section 223(d) operating loss loan for COVID-19-related temporary revenue reductions. The responses in the chart below show that there were three nursing home owners that used the loan program. However, we received multiple inquiries about the operating loss loans that are discussed in the “additional questions or concerns” subsection below.

Have you applied for the 223(d) operating loss loan?	Multiple and single responses combined
Yes	3
No	217
Maybe	5

All three nursing home owners that applied for the operating loss loan were in the approval process or already approved as of July 2021.

Additional Questions or Concerns

We asked nursing home owners whether there were any additional questions or concerns. Forty-eight nursing home owners provided additional comments, and their responses are categorized and summarized below.

- Category: HUD's Operating Loss Loan Program
More than 10 nursing home owners showed interest in HUD's funding options and receiving more information on HUD's Section 223(d) operating loss loan program. Some nursing home owners expressed concerns with the future of the labor market, the lack of mortgage forbearance options, and the timeliness of approvals of the operating loss loans.
- Category: Staffing and Operational Concerns
Eight nursing home owners expressed great concern related to achieving adequate staffing, unpredictable occupancy levels, and the need for more COVID-19 relief funds as the pandemic continues.
- Category: Streamline Regulatory Guidance
Some nursing home owners stated a desire for direct Federal funding rather than having States administer these funds due to mismanagement and a need for more awareness of practical problems that are experienced by skilled nursing facilities.

CONCLUSION

Based on the responses we received, nursing home owners indicated that they experienced significant financial or operational challenges during the pandemic. The financial challenges occurred due to a combination of extra costs related to retaining and training staff on new requirements related to the COVID-19 pandemic, PPE, and a loss of revenue because of decreases in bed occupancies. The operational challenges occurred because of changes in staffing levels, availability of PPE, and additional reporting and regulation challenges. We plan to send the information and the overall survey results to HUD's ORCF, along with this memorandum.

We offer ORCF the following suggestions to consider in its continued support of its Section 232 nursing home portfolio:

- Share the responses to the survey with the U.S. Department of Health and Human Services, CMS, so it may provide support as appropriate.
- Update the nursing home owner contact information within iREMS to facilitate continuous communications.

Appendix A

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

February 25, 2022

MEMORANDUM FOR: Greg Soames, Acting Audit Director, 8AGA

FROM: Roger Lewis, Deputy Assistant Secretary, Office of Healthcare Programs, HP

SUBJECT: Comments to Draft OIG Report Titled: COVID-19: Challenges Faced by Section 232 Nursing Homes During the Pandemic.

Thank you for the opportunity to comment on your draft OIG memorandum titled COVID-19: Challenges Faced by Section 232 Nursing Homes During the Pandemic.

While the results of the survey were not surprising, given the wide media coverage of challenges faced by the industry and our own internal monitoring and discussions with the industry, we appreciate the opportunity to comment on the draft.

We understand this limited review was not an audit, but nevertheless, we wanted to request a few corrections, which are included in the attached technical comments.

If you have any questions regarding this matter, please contact John Hartung at (314) 418-5238.

Attachment: Technical Comments

Cc: Philip Head
Rita Dockery
John Hartung

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Comment 1

OIG Evaluation of Auditee Comments

Comment 1 We did not include HUD's technical comments in this memorandum report; however, we considered each comment and revised the memorandum report to clarify terminology and language where warranted.