



Health Concepts Ltd., Providence, RI

Section 232 Program

**Office of Audit, Region 1
Boston, MA**

**Audit Report Number: 2017-BO-1005
April 21, 2017**





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

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

Subject: Health Concepts Ltd's., Providence, RI Service Charges at Section 232 Program
Nursing Homes Did Not Always Comply With Management Agreements

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of Health Concepts Ltd.

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

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

If you have any questions or comments about this report, please do not hesitate to contact me at 617-994-8345.



Audit Report Number: 2017-BO-1005

Date: April 21, 2017

Health Concepts Ltd's., Providence, RI Service Charges at FHA-Insured Nursing Homes Did Not Always Comply With Management Agreements

Highlights

What We Audited and Why

We audited Health Concepts Ltd., a management agent that administers six Federal Housing Administration (FHA)-insured nursing homes. We conducted this audit based on our review of the Pine Grove Health Center. The review found that Pine Grove's owners paid salaries for onsite staff that were covered under the management agreement and charged for services that should have been included in the management fee. Our objectives for this audit were to determine whether the management agent, Health Concepts, had the other five nursing homes' owners pay salaries for onsite staff that were covered under the management agreement and charged for services provided under the management fee.

What We Found

The nursing homes' owners paid salaries for onsite bookkeepers and accounts payable staff whose services were to be performed by the management agent. However, the U.S. Department of Housing and Urban Development (HUD) approved management certifications that allowed nursing home funds to be used for these onsite staff. Although the management certifications conflicted with the management agreements, we had no concerns since HUD approved these costs based on the approved certifications. Similar to Pine Grove, Health Concepts' owners also charged the nursing homes for services that were included in the management agreement and were to be paid for as part of the management fee¹. This condition occurred because the nursing homes lacked adequate controls over payments for services that were part of the management fee. As a result, the nursing homes incurred unnecessary costs that could add financial burden.

What We Recommend

We recommend that the Director of HUD's Office of Residential Care Facilities require Health Concepts to develop and implement adequate controls over payments for services that are part of the management fee.

¹ HUD approved management agreements that did not specify what services were to be included as part of the management fees. This situation prevented us from questioning specific costs that should have been provided under the management fees and not paid by the nursing homes.

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Background and Objectives

Section 232 of the National Housing Act authorizes the Federal Housing Administration (FHA) to insure mortgages made by private lenders to finance nursing homes and other eligible facilities. The Office of Residential Care Facilities, under the U.S. Department of Housing and Urban Development (HUD), Office of Healthcare Programs, manages the Section 232 program. Federal regulations at 24 CFR (Code of Federal Regulations) 200.105(a) state that as long as HUD is the insurer or holder of the mortgage, HUD will regulate the borrower by means of a regulatory agreement, providing terms, conditions, and standards established by HUD or by other prescribed means.

Health Concepts' owners manage 12 nursing homes in Rhode Island. Six of the nursing homes are FHA insured, including Pine Grove. As of December 31, 2015, the six FHA-insured mortgage balances totaled more than \$35.1 million. Health Concepts' owners manage these nursing homes in accordance with regulatory agreements, which require the managers to comply with HUD's requirements, and management agreements, which establish the services Health Concepts is to provide in return for a 6 percent management fee. Health Concepts and the nursing homes' owners have also agreed to operate in accordance with management certifications, which establish the employee salaries that may be charged to the nursing homes.

During our review of Pine Grove, we found that Pine Grove's owners paid salaries for some onsite staff for services that Health Concepts, the management agent, should have provided as part of the management agreement's requirements. We also found that this management agent, Health Concepts, charged Pine Grove's owners separately for some services that this management agent was required to provide under the management agreement. Therefore, we initiated this audit of the five other FHA-insured nursing homes that Health Concepts manages to determine whether similar issues existed. The five nursing homes were (1) Bayberry Commons, (2) Riverview Nursing Home, (3) South Kingstown Nursing and Rehabilitation Center, (4) Westerly Health Center, and (5) West Shore Health Center.

Our objectives for this audit were to determine whether the management agent, Health Concepts, had the five other nursing homes' owners pay salaries for onsite staff that were covered under the management agreement and charged for services that were provided under the management fee.

Results of Audit

Finding 1: Service Charges at Five FHA-Insured Nursing Homes Did Not Always Comply With Management Agreements

The five FHA-insured nursing homes' owners paid salaries for onsite staff in accordance with HUD-approved management certifications. However, the management agent, Health Concepts, charged the nursing homes' owners separately for services that should have been included and paid for as part of the management agreement. This condition occurred because the nursing homes lacked adequate controls over payments for services that were part of the management fee. As a result, the nursing homes' owners incurred unnecessary costs that could add financial burden.

Onsite Staffing Salaries Were Approved by HUD

The nursing homes' owners paid salaries for onsite bookkeepers and accounts payable staff whose services were to be performed by the management agent based on the management agreements. However, HUD approved management certifications that allowed charging these onsite staffing costs to the nursing homes' owners. Although the management certifications conflicted with the management agreements, we had no concerns since HUD approved these costs based on the approved management certifications.

Services Should Not Have Been Charged to the Nursing Homes

Health Concepts' owners charged the five FHA-insured nursing homes separately for bookkeeping, oversight, and billing services during 2014 and 2015. The management agreements required Health Concepts' owners to administer the nursing homes' general day-to-day activity for a 6 percent management fee. These services included paying its accounts, collecting receivables, arranging for the purchase of supplies, and all other management support needed for the nursing homes' operation. Therefore, we considered costs charged separately ineligible because these services were included in the management fee. HUD approved management agreements that did not specify what services were to be included as part of the management fees. This situation prevented us from questioning specific costs that should have been provided under the management fees and not paid by the nursing homes' owners.

This deficiency occurred because the nursing homes' owners lacked adequate controls over payments for services that were part of the management fee. As a result, the nursing homes' owners incurred unnecessary costs that could add financial burden.

Recommendations

We recommend that the Director of HUD's Office of Residential Care Facilities require Health Concepts to

- 1A. Develop and implement adequate controls over payments for services that are part of the management fee.

- 1B. Amend and resubmit the management agreements and the management certifications for HUD approval and ensure that the agreements do not conflict with the management certifications.
- 1C. Identify all unallowable fees and reimburse from non-project funds.

Scope and Methodology

The audit focused on whether Health Concepts had five FHA-insured nursing homes' owners pay the salaries for onsite staff that were covered under the management agreement and charged for services that were provided under the management agreement. The nursing homes were (1) Bayberry Commons, (2) Riverview Nursing Home, (3) South Kingstown Nursing and Rehabilitation Center, (4) Westerly Health Center, and (5) West Shore Health Center.

We performed the audit fieldwork during December 2016 and January 2017, primarily at Health Concepts in Providence, RI. Our audit covered the period January 1, 2014, through December 31, 2015. Our assessment of the reliability of the data was limited since we did not use automated systems data extensively during the audit and relied primarily on such source documents as contracts and invoices to determine our audit conclusions. Therefore, we did not assess the reliability of any system.

To accomplish our audit objectives, we

- Reviewed the Code of Federal Regulations, HUD handbooks, the regulatory and management agreements, and the management certifications.
- Reviewed Health Concepts' policies and procedures to understand the auditee's controls over our audit objectives.
- Reviewed and analyzed all 2014 and 2015 invoices with charges for employee services sent to the nursing homes to determine whether the services provided were included in the management agreements.
- Reviewed the management agreements and management certifications to identify onsite staff salaries and benefits that were improperly charged to the nursing homes.
- Interviewed Health Concepts staff.

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 and 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 finding and conclusions based on our audit objectives.

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 objectives:

- Compliance with applicable laws and regulations - Policies and procedures that management has implemented to reasonably ensure that the use of funds is consistent with laws and regulations.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

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

Appendix A

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation



Health Concepts, Ltd.
NURSING, SUBACUTE, REHABILITATION, ALZHEIMER'S

RIVERVIEW HEALTHCARE COMMUNITY
VILLAGE HOUSE NURSING & REHABILITATION CENTER
ELMWOOD HEALTH CENTER
MORGAN HEALTH CENTER
WESTERLY HEALTH CENTER
SAYBERRY COMMONS
WEST SHORE HEALTH CENTER
SOUTH KINGSTOWN NURSING & REHABILITATION CENTER
PINE GROVE HEALTH CENTER
WOODSFRIGER HILL HEALTH CENTER
HERITAGE HILLS NURSING & REHABILITATION CENTER
EASTGATE NURSING & REHABILITATION CENTER

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March 31, 2017

Ann Marie Henry
Regional Inspector General for Audit
Region 1 Boston
US Department of Housing and Urban Development
Office of Inspector General
10 Causeway Street, Room370
Boston MA 02222-1092

VIA – Email
Re: Health Concepts Ltd
Draft Audit report number: 2017-BO-100X

Dear Ms Henry:

Thank you for the time you and your team afforded us on March 29, 2017 to discuss the preliminary findings and for considering the following comments on the results.

The Finding states that the service charges at Five FHA – Insured Nursing Homes did not always comply with the Management Agreements. It further states that the condition occurred because the nursing homes lacked adequate controls over payments for services that were part of the management fee, resulting in unnecessary costs.

We disagree with the conclusion drawn. The nursing homes do not lack adequate controls over payments. The confusion is the result of the differences between the Management Agreement and the Management Entity Profile filed with HUD. The management fee of 6% is for management services, not hands on task oriented work, items that the facility would normally purchase on its own.

The history and evolution of the management agreement helps to clarify. It was drafted to be in compliance with the State of Rhode Island Department of Human Services, Medicaid reimbursement program which stated that to be recognized by the Medicaid program, a home office needed three components, management, accounting and purchasing. In 1985 when the original management agreement was drafted, there were those three positions only. The Management Entity Profile filed with HUD in 1998 included those three positions and stated that Health Concepts provides management and support services. It further stated that **"Day to day operations are under the direct control of the Administrator, who must be licensed by the State of Rhode Island"**.

The management agreement has evolved over the years. We answer to many authorities who continue to tweak the agreement to their specifications, including attorneys representing us before the Health Services Council when purchasing/managing new facilities (to assure the license stays in the name of the

Comment 1

Ref to OIG Evaluation

facility, not the management company) and the HUD attorney at loan closings in the local HUD office. It was never the intent to change the structure of the management company or how the facility operates.

Over the past 30 years new positions were added to Health Concepts as the industry changed and regulatory requirements increased. During the audit period we had 17 positions. Please see attached Organizational Chart. All facilities medical records became electronic, billing became electronic and facilities became wi-fi in part to accommodate DOH surveyors and the residents, resulting in the need for IT and Health Information, the hardware and software components. As opposed to every facility hiring their own IT person or hiring outside consultants, IT people were employed by Health Concepts and billed to the individual facilities based on actual hands on hours spent on the specific facility. As the financial reporting needs grew and payor sources expanded bookkeeper coordinators were hired to train, assist and fill-in when there were absences in the facilities. Minimum data sets, (MDS's), a component of the electronic medical record, an interdisciplinary comprehensive assessment of the residents, was originally a tool used for patient care. In the late 1990's the MDS started to drive reimbursement and now also impacts our Five Star rating, a statistical rating based on quality measures. Potential errors in MDS's would result in incorrect billings and reduced ratings. Clinical reimbursement specialists were hired to audit the facilities MDS's. All these positions would have to be filled at the facility level if not provided and billed by Health Concepts. Bringing these areas under the Health Concepts umbrella resulted in overall reduced costs due to economies of scale.

It states in the audit report that the Management agreement required that for a 6 percent management fee, the agent would manage the day-to-day activities of the facility (in contradiction to the Management Entity Profile), pay its accounts, collect its receivables and provide all other management support needed for the operation of the facility. Please note this language was not in previous versions of the management agreement and was changed in 2006 by one of the many authorities noted above. It was never the intent to change the way the facilities or Health Concepts' positions were structured.

The management agreement also states in paragraph 7 that the facility shall reimburse manager for all proper, reasonable and reimbursable out-of-pocket expenses incurred or paid by manager in connection with the performance of this agreement including but not limited to... items which OWNER would normally purchase on its own, but which are purchased by MANAGER on behalf of OWNER. Hence the additional charges over and above the 6% for specific hands on, task oriented hours at the facility.

Management is still included in the 6% Management Fee. The three original management positions noted above, along with seven additional management positions are included in the 6% management fee. Management sets policy and procedure and provides oversight. Hands on specific tasks are billed in addition to the management fee, as expenses that the facility would normally purchase on its own. This is true in all 12 homes, 6 HUD insured mortgages, six not in the HUD program.

We readily admit that the management agreement is vague ("items the facility would normally purchase on its own") in areas and contradictory in others. In retrospect, we agree we should have paid closer attention to the details of the changes made to the management agreement by the various authorities, as opposed to focusing on the imminent goals of either purchasing a new facility or refinancing a HUD mortgage to reduce the mortgage interest for the project. But all the while knowing that the intent and understanding of the agreement between facility and management company had not changed.

The audit report recommends that we develop and implement adequate controls over payments for services that are part of the management fee. The facility has adequate control over payments for services that are part of the management fee. What is needed is clarification in the management

**Ref to OIG
Evaluation**

Comment 2

agreement to accurately reflect the intent and understanding of the parties, which will be consistent with the Management Entity Profile filed with HUD.

We will work with HUD to amend and resubmit the management agreements and management certifications as is necessary.

Once the management agreements are amended and clarified it should be clear that there were no unallowable fees paid from project funds.

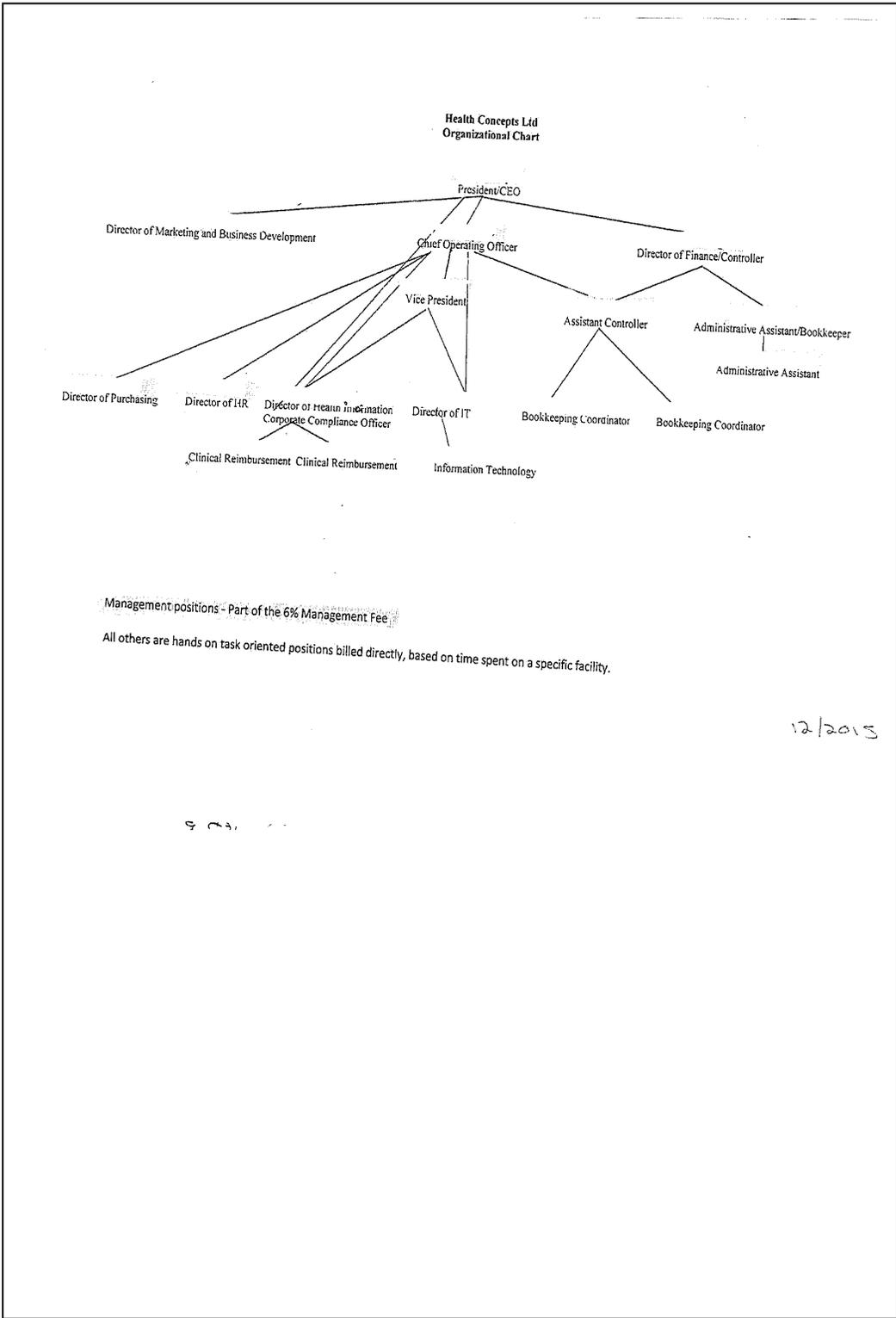
Again, we agree that the management agreement needs to be rewritten to clarify the intent of the parties and the actual services provided and to not be in conflict with the Management Certification submitted to HUD, all while staying compliant with our various regulators.

We appreciate your consideration of the additional information included in this reply.

Respectfully



Terry A Carragher
Director of Finance
Health Concepts Ltd



OIG Evaluation of Auditee Comments

- Comment 1 Health Concepts' owners agreed to clarify the management agreements to show which services are covered by the management fee; however, Health Concepts' owners did not agree that the nursing homes lacked adequate controls over payments that were part of management fee. The Health Concepts' owners charged the nursing homes for bookkeeping, accounting, and other services that were included in the management agreement and were to be paid for as part of the management fee. Therefore, we maintain that these payments were unnecessary and that the nursing homes' controls need to be improved to ensure that payments complied with the management agreement. We agree that the management agreements need to be clarified to identify what costs may be charged to the nursing homes. For this reason, we suggest that the owners work with HUD during audit resolution to determine what costs may be allowed.
- Comment 2 Health Concepts stated that after the management agreements and certifications are amended and resubmitted to HUD, it should be clear that there were no unallowable fees paid from project funds. We maintain that the management agreements did not allow Health Concepts to charge the nursing homes for services related to paying their accounts, collecting receivables, arranging for the purchase of supplies, and all other management support needed for the nursing homes' operation. Therefore, Health Concepts' owners should work with HUD during audit resolution to determine the amount of unallowable costs that should be repaid to the nursing homes from non-project funds.