AUDIT REPORT

Mount Saint Francis Health Center
Federal Housing Administration Loan Number 016-43077
Woonsocket, Rhode Island

2006-BO-1004

March 3, 2006

OFFICE OF AUDIT, REGION 1
Boston, Massachusetts

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audit report

TO: Ellen R. Connolly, Director of Boston Multifamily Housing Hub, 1 AHMLA
Margarita Maisonet, Acting Director, Departmental Enforcement Center, CV

FROM: John A. Dvorak, Regional Inspector General for Audit, 1AGA

SUBJECT: Mount Saint Francis Health Center
Federal Housing Administration Loan Number 016-43077
Woonsocket, Rhode Island

We audited Mount Saint Francis Health Center (project), located in Woonsocket, Rhode Island, to determine whether the owner complied with its U.S. Department of Housing and Urban Development (HUD) regulatory agreement and other applicable laws and regulations.

We identified $4,402,305 in questionable cash disbursements and accrued expenses made by the project. We found that (1) under the direction of the owner and the identity-of-interest management agent, the project made questionable cash disbursements of $1,646,669 and accrued questionable expenses of $192,487 while in a non-surplus-cash position, and (2) The owner and identity-of-interest management agent billed $1,162,150 and $1,288,745, respectively, for services not provided (unsupported). In addition, the general manager of the management agent received a salary as the assistant administrator of the nursing home for a total of $112,254 in unnecessary expenses.

In accordance with HUD Handbook 2000.06, REV-3, within 60 days, please provide us, for each recommendation without a management decision, a status report on (1) the corrective action taken, (2) the proposed corrective action and the date to be completed, or (3) why action is considered unnecessary. Additional status reports are required at 90 days and 120 days after report issuance for any recommendation without a management decision. Also, please furnish us copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions, please contact Michael Motulski, Assistant Regional Inspector General for Audit, at (617) 994-8380.

Executive Summary

We audited Mount Saint Francis Health Center (project), located in Woonsocket, Rhode Island. The primary purpose of our audit was to determine whether the project operated in accordance with the U.S. Department of Housing and Urban Development's (HUD) regulatory agreement and other applicable laws and regulations.

Audit Results

We identified $4,402,305 in questionable costs incurred. The project disbursed and accrued questionable costs for non-project-related expenses, loan repayments, partnership management fees, and unnecessary services while the project was in a non-surplus-cash position. Of the $4,402,305 in questioned costs, we classified $1,024,148 as ineligible project costs, $2,743,728 as unsupported costs, and $634,429 as unnecessary project costs (see appendix A).

The owner/management agent caused the conditions identified above by failing to operate the project in accordance with HUD's regulatory agreement and other applicable laws and regulations. The owner/management agent disregarded prudent business practices and exploited weak management controls.

As a result of these disbursements and accruals, the project encountered financial problems resulting in

- Late mortgage payments,
- Lack of funds to adequately fulfill its payroll obligations, and
- Failure to pay approximately $3,741,000 in payroll taxes to the Internal Revenue Service.

In addition, these actions resulted in federal tax liens on the property and generated several thousand dollars in unnecessary interest penalties and legal fees.

Disbursements and Payables

The owner and management agent disbursed $1,646,669 in questionable expenses to identity-of-interest and non-identity-of-interest entities while the project was in a non-surplus-cash position. The project improperly disbursed $978,675 to identity-of-interest entities and $667,994 to non-identity-of-interest entities (see finding 1). We consider these disbursements to be in violation of applicable federal statutes and HUD regulations. The disbursements were not for reasonable or necessary goods and services.

In addition, the project had accrued $192,487 in questionable expenses as of December 31, 2003, for services we determined to be ineligible, unsupported, or unnecessary.

Disbursements and Payables to Owner/Identity-of-Interest Management Agent

Our review disclosed that the owner and identity-of-interest management agent, Sterling Health Care Management Company (Sterling), did not perform the services required by their management agreements. As a result, neither the owner nor Sterling earned its annual management fees. Instead, project staff and consultants managed the project by performing the services described in the management agreements.

Owner Did Not Earn Fees

The owner was compensated at 3 percent of net patient revenue for services. According to the management agent profile submitted to HUD, the services provided by the owner were peculiar to the project's status as a special-purpose and regulated facility. However, our review determined that the services identified in the management agent profile were either identical or similar to the services identified in the project's management agreement with Sterling. Additionally, we determined that neither the owner nor Sterling provided the services required according to their management agreements. Instead, staff at the project and consultants performed these services. During our audit period, the owner billed the project $1,162,150 in unnecessary partnership management fees. We questioned $1,053,550 in payments to the owner and an additional $108,600 in accrued payables (see finding 2).

Management Agent Did Not Earn Fees

Sterling was also compensated at 3 percent of net patient revenue. It agreed to provide services (under the management agreement) that were performed by project employees or subcontracted out. The management agent billed the project $1,288,745 in unnecessary management fees during our audit period. We questioned $1,248,668 in payments to the management agent and an additional $40,077 in accrued payables (see finding 2).

Disbursements to Assistant Administrator

In addition, the general manager of Sterling received $112,254 from the project as the assistant administrator of the nursing home during our audit period. The duties of the assistant administrator duplicated the duties of the administrator and business office manager and were similar to those required of the management agent (Sterling). Therefore, the assistant administrator position was not a necessary and reasonable project expense according to the regulatory agreement. These unnecessary payments place the HUD insured mortgage at risk and threaten the project's financial viability. (See finding 2)

Recommendations

We recommend that the director, Rhode Island Multifamily Program Center,

- Pursue the recovery of double the amount of questionable cash disbursements to identities-of-interest as stipulated in 12 U.S.C. [*United States Code*] Sec. 1715z-4a.
- Obtain from the owner justification supporting the cash disbursements for unsupported costs.
- Obtain from the owner adequate justification for disbursements that were deemed unnecessary to the nursing home.
- Pursue the recovery of questionable distributions to non-identities-of-interest.
- Take appropriate action to prevent payment of ineligible and unnecessary cash disbursements after our audit period, including the payment of questionable accrued payables.
- Develop and implement procedures that ensure only eligible expenses are paid from project funds and that documentation is maintained to support the eligibility and the amount of operating funds expended.
- Remove the management agent in accordance with the management certification and HUD regulations.
- Pursue all applicable administrative sanctions against the owner, management agent, and identity-of-interest companies, specifically debarment.

Findings and Recommendations Discussed

We discussed the findings in this report with the responsible auditee officials, as well as HUD program officials during the course of the audit. We provided our draft audit report to the owner's general partner on November 10, 2005, requesting written comments by November 28, 2005 and offered to conduct an exit conference if one was desired. On November 21, 2005, we received a letter from the owner's legal counsel requesting a 60 day extension. We granted an extension to December 14, 2005 and received the auditee's written response that day via FAX through the owner's legal counsel.

Appropriate revisions were made to the audit report where deemed necessary. We included a complete copy of the auditee's responses in appendix B of the report along with our evaluation.

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Introduction

Mount Saint Francis Health Center (project) is a 194-unit nursing home for the elderly and disabled, located in Woonsocket, Rhode Island. It is owned and operated by Mount St. Francis Associates, a Rhode Island for-profit limited partnership. Under Section 232 of the National Housing Act, the U.S. Department of Housing and Urban Development (HUD) insured a mortgage for $6,129,900 on November 9, 1983 (Federal Housing Administration Loan Number 016-43044).

Congress established the Section 232 nursing home program in 1969. HUD's Office of Multifamily Housing administers the program. The program's primary purpose is to insure mortgages made by private lending institutions. These mortgages are used to finance construction or renovation of nursing homes and assisted living and rest homes for the elderly.

Congress established the program to

- Conserve and increase the supply of nursing homes, intermediate care facilities, and board and care homes,
- Provide credit enhancement through insurance of mortgages for new or substantially rehabilitated projects, and
- Purchase or refinance existing Section 232-insured projects with or without repair

The nursing home program is unique because in many instances, there can be several parties involved in the arrangement as follows:

- HUD/insurer
- The mortgagee/lender
- The mortgagor/owner of the property/borrower
- The operating entity/lessee/operator
- The management agent/manager

In addition, the owner, management agent, and operating entity may have an identity-of-interest relationship. An identity-of-interest relationship exists when companies/partnerships are owned and/or controlled through common ownership and/or management. For the project, an identity of interest relationship exists among the owner, lender, management agent and companies that provided services to the nursing home. A listing of related companies and their officers is provided as Attachment F to this report. Identity-of-interest relationships can result in a control structure that may not be sufficient to ensure identity-of-interest transactions are at "arms length" and in the best interest of the project or HUD.

On November 1, 1984, the project entered into a management agreement with Health Management Services Company. Health Management Services Company was a Rhode Island-based management company not affiliated with the owner. Health Management Services Company was compensated at 3 percent net patient revenue for its services. On August 17, 1993, HUD approved a project owner's and management agent's certification for multifamily housing project for identity-of-interest agents, which lists the project's general partner (owner) as the management agent. The owner was to be compensated at 3 percent of net patient revenue for services required by the special-purpose nature of the facility. This partnership management fee was in addition to the management fee received by Health Management Services Company.

On January 1, 1995, the owner entered into a management agreement with Sterling Health Care Management Company (Sterling), an identity-of-interest company that provided a management fee of 3 percent of net patient revenue. Sterling replaced Health Management Services Company as the management agent. Therefore, since January 1, 1995, the owner and identity-of-interest related management agent have had full control over the project's ownership, operations, and management.

On July 13, 1995, the owner refinanced the existing HUD-insured mortgage for $8,622,900 (Federal Housing Administration Loan Number 016-43077). On July 14, 1995, the owner signed a new regulatory agreement. The final endorsement, which occurred on July 10, 1996, reduced the mortgage amount to $8,616,900. After payoff of the existing mortgage, the project used the remaining proceeds to rehabilitate the project. As of December 1, 2003, the unpaid principal balance of the mortgage was $8,359,468.

On June 22, 1999, the project received an operating loss (working capital) loan insured by HUD for $1,103,600 (Federal Housing Administration Loan Number 016-15011). The regulatory agreement was amended on June 22, 1999, to include the operating loss loan. Suburban Mortgage Associates, Incorporated, an identity-of-interest company, financed and serviced both the mortgage and operating loss loan. As of December 1, 2003, the unpaid principal balance of the operating loss loan was $1,071,940.

Audit Objectives

The overall audit objective was to determine whether the project operated according to HUD's regulatory agreement and other applicable laws and regulations.

Audit Scope and Methodology

To accomplish the audit objectives, we

- Reviewed federal requirements, including the *Code of Federal Regulations*, HUD handbooks, and civil statutes.

- Reviewed the project's project files maintained by the HUD Rhode Island Multifamily Program Center; specifically, the reserve fund for replacements account; mortgage instruments; management certification/management agreement; regulatory agreement; monthly accounting reports, and independent public accountants' reports for fiscal years ending December 31, 1999 through 2002 (2003 reports had not been prepared as of March 2004).

- Interviewed the management agent, nursing home staff, and HUD personnel to obtain procedures for administration, procurement, maintenance, cash receipts, cash disbursements accounting, and computer procedures to determine whether the project had adequate management controls in place to operate in accordance with the regulatory agreement.

- Tested management controls relevant to the audit through inspection, review, and analysis of documents and records and evaluated the effects of any exceptions.

- Reviewed the project's books and records to determine a) the reliability of information, b) the appropriateness of disbursements, and c) the sampling methods to be used to test payroll and disbursements for the necessity and reasonableness of costs.

- Reviewed a statistical sample of payroll errors to determine whether payroll funds were properly used and deducted from the employee's net pay.

- Tested a sample of transactions, within the audit period, from the operating account for unusual and questionable disbursements. Our sample was based on high-dollar value and risk. Our results relate only to those items reviewed.

- Reviewed 100 percent of disbursements and accruals related to a) identity-of-interest vendors and individuals; b) non-identity-of-interest vendors providing legal, audit, and accounting services; c) vendors for renovations; and d) activity from the reserve fund for replacements account.

- Reviewed the project's last two inspections performed by HUD's Real Estate Assessment Center on March 2, 2000, and May 15, 2003, and an inspection performed by Suburban Mortgage Associates on November 11, 2000. We also conducted a walk-through inspection of the facility on September 23, 2003, and inspected the maintenance systems with the maintenance director on December 30, 2003, to determine the physical condition of the project.

- Reviewed the land records for the project maintained at the Office of the City Clerk (Woonsocket, Rhode Island) for liens and discharges.

The audit was conducted on site between September 2003 and March 2004 and covered the period from January 1, 2000, to December 31, 2003. When appropriate, the audit was extended to include other periods. We conducted our audit in accordance with generally accepted government auditing standards.

The Owner and Identity-of-Interest Management Agent Diverted Funds from the Project

The owner and management agent of the project directed the payment of $1,646,669 in questionable cash disbursements between January 2000 and December 2003. In addition, the project had accrued $192,487 in questionable expenses as of December 31, 2003. The owner and management agent diverted operating funds to identity-of-interest entities of the project and paid for non-project-related expenses; loan repayments; and ineligible, unsupported, or unnecessary services while the project was in a non-surplus-cash position. This constituted a direct violation of HUD's regulatory agreement. The owner and management agent disregarded prudent business practices and exploited weak management controls. This misuse of funds places the HUD-insured mortgages in jeopardy and threatens the project's financial viability. The owner and management agent's actions contributed to (1) late mortgage payments, which resulted in late fee penalties; (2) lack of funds to make payroll obligations; and (3) failure to pay payroll taxes to the Internal Revenue Service, which resulted in approximately $3,741,000 in federal liens being placed on the property and unnecessary interest penalties and legal fees.

Program Regulations

HUD has issued regulations governing the insurance programs. These regulations provide for HUD to regulate and restrict the borrower by means of a regulatory agreement as long as HUD insures the mortgage. The regulatory agreement requires that owners shall not pay out any project funds except for reasonable operating expenses and necessary project repairs. The agreement further states that the owner shall not transfer any personal property of the project without prior HUD approval.

The *United States Code* at 12 U.S.C. Sec. 1715z-4a stipulates that HUD may recover any assets or income used by any person in violation of a regulatory agreement applicable to a multifamily project insured by HUD. For purposes of this statute, the "use of assets or income" includes any use not established by records and documentation as a reasonable or necessary operating expense of the project. For purposes of a mortgage insured under Title II of the National Housing Act, the term "any person" refers to any person or entity which owns a project, including stockholders, and any beneficial owner, officer, director, or partner of an entity owning the project. The U.S. government may recover double the value of any assets and income of the project that have been used in violation of the regulatory agreement, plus all related costs such as reasonable attorney and auditing fees.

Cash Disbursements and Accrued Payables

The owner and management agent directed disbursements of operating funds of the project in the form of loan repayments, payments for services that were ineligible, unsupported, and/or unnecessary. From January 2000 to December 2003, we identified a total of $1,646,669 in questionable cash disbursements while the project was in a non-surplus-cash position. Of the total $1,646,669 in questioned costs, we classified $931,849 as ineligible project costs, $288,445 as unsupported costs and $426,375 as unnecessary project costs. The following chart further summarizes the questionable disbursements from the project.

Summary of questionable cash disbursements

Payees	Disbursement	Questioned costs			Total paid
		Ineligible	Unsupported	Unnecessary	
Consultants, Inc.	Loan/payments	$61,247	$8,000	$0	$69,247
Consultants Associates	Loan/payments	$244,720	$0	$0	$244,720
My Place, Inc.	Emp. relations	$0	$4,000	$268,200	$272,200
Construction Software, Inc.	Acct. services	$0	$1,200	$46,080	$47,280
Hillside Health Center	Loan/payments	$104,520	$0	$0	$104,520
Sterling	Loan/expenses	$101,141	$8,671	$0	$109,812
Suburban Mortgage, Inc.	Late fees	$22,326	$0	$0	$22,326
Director of purchasing	Payroll	$0	$0	$108,570	$108,570
Identity-of-interest subtotal		**$533,954**	**$21,871**	**$422,850**	**$978,675**
Adler, Pollock & Sheehan	Legal fees	$78,536	$250	$0	$78,786
George Babcock	Legal fees	$9,249	$0	$0	$9,249
Chaine des Rotisseurs	Entertainment	$0	$0	$3,525	$3,525
Lefkowitz, Garfinkel, Champi & DeRienzo	Acct. fees	$0	$263,832	$0	$263,832
O. Ahlborg & Sons, Inc.	Renovations	$223,308	$0	$0	$223,308
Various vendors	Various	$86,802	$2,492	$0	$89,294
Non-identity-of-interest subtotals		**$397,895**	**$266,574**	**$3,525**	**$667,994**
Grand total		**$931,849**	**$288,445**	**$426,375**	**$1,646,669**

In addition, as of December 31, 2003, the project had a total of $192,487 classified as accrued payables for services that we determined were ineligible, unsupported, or unnecessary.

Payee	Questioned payables			Total payables
	Ineligible	Unsupported	Unnecessary	
George Babcock	$6,775	$0	$0	$6,775
Lefkowitz, Garfinkel, Champi & DeRienzo	$0	$4,388	$0	$4,388
O. Ahlborg & Sons, Inc.	$85,524	$0	$0	$85,524
Non-identity-of-interest subtotal	**$92,299**	**$4,388**	**$0**	**$96,687**
My Place, Inc. (identity-of-interest)	$0	$0	$95,800	$95,800
Grand total	**$92,299**	**$4,388**	**$95,800**	**$192,487**

Disbursements to Identity-of-Interest Entities

The owner, management agent (Sterling) and the lender (Suburban Mortgage Associates, Inc.) all have identity-of-interest relationships. In addition, several other identity-of-interest companies have business connections with the project. These identity-of-interest relationships created an environment that made it possible for the owner/management agent to direct questionable cash disbursements with little risk of detection. To accomplish this end, the owner/management agent disregarded prudent business practices and exploited weak management controls.

We identified $978,675 in questionable cash disbursements to identity-of-interest companies during our audit period and $95,800 in accrued payables as of December 31, 2003, as explained below.

Consultants, Inc. (Identity-of-Interest)

The project disbursed $69,247 to Consultants, Inc., for loan repayments and unsupported costs while in a non-surplus-cash position. Neither the project nor Consultants, Inc. notified HUD of these advances. According to the regulatory agreement, the project could not pay back advances from operations except from surplus cash unless the HUD office approved the payments. HUD did not approve repayment of these loans to Consultants, Inc., (as it was unaware of the advances). Therefore, we determined these payments totaling $61,247 to be ineligible. The project also paid $8,000 to Consultants, Inc., in unsupported costs.

Consultants Associates, Inc. (Identity-of-Interest)

The project disbursed $244,720 to Consultants Associates, Inc., for loan repayments while in a non-surplus-cash position. Consultants Associates, Inc., made loans to the project to cover mortgage and payroll obligations. Neither the project nor Consultants Associates, Inc., notified HUD of these advances. According to the regulatory agreement, the project could not pay back advances from operations except from surplus cash unless the HUD office approved the payments. HUD did not approve repayment of these loans to Consultants Associates, Inc. Therefore, we determined these payments totaling $244,720 to be ineligible.

My Place, Inc. (Identity-of-Interest)

The project disbursed $272,200 to My Place, Inc., which is owned and operated by the owner's daughter. The project paid My Place, Inc., to provide social services, educational services, administrative consulting services, promotional activities, and a comprehensive child-care program. However, our review determined that this contract was not properly procured and the services provided were not reasonable or necessary operating expenses.

My Place, Inc. provided incentive programs for project employees to show appreciation for the staff. For example, it held parties for the staff and their families, conducted raffles, and provided gifts of nominal value to project employees. It did not provide child-care services but, rather only provided referrals for child-care needs and for support services on an as-needed basis. My Place, Inc., provided seminars for the staff; however, the seminars were subcontracted out to Delta Consultants. The project had a human resources department on site that could have provided these services.

We determined that My Place, Inc.'s services were not necessary and reasonable operating expenses of the nursing home. Therefore, we classified $268,200 as unnecessary payments to My Place, Inc. We also identified one payment to My Place, Inc., for $4,000 based on a memo from the administrator to the accounts payable clerk. The project did not provide any further explanation or support for this disbursement. In addition, as of December 31, 2003, the project had accrued $95,800 payable to My Place, Inc., for services related to the contract for employee relations and a community outreach program, which we determined to be unnecessary expenses.

Construction Software, Inc. (Identity-of-Interest)

The project disbursed $47,280 to Construction Software, Inc., an identity-of-interest company. According to the monthly invoices, Construction Software, Inc., provided the following services:

- Accounting and general ledger review,
- Review of monthly reports,
- Submission of monthly reports to HUD,
- Review of input for financial statements, and
- Review of quarterly operations report

However, the business office manager at the project stated that these tasks were performed in house. The administrator and business office manager acknowledged that Construction Software, Inc., employees never worked at or came to the nursing home at any time, although the project paid Construction Software, Inc., $960 per month. Further, according to the administrator, who approves the payments, he was not sure what services Construction Software, Inc., provided and did not know whether it performed any work at the project. The administrator believed it provided computer software to Sterling.

Therefore, we consider payments of $46,080 unnecessary since the duties were performed by in-house staff and the project's accountants. In addition, we identified a payment to Construction Software, Inc., for $1,200 based on a memo from the administrator to the accounts payable clerk. The project did not provide any further explanation or support regarding the services provided for this disbursement.

Hillside Health Center (Identity-of-Interest)

We identified one disbursement of $104,520 to Hillside Health Center, an identity-of-interest nursing home. This disbursement was to repay a loan Hillside Health Center made to the project for a mortgage payment. Neither the project nor Hillside Health Center notified HUD of this advance. According to the regulatory agreement, the project could not pay back advances from operations except from surplus cash unless the HUD office approved such payment. HUD did not approve repayment of these loans to Hillside Health Center (as it was unaware of the advances). Therefore, we determined this disbursement to be ineligible.

Sterling (Management Agent) (Identity-of-Interest)

We determined that the project disbursed $109,812 in questionable costs to Sterling. Of this amount, the project disbursed $95,000 for loans to Sterling without HUD approval and in direct violation of the regulatory agreement. Therefore, we determined these disbursements to be ineligible because the project was in a non-surplus-cash position.

Furthermore, the project disbursed $14,812 to Sterling for questionable miscellaneous expenses. Our review of these expenses disclosed $6,141 in ineligible expenses, which included services that were the responsibility of the management agent and should have been paid from the management fee. The remaining $8,671 was classified as unsupported. Sterling submitted invoices to the project for expenses it incurred. However, Sterling did not provide us with original invoices from the vendors for these costs as requested. (See finding 2 for the management agent fee.)

Suburban Mortgage Associates, Inc. (Identity-of-Interest)

The project disbursed $5,050,617 to Suburban Mortgage Associates, Inc., an identity-of-interest company, for mortgage payments and operating loss loan payments during our audit period. We determined a portion of the disbursements totaling $22,326 to be ineligible project expenses. The ineligible amounts included late charges due to mortgage and/or operating loss loan payments after the 15th of the month and bank charges for returned check fees. Additionally, we noted that the project submitted numerous letters to Suburban Mortgage Associates, Inc., with its regular mortgage payments, requesting Suburban Mortgage Associates, Inc., to hold the check until a specified time, usually between the 16th and 21st of the month.

Director of Purchasing Salary (Identity-of-Interest)

The director of purchasing was previously the general partner of the owner. Currently, he is the vice president of two identity-of-interest companies, Gregory Building Company and Mast Construction. The project created the director of purchasing position at the project in October 2001. The director of purchasing was hired a few days after submitting an application and used the general manager of Sterling as his reference.

There was no clear distinction between the director of purchasing position and the following positions at the nursing home:

- Medical supply clerk, who responsibilities included purchasing all medical supplies for the facility. The medical supply clerk stated that he does not interact with the director of purchasing and has never met him.

- Maintenance director, who is involved with researching and purchasing major capital equipment. The maintenance director stated that the director of purchasing helped him contact the "right" companies when a job needed to be completed.

The amount of major capital equipment purchased does not appear to justify a position at the project for 20 hours per week at $47 per hour. Further, the maintenance director and administrator performed these tasks as necessary. In addition, according to paragraph 2, section 2.2 (c), of the management agreement between the owner and Sterling, the management agent was to arrange contracts for the purchase of all medical supplies and dietary, office, and other items required to operate the facility.

According to the Director of Purchasing's time cards, he worked the same hours every week at the project. However, while conducting our audit fieldwork, we never observed the director of purchasing at the project. The general manager of Sterling stated the director of purchasing worked at the management agent site.

Based on our review, we concluded that the director of purchasing position was not necessary. We identified $108,570 in unnecessary payments to the director of purchasing during our audit period. (See related finding 2 for unnecessary salary to the assistant administrator.)

Disbursements to Non-Identity-of-InterestVendors

Our audit further identified $667,994 in questionable cash disbursements and $96,687 in questionable accrued payables to non-identity-of-interest vendors for services and other costs that were not necessary and reasonable expenses of the project. These disbursements were in direct violation of the regulatory agreement. The cash disbursements and payables were for various legal services, auditing and accounting services, renovations, unnecessary employee benefits, and late payments.

Chaine des Rotisseurs

The project disbursed $3,525 to Chaine des Rotisseurs, an organization which the project owner exerted control. The disbursements were related to employee entertainment for dinners in excess of $75 per person. Therefore, we concluded that the $3,525 was not for reasonable operating expenses or necessary repairs of the project.

Legal Expense

The project made $88,035 in questionable cash disbursements to two law firms during our audit period.

- Adler, Pollock, and Sheehan – the project disbursed $78,536 in ineligible expenses and $250 in unsupported expenses to Adler, Pollock, and Sheehan, the nursing home's principal law firm. These ineligible disbursements were for

    - Legal services totaling $44,226 related to the project's nonpayment of payroll taxes to the Internal Revenue Service. Legal expenses related to this situation were not a reasonable and necessary expense of the project since it should have paid its payroll taxes in a timely manner.

    - Legal services totaling $19,310 regarding a zoning appeal for the expansion of the property. The costs of expanding the facility were not an allowable expense of the project, and HUD consent should have been obtained for these expenses. HUD did not consent to any payment from the operating account.

    - Legal services totaling $15,000 related to dismissing the owner and Consultants, Inc., as general partners of Edmund Place Associates in May 2000. This is a legal matter of the partnership for Edmund Place–a different HUD-insured project that defaulted in April 2000—not the project.

    - Legal services totaling $250 that were not properly supported to determine whether they were necessary and reasonable project expenses.

- George Babcock Esquire – the project disbursed $9,249 in ineligible expenses to George Babcock Esquire. These disbursements were for legal services related to lawsuits filed against Health Facilities Associates, the limited partner of the owner, the general partner of

Health Facilities, and the general partner of the owner. Therefore, these costs were not necessary and reasonable expenses of the project. As of December 31, 2003, the project had accrued $6,775 in payables to George Babcock Esquire. The invoices related to these payables were related to the lawsuits mentioned above, which we determined to be ineligible project expenses.

Accounting Expenses

The project disbursed a total of $263,832 to Lefkowitz, Garfinkel, Champi & DeRienzo. P.C., from January 1, 2000, to December 31, 2003. Although the costs appear to be for eligible accounting services, we classified the total costs as unsupported due to the following:

- Expenses were invoiced in a manner that did not allow the cost to be reconciled to a specific contract. Instead, services provided and costs billed and paid under different contracts were combined on invoices. Further, the project made partial payments on these invoices and did not identify how to apply the payments.

- The project was only able to provide us with two contracts covering only one year between the project and Lefkowitz, Garfinkel, Champi & DeRienzo for our audit period. One contract was for professional services to "audit the Partnership's balance sheet as of December 31, 2001 and the related statements of loss...and...audit the Partnership's compliance with specific requirements applicable to the major HUD-assisted programs for the year ended December 31, 2001." The second contract was an assistance contract "to assist REAC [the Real Estate Assessment Center] in determining whether the electronic submission of certain information agrees with the corresponding hard copy documents included within the Consolidated Audit Guide for Audits of HUD Programs." The administrator stated that Sterling might have the rest of the contracts. However, since the project made payments on these contracts, a copy should have been available at the project to ensure invoices were accurate according to the terms of the contract.

As of December 31, 2003, the project had accrued $4,388 in payables to Lefkowitz, Garfinkel, Champi & DeRienzo. The invoices for these payables are all related to accounting services, which are currently unsupported.

Upon receipt of adequate supporting documentation, HUD should perform a review of the necessity and reasonableness of these disbursements and payables.

Renovations

O. Ahlborg and Sons, Inc., was the general contractor during the HUD-approved rehabilitation of the project in 1995. After the renovations of the project, it refinanced its HUD-insured mortgage. According to the management agent, the rehabilitation exceeded the HUD-approved mortgage amount. Therefore, the project issued a promissory note for $200,000 to O. Ahlborg and Sons, Inc., on December 20, 1995. The note was payable upon demand and not secured by the property and no payment terms were specified. The interest on the note accrued at 10 percent of the unpaid balance per year. HUD did not approve this obligation; however, the project has been making payments on this note since 1996. It should have issued a HUD-approved surplus cash note, and payments should have only been made on this note if the project was in a surplus-cash position. The project paid O. Ahlborg and Sons, Inc., $223,308 on this promissory note while the project was in a non-surplus-cash position. Therefore, we determined that these disbursements were ineligible project expenses. As of December 31, 2003, the remaining principal balance was $85,524.

Various Individual Payments

Our review of 90 questionable disbursements to various non-identity-of-interest vendors disclosed $86,802 in ineligible expenses. The ineligible costs consist of benefits to employees, including Christmas parties, luncheons, gifts, and flowers, and penalties and interest for late tax payments while the nursing home was in a non-surplus-cash position. We further identified $2,492 in unsupported expenses. The project was not able to support the costs to determine whether they were eligible, necessary, and reasonable expenses for nursing home operations.

Consequences of Diverting Project Funds

The above deficiencies are contrary to the regulatory agreement, management certifications, and HUD handbooks. Project diversions are a serious matter and a direct breach of the owner's and management agent's fiduciary responsibilities to the project and to HUD. The owner and management agent's actions contributed to

- Late mortgage payments, which resulted in late penalties;
- Lack of funds to make payroll obligations; and
- Failure to pay payroll taxes to the Internal Revenue Service, which resulted in liens on the property of approximately $3,700,000 and unnecessary interest penalties and legal fees.

These actions raise concerns pertaining to the owner and management agent's ability to comply with HUD regulations.

The diversion of project funds jeopardizes the project's financial condition, and the funds must be repaid to diminish potential insurance claims against HUD.

Auditee Comments

We received the auditee's comments to our audit on December 15, 2005 and are located in Appendix B of this report.

OIG Evaluation of Auditee Comments

Our evaluation of the auditee's comments has not changed our audit position. Our responses are located in Appendix B of this report, starting on page 129.

Recommendations

We recommend that the director, Rhode Island Multifamily Program Center:

1A. Pursue the recovery of double the amount of $533,954 in ineligible costs to identities-of-interest from the owner/management agent, as stipulated in 12 U.S.C. [*United States Code*] Sec. 1715z-4a.

1B. Obtain adequate documentation from the owner/management agent for the cash disbursements for unsupported costs of $21,871 costs to identities-of-interest or pursue the recovery of double this amount as stipulated in 12 U.S.C. [*United States Code*] Sec. 1715z-4a.

1C. Pursue the recovery of double the amount of $426,375 in unnecessary costs to identities-of-interest and non- identities-of-interest from the owner/management agent, as stipulated in 12 U.S.C. [*United States Code*] Sec. 1715z-4a.

1D. Pursue the recovery of $397,895 in ineligible costs to non-identities-of-interest.

1E. Obtain justification from the owner/management agent supporting the cash disbursements for unsupported costs of $266,574 to non-identities-of-interest or pursue recovery of this amount.

1F. Take appropriate action to prevent payments of ineligible and unnecessary cash disbursements after our audit period, including the payment of questionable accrued payables to identities-of-interest of $95,800. If they have been paid, pursue the recovery of double this amount as stipulated in 12 U.S.C. [*United States Code*] Sec. 1715z-4a.

1G. Take appropriate action to prevent payments of ineligible accrued payables to non-identities-of-interest of $92,299. If they have been paid, pursue the recovery of this amount.

1H. Obtain adequate documentation from the owner/management agent for the $4,388 in unsupported accrued payables or pursue recovery of this amount.

1I. Remove the management agent (Sterling) in accordance with the management certification and HUD regulations.

1J. Develop and implement procedures that ensure only eligible expenses are paid from project funds and that documentation is maintained to support the eligibility and the amount of operating funds expended.

In addition, we recommend that HUD's Departmental Enforcement Center

1K. Pursue all applicable administrative sanctions against the owner, management agent, and identity-of-interest companies, specifically debarment.

The Owner/Identity-of-Interest Management Agent and Assistant Administrator Received and Accrued $2,563,149 for Services Not Provided

The owner and identity-of-interest management agent (Sterling) did not perform the services required by their management agreements. As a result, neither the owner nor Sterling earned its annual management fees. Instead, project staff and consultants performed the services described in their management agreements. In addition, the general manager of the management agent received a salary from the project as the assistant administrator of the nursing home. The duties of the assistant administrator are the same as the duties of the administrator and business office manager positions and similar to those required of the owner and management agent. During our audit period:

- The owner billed the project $1,162,150 in questionable partnership management fees,
- The management agent billed the project $1,288,745 in questionable management fees, and
- The assistant administrator received $112,254 in unnecessary salary costs.

The owner and management agent disregarded prudent business practices and exploited weak management controls. These unsupported fees and unnecessary salaries place the HUD-insured mortgage at risk and threatens the project's financial viability.

Costs Must Be Reasonable and Necessary

The regulatory agreement states that owners shall not pay out any project funds except for reasonable operating expenses and necessary project repairs.

The *United States Code* at 12 U.S.C. Sec. 1715z-4a stipulates that HUD may recover any assets or income used by any person in violation a regulatory agreement applicable to a multifamily project insured by HUD. For purposes of this statute, the "use of assets or income" includes any use not established by records and documentation as a reasonable or necessary operating expense of the project. For purposes of a mortgage insured under Title II of the National Housing Act, the term "any person" refers to any person or entity which owns a project, including stockholders, and any beneficial owner, officer, director, or partner of an entity owning the project. The U.S. government may recover double the value of any assets and income of the project that have been used in violation of the regulatory agreement, plus all related costs such as reasonable attorney and auditing fees.

Maintenance of Books and Accounts

Both the regulatory agreement and the certificate executed by the borrower, at the time the mortgage is insured, contain provisions that accounts of mortgaged property operations be kept in accordance with the requirements of the HUD secretary and in such form as to permit a speedy and effective audit. Further, the borrower or owner agrees that "The mortgaged property, equipment, buildings, apparatus, devices, books, contracts, records, documents, and other papers relating thereto shall at all times be maintained in reasonable condition for proper audit and shall be subject to examination and inspection at any reasonable time by the HUD Secretary or his duly authorized agents. Owners shall keep copies of all written contracts or other instruments which affect the mortgaged property, all or any of which may be subject to inspection and examination by the Secretary or his duly authorized agents."

Unsupported Owner Partnership Management Fees

On August 17, 1993, HUD approved a project owner's and management agent's certification for multifamily housing project for identity-of-interest agents, which lists the general partner (owner) of the project as the management agent. The owner was compensated at 3 percent of net patient revenue for services required by the special-purpose nature of the facility. These fees were in addition to the management fee of 3 percent of net patient revenue to the management agent.

According to the management agent profile submitted to HUD, the services provided by the owner were peculiar to the project's status as a special-purpose and regulated facility. However, our review determined that the owner's services identified in the management agent profile were either identical or similar to the services identified in the project's management agreement with Sterling. Further, the owner subcontracted with Consultants, Inc., an identity-of-interest entity controlled by the owner, for a substantial portion of the services. The owner is the president of Consultants, Inc. Other personnel include the general manager of Sterling (also the assistant administrator) and the owner's son.

Additionally, our review determined that neither the owner nor Sterling provided the services required according to its management agreements. Instead, staff at the project and consultants performed these services.

The owner billed the project $1,162,150 in partnership management fees during our audit period. We identified $1,053,550 in payments to the owner. In addition, as of December 31, 2003, the project had accrued $108,600 payable to the owner for partnership management fees. We determined that the partnership management fees to the owner are unsupported due to the lack of evidence that required services were performed.

Unsupported Management Fees

On January 1, 1995, the owner entered into a management agreement with Sterling (an identity-of-interest management agent). As compensation for these services, the owner paid Sterling 3 percent of net patient revenue.

During our audit period, the management agent billed the project $1,288,745 for management fees. The project paid $1,248,668 in management fees. It paid $1,230,977 to Sterling and $17,691 to Management Realty Services, another identity-of-interest company. According to the general manager of Sterling, while Sterling was being set up in 1995, the project paid Management Realty Services for management services. The general manager advised that the same employees worked for both Management Realty Services and Sterling. As of December 31, 2003, the project had recorded an additional $40,077 as an accrued payable to Sterling related to the management fee. Due to the lack of adequate documentation of services provided, we determined that the management fees were unsupported project costs.

According to the management agreement, Sterling is responsible for keeping the nursing home running smoothly and in conformity with HUD requirements. However, our review determined that project staff and/or consultants performed these responsibilities and were paid directly by the project as explained below.

Project Staff

The project had the following positions on site at the facility:

- Administrator,
- Business office manager,
- Accounts payable clerk,
- Accounts receivable clerk, and
- Human resources director

According to the nursing home administrator and the business office manager, project nursing home staff carried out the majority of the owner and management agent functions. These functions included such tasks as:

- Analyzing and solving nursing home problems;
- Recruiting, hiring, and supervising nursing home personnel; and
- Monitoring project operations by visiting the nursing home or analyzing project performance reports

Consultants

The project also paid consultants to perform the work described in the management agreement. The management agreement stated under section 3, "Statements and Reports," that the management agent shall perform these tasks or cause them to be performed. For example, Lefkowitz, Garfinkel, Champi & DeRienzo, P.C., a non-identity-of-interest company, performed accounting services; these services included preparation of Medicaid and Medicare cost reports and correspondence with HUD. Before 2003, Sterling had an individual in charge of financial reports. Later, Lefkowitz, Garfinkel, Champi & DeRienzo, P.C., took over this responsibility; however, Sterling did not pay for these services from the management fee. Instead, the project directly paid for these services.

As these services described above were the responsibility of the owner and Sterling according to the management agreements, the services should have been paid with management fees rather than directly by the project. Instead, the project paid two or three times for these services including:

- Salaries to the staff employed by and located at the project or fees to consultants,
- Partnership management fees to the owner, and
- Management fees to the management agent

We concluded that the administrator, business office staff, and human resources personnel are on site daily and actively performing the tasks described under their job descriptions. We further determined that Sterling did not perform any of the services required by the management agreement and did not have the necessary staff to perform these services. As a result, we concluded that the partnership management fee and management fee were unsupported project costs.

Unnecessary Assistant Administrator Salary

The general manager of Sterling was also paid $112,254 for the assistant administrator position at the project during our audit period. The general manager of Sterling has served as the assistant administrator at the nursing home since October 2001. According to the current administrator, the owner and management agent created the assistant administrator position to ensure a licensed individual was available to run the facility in the administrator's absence. The assistant administrator holds a nursing home administrator's license from the State of Rhode Island. Regardless of whether the administrator is in the office, the project pays the assistant administrator for 20 hours every week.

All of the tasks assigned to the assistant administrator are also assigned to the administrator and/or the business office manager, with the exception of the following task contained in his job description: "Assume overall administrative responsibility for the facility operations while the Administrator is away from the facility. May assume direct supervision of specific departments under the guidance of the Administrator." Additionally, the duties identified in administrator, assistant administrator, and business office manager job descriptions are also similar to those of the management agent. Therefore, not only was the project paying the management agent 3 percent of net patient revenue for services provided by staff at the project, it was also paying the general manager a salary for these services. In addition, according to the owner's management agent profile, the general manager was also employed by Consultants, Inc., the company used by the owner to perform several of his partnership management tasks.

Assistant Administrator Did Not Justify His Hours/Duties

According to the assistant administrator's time cards, he worked the same hours every week at the project. However, during the course of conducting our audit fieldwork, we never observed the assistant administrator at the project. The assistant administrator stated he worked in the capacity of assistant administrator at the management agent site, reviewed reports, worked with project staff, or worked on behalf of the project at least 20 hours per week; however, regardless of the hours worked, he received a salary of $856 every week. The assistant administrator was not able to provide a clear distinction between his duties as the management agent and assistant administrator. During this time, the project was in a non-surplus-cash position, and this salary was not a necessary or reasonable operating expense. Therefore, we questioned the salary of $112,254 to the assistant administrator.

Auditee Comments

We received the auditee's comments to our audit on December 15, 2005 and are located in Appendix B of this report.

OIG Evaluation of Auditee Comments

Our evaluation of the auditee's comments has not changed our audit position. Our responses are located in Appendix B of this report, starting on page 129.

Recommendations

We recommend that the director, Rhode Island Multifamily Program Center:

2A. Obtain adequate documentation from the owner/management agent for cash disbursements of $1,053,550 in unsupported partnership management fees paid to the owner or pursue the recovery of double this amount as stipulated in 12 U.S.C. [*United States Code*] Sec. 1715z-4a.

2B. Obtain adequate documentation from the owner/management agent for unsupported accrued payables of $108,600 payable to the owner or pursue the recovery of double this amount as stipulated in 12 U.S.C. [*United States Code*] Sec. 1715z-4a.

2C. Obtain justification from the owner/management agent supporting the cash disbursements for unsupported costs paid to the owner/management agent of $1,248,668 or pursue the recovery of double this amount as stipulated in 12 U.S.C. [*United States Code*] Sec. 1715z-4a.

2D. Take appropriate action to prevent unnecessary cash disbursements after our audit period, including the payment of questionable accrued payables to the management agent of $40,077. If they have been paid, pursue the recovery of double this amount as stipulated in 12 U.S.C. [*United States Code*] Sec. 1715z-4a.

2E. Pursue recovery of double the amount of $112,254 in questionable salary payments paid to the assistant administrator as stipulated in 12 U.S.C. [*United States Code*] Sec. 1715z-4a.

Management Controls

In planning and performing our audit, we obtained an understanding of the management controls used by the management agent, Sterling, and those in place at the project that were relevant to our audit objectives. We reviewed the management control systems to determine our auditing procedures and not to provide assurance on management controls.

Management controls consist of a plan, organization, methods, and/or procedures adopted by management to ensure that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports.

Relevant Management Controls

We determined the following management controls were relevant to our audit objectives:

- Management controls over the appropriateness of project expenditures, specifically assuring compliance with the provisions of the regulatory agreement, the management agent certification, applicable laws and regulations, and other HUD regulations.

- Management controls over controls over payroll.

- Assuring the safeguarding of project assets.

We assessed the relevant controls identified above.

It is a significant weakness if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet an organization's objectives.

Significant Weaknesses

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

- Management controls over the appropriateness of project expenditures, specifically assuring compliance with the provisions of the regulatory agreement, the management agent certification, applicable laws and regulations, and other HUD regulations (See findings 1 and 2).

- Assuring the safeguarding of project assets (See finding 1).

We discussed the specific weaknesses in the Findings section of this report.

Summary of Questioned Costs

	Type of questioned cost		
Recommendation number	Ineligible [1]	Unsupported [2]	Unnecessary/unreasonable [3]
1A	$533,954		
1B		$21,871	
1C			$426,375
1D	$397,895		
1E		$266,574	
1F			$95,800
1G	$92,299		
1H		$4,388	
2A		$1,053,550	
2B		$108,600	
2C		$1,248,668	
2D		$40,077	
2E			$112,254
Totals	**$1,024,148**	**$2,743,728**	**$634,429**
Total questioned costs	**$4,402,305**		

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 polices 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 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. Unnecessary/unreasonable costs are those costs not generally recognized as ordinary, prudent, relevant, and/or necessary within established practices. Unreasonable costs exceed the costs that would be incurred by a prudent person in conducting a competitive business.

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation | Auditee Comments

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December 14, 2005

HUD - OIG
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VIA FACSIMILE AND REGULAR MAIL

John A. Dvorak
Regional Inspector General for Audit
U.S. Department of Housing & Urban Development
Office of Inspector General for Audit, Region 1
Thomas P. O'Neill, Jr. Federal Building
10 Causeway Street, Room 370
Boston, MA 02222-1092

Dear Mr. Dvorak:

This office is counsel to Mt. St. Francis Associates ("MSF") in connection with the draft Audit Report forwarded to MSF on November 10, 2005. As requested, MSF provides the following comments to the Report.[1] As discussed below, all payments made by MSF reflect necessary and reasonable operating expenses to ensure continuity of quality care to the resident population. Therefore, there is no basis for the recommended reimbursement and other relief in the Audit Report.

Claimed Ineligible Costs (page 32 of draft Audit Report)

Recommendation Number 1A – $533,954 Claimed Ineligible Costs Paid to IOI Companies

Comment 1

1. $305,967 – loan repayment to Consultants, Inc.

This money was paid to Consultants, Inc. to repay short-term advances by Consultants, Inc. to MSF for necessary and reasonable operating expenses including mortgage and payroll obligations. These loans and repayment were fully disclosed to HUD on MSF's monthly reports filed with HUD. HUD never questioned or objected to these transactions and as such, approved them as they were disclosed with the monthly filings. Such loans by IOI companies were made, in part, to ensure that the mortgage would not go in default.

[1] By correspondence dated November 23, 2005 to Edward Maggiacomo, you enlarged the time within which to respond to the draft audit report to December 14, 2005. This response is based on information presently available.

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These loans were voluntarily made on a short-term basis in order to ensure that MSF made its mortgage and payroll obligations when there was not enough cash flow to do so. Without these advances, MSF would not have been able to meet its obligations, which could have compromised the care of the patient population. The loan payments were advanced for the operation of the nursing home subject to repayment upon receipt of Medicaid reimbursement. Moreover, the loan payments and reimbursement were disclosed to HUD. HUD did not question or object to the short-term advance, thereby approving same.

Comment 2

2. $104,520 to Hillside Health Center

This disbursement was to repay a loan by Hillside Health Center to MSF in order for MSF to meet a mortgage payment obligation and, therefore, was a necessary and reasonable operating expense. The loan was for three days since the receipt of the Medicaid reimbursement to MSF was not received and the mortgage had to be paid. This loan and repayment were disclosed on the monthly reports filed by MSF with HUD. Moreover, HUD was informed of this transaction at the time and did not question or object to the short-term advance, thereby approving same.

Comment 3

3. $109,812 to Sterling Health Care Management (SHCM)

This disbursement included repayment of a loan made by SHCM to MSF for necessary and reasonable operating expenses. This loan and repayment were disclosed by MSF to HUD on the monthly filings. HUD did not question or object to this loan and repayment necessary for reasonable operating expenses. MSF cannot respond to the $14,812 for claimed questionable miscellaneous expenses without documentation. Upon receipt of same, MSF will respond accordingly.

Comment 4

4. $22,326 – Late fees to Suburban Mortgage Associates, Inc.

Each month the mortgage is paid from the monthly Medicaid check for services provided for the previous month. The payment is usually received between the 15th and 21st of each month. When the Medicaid check was received after the mortgage payment due date, the mortgage payment, by necessity, was likewise paid late, resulting in a late fee. Therefore, this payment was a reasonable operating expense in order to ensure compliance with the mortgage. Moreover, while the assessment of the late fees is from Suburban Mortgage Associates, Inc., which services the mortgage, the funds actually go to the investor of the mortgage, which is not an IOI firm.

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Page 3

Recommendation 1D – Claimed Ineligible Costs Paid to Non-IOI Companies totaling $397,895 (page 32)

Comment 5

1. $78,536 – Legal fees to Adler Pollock & Sheehan P.C.

MSF made these payments to its legal counsel, Adler Pollock & Sheehan P.C. $44,226. These costs were incurred for legal services relating to MSF's non-payment of payroll taxes to the IRS. Because of other obligations required to ensure the requisite care to the patients at MSF, the payroll taxes were not paid. As a result, legal services were required to address the issue with the IRS in an attempt to mitigate against adverse consequence to MSF. Likewise, $19,310 was for legal services in connection with the zoning appeal for the expansion of the property, a reasonable operating expense. MSF is not aware of the reference to the $15,000 related to dismissing the owner and Consultants, Inc. as general partners of Edmund Place in May 2000 and requests that HUD forward documentation so that MSF may respond. The same is true for the legal services totaling $250. More information is needed in order to respond further.

Comment 6

2. George Babcock legal fees - $9,249

These fees were for certain defense costs covered under a policy of insurance. As soon as the management company became aware of Mr. Babcock's invoices, the processing of any unpaid invoices was stopped as Mr. Babcock's services were covered under a policy of insurance.

Comment 7

3. O. Ahlborg & Sons, Inc. $223,308 for renovations

As set forth in the Audit Report, Ahlborg was the general contractor during the HUD-approved rehabilitation of MSF in 1995. Such rehabilitation was necessary in order to ensure patient care. The promissory note was executed to document the outstanding obligation, which could not be made as and when due because of cash flow problems. This obligation was disclosed to HUD in all the monthly reports, HUD did not question or object to the existence of the note or repayment under the terms of the note. This payment was for necessary and reasonable operating expenses in connection with the necessary rehabilitation.

Comment 8

4. $86,802 – Various Vendors

The Audit Report references 90 questionable disbursements to various non-IOI vendors, disclosing $86,802 in claimed ineligible expenses. In order to properly respond, MSF needs an itemization of the claimed questionable disbursements. Without specific reference, MSF cannot respond further.

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ADLER POLLOCK & SHEEHAN P.C.

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Page 4

1G – $92,299 – Claimed Ineligible Accrued Payables

Comment 6

1. $6,775

As of December 31, 2003, MSF had accrued $6,775 in payables to George Babcock. As set forth in Section 2 on Page 3, when this payable was discovered by the management company, the payable was removed and never paid.

Comment 7

2. $85,524

This amount reflects accrual for the balance of the Ahlborg & Sons promissory note. See Section 3 on Page 3.

Claimed Unsupported Disbursements in the Amount of $2,743,728

1B – Claimed Unsupported Costs Paid to IOI Companies Totaling $21,871

Comment 9

1. $8,000 paid to Consultants, Inc.

MSF is not aware of this payment and requires more information from the HUD audit work papers in order to respond.

Comment 9

2. $4,000 paid to My Place, Inc.

MSF believes this was improperly coded. The payment should have reduced the accounts payable for a previously accrued expense.

Comment 9

3. $1,200 paid to Construction Software, Inc.

MSF believes this payment was improperly coded. The payment should have reduced the accounts payable for a previously accrued expense.

Comment 3

4. $8,671 paid to SHCM

MSF believes this payment is reimbursement for expenses that SHCM incurred on behalf of MSF. At times SHCM purchased items in bulk for all nursing home facilities it managed. This payment would reflect MSF's portion. MSF needs additional information from the HUD audit work papers in order to respond further.

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Page 5

1E – $266,574 – Claimed Unsupported Costs

Comment 10

1. $263,832 to LGC&D for accounting fees

LGC&D provided required accounting services to MSF, all of which were reasonable and necessary operating expenses of the facility. Attached at Tab 1 are the engagement letters from LGC&D dated January 2, 2001, January 7, 2002, January 25, 2002, May 14, 2002, January 13, 2003, and February 13, 2003. As set forth therein, LGC&D performed necessary accounting services to MSF, all of which constitute reasonable and necessary operating expenses.

Comment 11

2. $2,492 – various vendors

The Audit Report simply references various vendors, noting "We further identified $2,492 in unsupported expenses." MSF needs additional information from the HUD audit work papers in order to respond, including who the vendors are and the check numbers and dates in order to respond further.

Comment 5

2. $250 to Adler Pollock & Sheehan

MSF requires additional information from the HUD audit work papers in order to respond further, including the check number and date of payment.

1H. $4,388

Comment 10

As of December 31, 2003, MSF accrued $4,388 in payables to LGC&D. See engagement letters attached at Tab 1 and response above. This payment reflects necessary and reasonable operating expenses on behalf of the facility.

$2,450,895 (2A through 2D, page 32)

Comment 12

1. $1,053,550 and $108,600 accrued as payable as of December 31, 2003 to Project Owner.

As referenced in the draft Audit Report on page 24, on August 17, 1993, HUD approved a Project Owner's and Management Agent Certification for Multifamily Housing Projects for Identity of Interest or Independent Management Agents, which lists the general partner (owner) of MSF as the management agent. A copy of the agreement is attached at Tab 2. The owner was compensated at 3% of net patient revenue for services required by the special purpose nature of the facility. These fees are in addition to the management fee of 3% of the net patient revenue to

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Auditee Comments

Comment 12

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the management agent. As set forth in the agreement, the special fees were disclosed and approved by HUD:

> The agent, as managing general partner, is compensated at the rate of 3% of net patient revenue, for services required by the special purpose nature of the facility. See Adler Pollock & Sheehan letter to Providence Office Manager dated May 5, 1989 and Powell, Goldstein, Frazier & Murphy letter to Providence Office Manager dated July 24, 1992.
>
> The compensation to the agent is exclusive of compensation to Health Management Services, Inc. also at the rate of 3% of net patient revenue under a management agreement dated November 1, 1984 as amended as of April 1, 1989.

Moreover, the attachment to the agreement approved by HUD discloses the Management Agent Profile. See Attachment at Tab 2.

These fees reflect necessary and reasonable operating expenses of MSF disclosed and approved to HUD. In addition, monthly reports of revenue and disbursements were submitted to HUD, these items were never questioned or objected to and as such, HUD approved the payment of such items.

2. $1,248,668 disbursed for management fees and $40,077 accrued for SHCM services (page 32)

$1,239,077 was disbursed to SHCM and $17,691 disbursed to its predecessor, Management Realty Services. $40,077 was accrued as a payable to SHCM on December 31, 2003.

These payments were made to Management Realty Services and subsequently to SHCM as the management company approved by HUD. See agreement and management agreement attached at Tab 3. The management agreement was disclosed to and approved by HUD. The payments were an operating expense necessary for operation of the nursing home. In addition, monthly reports of the revenue and disbursements were submitted to HUD, these items were never questioned or objected to, and thereby approved by HUD.

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ADLER POLLOCK & SHEEHAN P.C.

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Page 7

Claimed Unnecessary Unreasonable Costs Totaling $634,429

Comment 13

1. $268,200 disbursed to My Place, Inc.

The Management Agent Certification Agreement approved by HUD expressly lists My Place, Inc. in paragraph 14. My Place, Inc. was approved by HUD, was fully disclosed and monitored on a monthly basis to HUD. A description of My Place, Inc. services is attached at Tab 4 and confirmed in the draft Audit Report at page 14. These services include, by way of example and without limitation, employee relations, morale and counsel, all of which were reasonable and necessary for the operation of the nursing home. For example, the provision of such employee services among other things ensured continuity of care, which would keep the costs down. Likewise, the provision of such services was instrumental in fighting against union organization and the accompanying increased costs that would occur.

Payments to My Place, Inc. were disclosed on a monthly basis to HUD through the monthly HUD reports of revenue and disbursements and HUD was well aware of this contract and payment, not only through the monthly HUD reports, but also through the independent audits and the HUD reviews over the years.

Comment 14

1C – $46,080 disbursed to Construction Software, Inc.

CSI was disclosed to HUD in paragraph 14 of the Management Agreement and provided necessary and reasonable expenses paid out of operations. CSI was approved by HUD, was fully disclosed to and monitored on a monthly basis by HUD, and the services, including, without limitation, systems specialization, were ordinary and necessary for operation of the nursing home.

Comment 15

1C – $3,525 to Chaine Des Rotisseurs

First, Chaine Des Rotisseurs is not an IOI company. See attached description of the organization at Tab 5. This disbursement was to reward managers of the facility for quality work. Such managers were identified by the administrator of the facility and this was a necessary and reasonable operating expense to ensure employee satisfaction, contributing to the well-being of the nursing home operation.

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December 14, 2005
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Comment 16

1C – $108,570 payable to the Director of Purchasing

This payment reflects the necessary and reasonable expense item operations to ensure that purchasing of all capital equipment and repairs to the building were accomplished properly and at appropriate costs. The Director of Purchasing had detailed knowledge of the history and mechanics of the building as he had been involved in several capacities since MSF's inception. Moreover, if his services were not performed and compensated, costs would have been much higher. These costs were audited, approved and reimbursed by the State of Rhode Island Medicaid program. The job description for this position is attached at Tab 6.

1F – $95,800

Comment 13

$95,800 accrued at 12/31/03 for services of My Place, Inc. See Section 1 on page 7.

2E – $112,254 – Payroll for the Assistant Administrator from October 2001 to December 31, 2003.

Comment 17

A Rhode Island licensed Administrator is required pursuant to the controlling rules. In the absence of the Administrator, the Assistant Administrator filled this role. See Job Description at Tab 7. These services were necessary and reasonable expenses for operation of the nursing home, and these costs were audited, approved and reimbursed by the State of Rhode Island Medicaid program.

Summary

Comment 18

For the reasons set forth above, all of the identified costs were reasonable and necessary for the operation of the nursing home to ensure the health, safety and welfare of the patient population. Moreover, all of the costs were disclosed to HUD, approved by HUD, monitored on a monthly basis and, therefore, approved as reasonable and necessary for the operation of the nursing home. Moreover, as noted on page 8 of the draft Audit Report, on June 22, 1999, MSF received an operating loss (working capital) loan insured by HUD for $1,103,600 (FHA Loan Number 016-15011). Therefore, all expenses incurred prior to that date were disclosed, reviewed and approved by the local office of HUD.

With respect to those costs which are claimed unsupported or unnecessary/unreasonable, MSF will provide any requested documentation upon identification of same. Based upon the foregoing, MSF disagrees with each of the findings and asks that they be revised to accurately reflect 1) that the costs of the services rendered to the nursing home were necessary and

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Page 9

reasonable, and were disclosed to and approved by HUD, and 2) that the recommendations be rescinded.

Should you have any questions, please contact us.

Sincerely,

Pat K Rocha
PATRICIA K. ROCHA

PKR:dh

Attachments

cc: Antone Giordano
Edward L. Maggiacomo, Esq.

364592_1.doc

<u>Ref to OIG Evaluation</u> <u>Auditee Comments</u>

Tab 1

Lefkowitz, Garfinkel, Champi & DeRienzo P.C.
Certified Public Accountants / Business Consultants

Principals
Jerome L. Lefkowitz, CPA
Stephen M. Garfinkel, CPA
Frank J. Champi, CPA
Richard J. DeRienzo, CPA
Jerrold N. Dorfman, CPA, PFS
Peter Mezei, CPA
Stephen W. Geremia, CPA

January 2, 2001

Mr. Antone L. Giordano, General Partner
Mount Saint Francis Health Center Associates
4 Joseph Street
Woonsocket, RI 02895

Dear Mr. Giordano:

Thank you for continuing to engage Lefkowitz, Garfinkel, Champi & DeRienzo P.C. (LGC&D) as the independent auditors and third-party reimbursement consultants for Mount Saint Francis Health Center Associates (a Limited Partnership) (the Partnership). This letter confirms our understanding of the terms and objectives of our engagement and the nature and the limitations of the services we will provide in connection with the Partnership's years ended December 31, 1999 and 2000.

<u>Our Responsibilities</u>

We will audit the Partnership's separate balance sheets as of December 31, 1999 and 2000 and the related separate statements of income (loss), partners' equity (deficiency) and cash flows for each of the years then ended. We also will audit the Partnership's compliance with specific requirements applicable to its major HUD-assisted program for each of the years ended December 31, 1999 and 2000.

We will plan and perform the audits in accordance with auditing standards generally accepted in the United States of America, standards for financial audits contained in <u>Government Auditing Standards</u>, issued by the Comptroller General of the United States, and the <u>Consolidated Audit Guide for Audits of HUD Programs</u> (the Guide) issued by HUD. Those standards and the Guide require that we obtain reasonable, rather than absolute, assurance that the financial statements are free of material misstatement, whether caused by error or fraud. Accordingly, a material misstatement might remain undetected. In our audits, we will examine, on a test basis, evidence supporting the amounts and disclosures in the financial statements and evaluate the overall financial statement presentation. Using professional judgment, we will decide what, how much and when to test, and what the results mean.

The separate financial statements will include such supplementary data as may be required by HUD. This data will be presented for the purpose of additional analysis and will be subjected to the auditing procedures applied in the audits of the basic financial statements.

10 Weybosset Street ▪ Suite 700 ▪ Providence, Rhode Island 02903 ▪ Tel (401) 421-4800 ▪ 1-800-927-LGCD ▪ Fax (401)421-0643

Ref to OIG Evaluation | Auditee Comments

Mr. Antone Giordano, General Partner
January 2, 2001
Page 2

Our Responsibilities (continued)

We will update our understanding of the Partnership's internal control. Our purpose is to plan the audits and determine the nature, timing, and extent of the audit procedures needed to be performed to express our opinion on the financial statements, express our opinion on compliance with specific requirements applicable to its major HUD-assisted program, and to report on internal control in accordance with the provisions of the Guide, and not to provide assurance on, or identify significant deficiencies in, internal control.

We will perform tests of control, as required by the Guide, to evaluate the effectiveness of the design and operation of internal control relevant to preventing or detecting material noncompliance with specific requirements applicable to HUD-assisted programs. Our procedures will be substantially less in scope than would be necessary to render an opinion on internal control and, accordingly, we will not express an opinion on internal control.

We will perform procedures, as required by the Guide, to test compliance with Fair Housing and Non-Discrimination requirements applicable to HUD-assisted programs. Our procedures will be substantially less in scope than would be necessary to render an opinion and, accordingly, we will not express an opinion. However, we will report instances of noncompliance, or report that the results of our tests disclosed no instances of noncompliance that are required to be reported under the Guide.

An audit is not designed to detect error or fraud, including irregularities, illegal acts or theft that is immaterial to the financial statements. Accordingly, we will not design our audits or perform procedures to detect error or fraud that is not material to the financial statements. Error or fraud is considered to be material only if its magnitude, individually or in the aggregate, is such that a reasonable person relying on management's presentation of the Partnership's financial statements would be influenced by its inclusion or omission. Materiality is determined annually and applies to the Partnership's financial statements taken as a whole. Our engagement excludes services designed to detect error or fraud that is not material to the Partnership's financial statements, which are available under a separate engagement at substantial additional cost.

If for any reason, we are unable to complete the audits or form an opinion on the Partnership's financial statements or on its compliance with specific requirements applicable to its HUD-assisted program, we may decline to express an opinion or issue reports as a result of this engagement.

We will also prepare the Partnership's federal and state income tax returns for the year ended December 31, 2000. The income tax returns will be prepared from the Partnership's general ledger. We will not express an opinion or other form of assurance on the income tax returns.

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Auditee Comments

Mr. Antone Giordano, General Partner
January 2, 2001
Page 3

Our Responsibilities (continued)

We will use our judgment in resolving questions where the tax laws are unclear or where there may be conflict between the taxing authorities' interpretation of the law and what seem to be other supportable positions. We will discuss alternatives with Mr. John Montecalvo and we resolve such questions in the Partnership's favor, if Mr. Montecalvo and we believe there is a reasonable justification for the position being taken.

In accordance with requirements of the Secretary of Health and Human Services (HHS), we will retain our books and records (that are necessary to certify the nature and extent of the fee for our services) for the necessary time periods and allow the necessary access to such books and records by the duly authorized agents of the Secretary of HHS, the Comptroller General and their duly authorized representatives.

Our workpapers for this engagement are the property of LGC&D and constitute confidential information. However, as required by Government Auditing Standards, we are required to make certain workpapers and other documents in our possession related to our audit reports, or photocopies thereof, available to duly authorized agents of the Comptroller General of the United States, the Secretary of HUD, the HUD Inspector General, or other cognizant agencies, and their duly authorized representatives, upon request for their regulatory oversight purposes. In addition, we may be requested by third parties to make certain workpapers and other documents in our possession related to this engagement (or photocopies thereof) available to duly authorized agents of Secretary of HHS, the Comptroller General and their duly authorized representatives and/or representatives of other third party auditors. We retain our workpapers and other documents for the necessary time periods and provide to the appropriate duly authorized agents and their representatives access to, or photocopies of, requested workpapers and other documents under the supervision of LGC&D personnel and at a location designated by our Firm.

Your signing this letter constitutes both your acknowledgment of our requirement to provide such access and your permission to make requested workpapers and other documents, or to provide photocopies thereof, available to the appropriate duly authorized agents and their representatives for the purpose described in the preceding two paragraphs. We will advise Mr. Montecalvo if such requests are made.

As required by Government Auditing Standards, we have previously provided to you under separate cover a copy of our Firm's latest Peer Review Report dated June 11, 1998.

Other Communications to the Partnership

We will communicate in writing to Mr. Montecalvo and/or you any matters coming to our attention that, in our judgment, represent significant deficiencies in the Partnership's internal control, which could adversely affect its ability to record, process, summarize, and report financial data. We also will communicate in writing to Mr. Montecalvo and/or you any significant irregularities or fraud that may come to our attention, as well as any comments relative to third-party reimbursement planning, compliance and/or strategies.

Ref to OIG Evaluation Auditee Comments

Mr. Antone Giordano, General Partner
January 2, 2001
Page 4

The Partnership's Responsibilities

The management of the Partnership is responsible for the financial statements and for maintaining effective internal control that will, among other things, help assure the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America and help assure that HUD-assisted programs are managed in compliance with applicable laws and regulations. Management also is responsible for identifying and ensuring that the Partnership complies with the provisions of laws and regulations and contracts, and specific program requirements related to its activities, including HUD-assisted programs.

Although we can advise the Partnership, Sterling Health Care Management Co., LLC (Sterling), the management agent, and Mr. Montecalvo, it is management's responsibility to adopt sound accounting policies, maintain an adequate and efficient accounting system, safeguard assets, and devise policies to detect and prevent fraud.

Management's and Sterling's responsibility for financial reporting includes establishing a process to prepare the accounting estimates included in the financial statements. Management judgments are necessary, and are typically based on its knowledge and experience about past and current events, and its expected courses of action.

Management and Sterling are responsible to make available to us all correspondence, inspection and other reports issued by HUD, as well as the Partnership's response, corrective action plan, or similar correspondence to HUD.

In the event that we issue a schedule of findings and questioned costs, HUD requires that the Partnership and the management agent develop and transmit to them a corrective action plan. In addition, to the extent there were findings from prior years, the Partnership and the management agent are required to comment on the status of corrective action taken on these prior findings.

At the completion of our audits, management will provide us with representation letters confirming, among other things, that management is responsible for the Partnership's financial statements and compliance with provisions of laws, regulations and contracts, and specific program requirements, that have a direct and material effect on the financial statements and HUD-assisted programs, and the detection and prevention of fraud resulting from both fraudulent financial reporting and misappropriation of assets.

Management is responsible for adjusting the financial statements to correct material misstatements and for affirming to us in the representation letters that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to each of the years ended December 31, 1999 and 2000 are immaterial, both individually and in the aggregate, to the Partnership's financial statements taken as a whole.

Management and Sterling are responsible for making all financial records and related information available to us. The Partnership, its General Partner and Sterling agree to release, indemnify, defend, and hold harmless LGC&D and its principals and personnel from any liability or claim, and pay any legal fees and other costs incurred by LGC&D, as a result of LGC&D's reliance on any misrepresentations made by the Partnership, its General Partner or Sterling.

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Mr. Antone Giordano, General Partner
January 2, 2001
Page 5

The Partnership's Responsibilities (continued)

We will provide Ms. Evelyn Perez and Ms. Jeanne Frappier with a list of required schedules before the audits begin. Ms. Perez, Ms. Frappier, and the Partnership's staff will prepare the requested schedules and analyses. Timely completion of the audits depend on preparing schedules and analyses timely and accurately, and providing us on a concurrent basis with trial balances, subsidiary listings of accounts receivable and accounts payable, and other supporting data for each of the years ended December 31, 1999 and 2000. If there are delays in preparing this material, if schedules must be continually revised, and/or if we are not able to perform on a concurrent basis both financial statement audits, our fees will increase. We will advise Mr. Montecalvo of any difficulties or delays in completing the engagement.

Fees and Payment Arrangements

Our fees will be based on our customary rates for these services, plus out-of-pocket costs. Invoices will be submitted every two weeks as the work progresses. We shall make every effort to keep our time and expenses to the absolute minimum commensurate with the needs of this engagement.

Based upon information presently available to us, we estimate that our fees for the above services will range from $43,000 to $50,000, plus customary out-of-pocket costs not to exceed $2,000.

The Partnership will make minimum weekly payments to LGC&D of $1,000, commencing with the week beginning January 1, 2001. Should the Partnership fail to make any required weekly payment, we reserve the right to suspend our audits and/or not release the financial statements until such time as the Partnership brings the weekly payments current on a cumulative basis.

Additional Services

The Partnership is required to electronically submit to the HUD Real Estate Assessment Center (REAC) its audited financial statements (or portions thereof) for the each of the years ended December 31, 1999 and 2000. The due date for electronic submission is March 31, 2001. Under HUD guidelines, management may contract with LGC&D or a third party to perform the electronic submission at agreed upon fees, which are deemed allowable project costs by HUD. Under certain circumstances, HUD will require LGC&D to perform an attestation agreed-upon procedures engagement under AICPA Statement on Standards for Attestation Engagements No. 4 where LGC&D compares the electronically submitted data in the REAC staging database to the hard copy of the financial statements and supplementary data.

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Auditee Comments

Mr. Antone Giordano, General Partner
January 2, 2001
Page 6

Additional Services (continued)

Should services other than those covered by this letter be required or requested, such as the electronic submission to REAC or assistance in compiling or commenting on the Partnership's third-party costs reports for the year ended December 31, 2000, we will discuss with Mr. Montecalvo before beginning the work the extent of these services and the basis for additional fees. LGC&D reserves the right to require a retainer and/or an increase to the minimum weekly payments prior to our performing such additional services.

Agreement

Please sign and return the enclosed two copies of this letter to signify your understanding of the arrangements and as authorization for us to proceed.

We look forward to a continuing and mutually beneficial association.

Very truly yours,

LEFKOWITZ, GARFINKEL, CHAMPI & DeRIENZO P.C.

Stephen M. Garfinkel, Principal
Certified Public Accountant

ACCEPTED:

By: ______________________

Date: 2/1/01

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Lefkowitz, Garfinkel, Champi & DeRienzo P.C.
Certified Public Accountants / Business Consultants

cc: PF

Principals
Jerome L. Lefkowitz, CPA
Stephen M. Garfinkel, CPA
Frank J. Champi, CPA
Richard J. DeRienzo, CPA
Jerrold N. Dorfman, CPA, PFS
Peter Mezei, CPA
Stephen W. Geremia, CPA

January 7, 2002

Mr. Antone L. Giordano, General Partner
Mount Saint Francis Health Center Associates
4 Joseph Street
Woonsocket, RI 02895

Dear Mr. Giordano:

We are pleased to confirm our understanding of the nature and limitations of the services we are to provide for Mount Saint Francis Health Center Associates (the Partnership) for the year ended December 31, 2001.

We will apply the agreed-upon procedure, which was agreed to by the Partnership and the U.S. Department of Housing and Urban Development, Real Estate Assessment Center (REAC).

We will compare the electronic submission with the corresponding hard copy documents. The results of the performance of our agreed-upon procedure indicate agreement or non-agreement of electronically submitted information and hard copy documents.

This engagement is solely to assist REAC in determining whether the electronic submission of certain information agrees with the corresponding hard copy documents included within the *Consolidated Audit Guide for Audits of HUD Programs* issued by the U.S. Department of Housing and Urban Development, the *Uniform Financial Reporting Standards for HUD Housing Programs*, and the *Industry User Guide for the Financial Assessment Subsystem – Submission (FASSUB)* reporting package. Our engagement to apply agreed-upon procedures will be performed in accordance with the attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the reports. Consequently, we make no representation regarding the sufficiency of the procedures described above either for the purpose for which these reports have been requested or for any other purpose. If, for any reason, we are unable to complete the procedures, we will describe any restrictions on the performance of the procedures in our reports.

Because the agreed-upon procedures specified above do not constitute an examination, we will not express an opinion on compliance with the electronic submission requirements. In addition, we have no obligation to perform any procedures beyond those specified above.

10 Weybosset Street ▪ Suite 700 ▪ Providence, Rhode Island 02903 ▪ Tel (401) 421-4800 ▪ 1-800-927-LGCD ▪ Fax (401) 421-0643

Ref to OIG Evaluation

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Mr. Antone L. Giordano, General Partner
January 7, 2002
Page 2

A copy of the reporting packages required by HUD, which includes the auditors' reports, is available in its entirety from the Partnership. We take no responsibility for the security of the information transmitted electronically to the U.S. Department of Housing and Urban Development, REAC.

Our reports are intended solely for the information and use of the Partnership and the U.S. Department of Housing and Urban Development, REAC, and is not intended to be and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.

At the conclusion of our engagement, we will request certain written representations from management about compliance with the electronic submission requirements. You agree to hold us harmless from any liability and costs from misrepresentations made to us by management.

We understand that you will provide us access to the Partnership's electronic submissions and corresponding hard copy documents for the year ended December 31, 2001, we deem necessary to complete our engagement.

The workpapers for this engagement are the property of Lefkowitz, Garfinkel, Champi & DeRienzo P.C. (LGC&D) and constitute confidential information. However, we may be requested to make certain workpapers available to the Secretary of Housing and Urban Development, the U.S. Department of Housing and Urban Development (HUD) Inspector General and the General Accounting Office (GAO) or their representatives, pursuant to authority given to them by law or regulation. Access to such workpapers will be provided under the supervision of LGC&D's personnel. Furthermore, upon request, we may provide photocopies of selected workpapers to HUD or GAO representatives. HUD and the GAO may distribute the photocopies or information contained therein to others, including other governmental agencies.

Our fees for these services will be based on the actual time spent at our standard hourly rates, plus travel and other out-of-pocket costs such as report reproduction, typing, postage, etc. Our standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit. Our invoices for these fees will be rendered upon completion and are payable upon presentation. Ms. Tammy Anderson from our office will be your contact person for these engagements.

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Auditee Comments

Mr. Antone L. Giordano, General Partner
January 7, 2002
Page 3

We appreciate the opportunity to be of service to you and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy of this letter and return it to us.

Very truly yours,

LEFKOWITZ, GARFINKEL, CHAMPI & DeRIENZO P.C.

Michael E Criscione

Michael E. Criscione, Principal
Certified Public Accountant

MEC/mp

ACCEPTED:

By: Antone L. Giordano GP

Date: 2-02-02

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Ref to OIG Evaluation

Auditee Comments

LGC&D

Lefkowitz, Garfinkel, Champi & DeRienzo P.C.
Certified Public Accountants / Business Consultants

cc: PF

Principals
Jerome L. Lefkowitz, CPA
Stephen M. Garfinkel, CPA
Frank J. Champi, CPA
Richard J. DeRienzo, CPA
Jerrold N. Dorfman, CPA, PFS
Peter Mezei, CPA
Stephen W. Geremia, CPA

January 25, 2002

Mr. Antone L. Giordano, General Partner
Mount Saint Francis Health Center Associates
4 Joseph Street
Woonsocket, RI 02895

Dear Mr. Giordano:

Thank you for continuing to use Lefkowitz, Garfinkel, Champi & DeRienzo P.C. (LGC&D) as the independent auditors and third-party reimbursement consultants for Mount Saint Francis Health Center Associates (a Limited Partnership) (the Partnership). This letter confirms our understanding of the terms and objectives of our engagement and the nature and the limitations of the services we will provide.

Our Responsibilities

We will audit the Partnership's balance sheet as of December 31, 2001 and the related statements of loss, partners' equity deficiency and cash flows for the year then ended. We also will audit the Partnership's compliance with specific requirements applicable to its major HUD-assisted program for the year ended December 31, 2001.

We will plan and perform the audit in accordance with auditing standards generally accepted in the United States, standards for financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the Consolidated Audit Guide for Audits of HUD Programs (the Guide) issued by HUD. Those standards and the Guide require that we obtain reasonable, rather than absolute, assurance that the financial statements are free of material misstatement, whether caused by error or fraud. Accordingly, a material misstatement might remain undetected. In our audit, we will examine, on a test basis, evidence supporting the amounts and disclosures in the financial statements and evaluate the overall financial statement presentation. Using professional judgment, we will decide what, how much and when to test, and what the results mean.

The financial statements will include such supplementary data as may be required by HUD. This data will be presented for the purpose of additional analysis and will be subjected to the auditing procedures applied in the audit of the basic financial statements.

10 Weybosset Street ▪ Suite 700 ▪ Providence, Rhode Island 02903 ▪ Tel (401) 421-4800 ▪ 1-800-927-LGCD ▪ Fax (401)421-0643

Ref to OIG Evaluation | Auditee Comments

Mr. Antone L. Giordano, General Partner
January 25, 2002
Page 2

Our Responsibilities (continued)

We will update our understanding of the Partnership's internal control. Our purpose is to plan the audit and determine the nature, timing, and extent of the audit procedures needed to be performed to express our opinion on the financial statements, express our opinion on compliance with specific requirements applicable to its major HUD-assisted program, and to report on internal control in accordance with the provisions of the Guide, and not to provide assurance on, or identify significant deficiencies in, internal control.

We will perform tests of control, as required by the Guide, to evaluate the effectiveness of the design and operation of internal control relevant to preventing or detecting material noncompliance with specific requirements applicable to HUD-assisted programs. Our procedures will be substantially less in scope than would be necessary to render an opinion on internal control and, accordingly, we will not express an opinion on internal control.

We will perform procedures, as required by the Guide, to test compliance with specific requirements applicable to transactions related to non-major HUD-assisted programs, if any, selected as part of performing our audit of the financial statements or our consideration of internal control used to administer HUD-assisted programs, and to test compliance with Fair Housing and Non-Discrimination requirements applicable to HUD-assisted programs. Our procedures will be substantially less in scope than would be necessary to render an opinion and, accordingly, we will not express an opinion. However, we will report instances of noncompliance, or report that the results of our tests disclosed no instances of noncompliance that are required to be reported under the Guide.

An audit is not designed to detect error or fraud, including irregularities, illegal acts or theft that is immaterial to the financial statements. Accordingly, we will not design our audit or perform procedures to detect error or fraud that is not material to the financial statements. Error or fraud is considered to be material only if its magnitude, individually or in the aggregate, is such that a reasonable person relying on management's presentation of the Partnership's financial statements would be influenced by its inclusion or omission. Materiality is determined annually and applies to the Partnership's financial statements taken as a whole. Our engagement excludes services designed to detect error or fraud that is not material to the Partnership's financial statements, which are available under a separate engagement at substantial additional cost.

If, for any reason, we are unable to complete the audit or form an opinion on the Partnership's financial statements or on its compliance with specific requirements applicable to its major HUD-assisted program, we may decline to express an opinion or issue reports as a result of this engagement.

We will also prepare the Partnership's federal and state income tax returns for the year ended December 31, 2001. The income tax returns will be prepared from the Partnership's general ledger. We will not express an opinion or other form of assurance on the income tax returns.

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Mr. Antone L. Giordano, General Partner
January 25, 2002
Page 3

Our Responsibilities (continued)

We will use our judgment in resolving questions where the tax laws are unclear or where there may be conflict between the taxing authorities' interpretation of the law and what seem to be other supportable positions. We will discuss alternatives with Mr. John Montecalvo and we resolve such questions in the Partnership's favor, if Mr. Montecalvo and we believe there is a reasonable justification for the position being taken.

In accordance with requirements of the Secretary of Health and Human Services (HHS), we will retain our books and records (that are necessary to certify the nature and extent of the fee for our services) for the necessary time periods and allow the necessary access to such books and records by the duly authorized agents of the Secretary of HHS, the Comptroller General and their duly authorized representatives.

Our workpapers for this engagement are the property of LGC&D and constitute confidential information. However, as required by Government Auditing Standards, we are required to make certain workpapers and other documents in our possession related to our audit reports, or photocopies thereof, available to duly authorized agents of the Comptroller General of the United States, the Secretary of HUD, the HUD Inspector General, or other cognizant agencies, and their duly authorized representatives, upon request for their regulatory oversight purposes. In addition, we may be requested by third parties to make certain workpapers and other documents in our possession related to this engagement (or photocopies thereof) available to duly authorized agents of Secretary of HHS, the Comptroller General and their duly authorized representatives and/or representatives of other third party auditors. We retain our workpapers and other documents for the necessary time periods and provide to the appropriate duly authorized agents and their representatives access to, or photocopies of, requested workpapers and other documents under the supervision of LGC&D personnel and at a location designated by our Firm.

Your signing this letter constitutes both your acknowledgment of our requirement to provide such access and your permission to make requested workpapers and other documents, or to provide photocopies thereof, available to the appropriate duly authorized agents and their representatives for the purpose described in the preceding two paragraphs. We will advise Mr. Montecalvo if such requests are made.

As required by Government Auditing Standards, we are enclosing a copy of our Firm's latest Peer Review Report dated June 7, 2001.

Other Communications to the Partnership

We will communicate in writing to Mr. Montecalvo and/or you any matters coming to our attention that, in our judgment, represent significant deficiencies in the Partnership's internal control, which could adversely affect its ability to record, process, summarize, and report financial data.

Ref to OIG Evaluation

Auditee Comments

Mr. Antone L. Giordano, General Partner
January 25, 2002
Page 4

Other Communications to the Partnership (continued)

We also will communicate in writing to Mr. Montecalvo and/or you any significant irregularities or fraud that may come to our attention, as well as any comments relative to third-party reimbursement planning, compliance and/or strategies.

The Partnership's Responsibilities

The management of the Partnership is responsible for the financial statements and for maintaining effective internal control that will, among other things, help assure the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America and help assure that HUD-assisted programs are managed in compliance with applicable laws and regulations. Management also is responsible for identifying and ensuring that the Partnership complies with the provisions of laws and regulations and contracts, and specific program requirements related to its activities, including HUD-assisted programs.

Although we can advise the Partnership, Sterling Health Care Management Co., LLC (Sterling), the management agent, and Mr. Montecalvo, it is management's responsibility to adopt sound accounting policies, maintain an adequate and efficient accounting system, safeguard assets, and devise policies to detect and prevent fraud.

Management's and Sterling's responsibility for financial reporting includes establishing a process to prepare the accounting estimates included in the financial statements. Management judgments are necessary, and are typically based on its knowledge and experience about past and current events, and its expected courses of action.

Management and Sterling are responsible to make available to us all correspondence, inspection and other reports issued by HUD, as well as the Partnership's response, corrective action plan, or similar correspondence to HUD.

In the event that we issue a schedule of findings and questioned costs, HUD requires that the Partnership and the management agent develop and transmit to them a corrective action plan. In addition, to the extent there were findings from prior years, the Partnership and the management agent are required to comment on the status of corrective action taken on these prior findings.

At the completion of our audit, management will provide us with a representation letter confirming, among other things, that management is responsible for the Partnership's financial statements and compliance with provisions of laws, regulations and contracts, and specific program requirements, that have a direct and material effect on the financial statements and HUD-assisted programs, and the detection and prevention of fraud resulting from both fraudulent financial reporting and misappropriation of assets.

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Auditee Comments

Mr. Antone L. Giordano, General Partner
January 25, 2002
Page 5

The Partnership's Responsibilities (continued)

Management is responsible for adjusting the financial statements to correct material misstatements and for affirming to us in the representation letters that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the Partnership's financial statements taken as a whole.

Management and Sterling are responsible for making all financial records and related information available to us. The Partnership, its General Partner and Sterling agree to release, indemnify, defend, and hold harmless LGC&D and its principals and personnel from any liability or claim, and pay any legal fees and other costs incurred by LGC&D, as a result of LGC&D's reliance on any misrepresentations made by the Partnership, its General Partner or Sterling.

We will provide Ms. Jeanne Frappier with a list of required schedules before the audit begins. Ms. Frappier and the Partnership's staff will prepare the requested schedules and analyses. Timely completion of the audit depends on preparing schedules and analyses timely and accurately, and providing us on a concurrent basis with trial balances, subsidiary listings of accounts receivable and accounts payable, and other supporting data for the year ended December 31, 2001. If there are delays in preparing this material, if schedules must be continually revised, and/or if we are not able to perform on a concurrent basis the financial statement audit, our fees will increase. We will advise Mr. Montecalvo of any difficulties or delays in completing the engagement.

Fees and Payment Arrangements

Our fee for the aforementioned services will be $30,000, plus out-of-pocket costs. Invoices will be submitted every two weeks as the work progresses. We shall make every effort to keep our time and expenses to the absolute minimum commensurate with the needs of this engagement.

The Partnership will continue to make minimum weekly payments to LGC&D of $2,000. Should the Partnership fail to make any required weekly payment, we reserve the right to suspend our audit and/or not release the financial statements until such time as the Partnership brings the weekly payments current on a cumulative basis.

Ref to OIG Evaluation

Auditee Comments

Mr. Antone L. Giordano, General Partner
January 25, 2002
Page 6

Additional Services

We will compile, from information you provide, the Partnership's third-party cost reporting forms for Medicaid (Form BM-64) and Medicare (Form CMS-2540) for the year ended December 31, 2001. We will not audit or review these cost reports and will not express an opinion or any other form of assurance on them.

We will electronically submit the Partnership's annual financial statements and supplemental data to HUD.

We will also compile, from information provided by your staff, the Partnership's Medicaid Labor Cost Report for the periods July 1, 2001 through December 31, 2001 and January 1, 2002 through June 30, 2002. We will not audit or review these cost reports and will not express an opinion or any other form of assurance on them.

Our fee for these services will be based on our customary rates, plus out-of-pocket costs. Invoices will be submitted every two weeks as the work progresses.

We will use our judgment in resolving questions where either the reimbursement rules or tax law are unclear or where there may be conflict between the reimbursement or taxing authorities' interpretation of the law and what seem to be other supportable positions. We will resolve such questions in your favor, if there is a reasonable justification for the position being taken, and discuss alternatives with you.

We shall also be available for meetings, in person or via telephone, and as you may request, to discuss tax and reimbursement matters relating to the aforementioned companies.

We shall issue separate engagement letters for any additional services you may request, not covered by this letter.

Ref to OIG Evaluation | Auditee Comments

Mr. Antone L. Giordano, General Partner
January 25, 2002
Page 7

Agreement

Please sign and return the enclosed two copies of this letter to signify your understanding of the arrangements and as authorization for us to proceed.

We look forward to a continuing and mutually beneficial association.

Very truly yours,

Lefkowitz, Garfinkel, Champi & DeRienzo P.C.

Michael E Criscione

Michael E. Criscione, Principal
Certified Public Accountant

MEC/mp

ACCEPTED:

By: ______________________

Date: 2-22-02

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Ref to OIG Evaluation | Auditee Comments

DAVID BERDON & CO. LLP
Certified Public Accountants

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New York, NY 10017-1178
Tel: (212) 832-0400
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One Jericho Plaza
Jericho, NY 11753-1635
Tel: (516) 931-3100
Fax: (516) 931-0034

June 7, 2001

To the Shareholders
Lefkowitz, Garfinkel, Champi and DeRienzo P.C.

We have reviewed the system of quality control for the accounting and auditing practice of Lefkowitz, Garfinkel, Champi and DeRienzo P.C. (the firm) in effect for the year ended March 31, 2001. A system of quality control encompasses the firm's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of complying with professional standards. The elements of quality control are described in the Statements of Quality Control Standards issued by the American Institute of Certified Public Accountants (the "AICPA"). The design of the system, and compliance with it, are the responsibilities of the firm. In addition, the firm has agreed to comply with the membership requirements of the SEC Practice Section of the AICPA Division for CPA Firms (the Section). Our responsibility is to express an opinion on the design of the system, and the firm's compliance with that system and the Section's membership requirements based on our review.

Our review was conducted in accordance with standards established by the Peer Review Committee of the Section. In performing our review, we obtained an understanding of the system of quality control for the firm's accounting and auditing practice. In addition, we tested compliance with the firm's quality control policies and procedures and with the membership requirements of the Section to the extent we considered appropriate. These tests covered the application of the firm's policies and procedures on selected engagements. Because our review was based on selective tests, it would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it or the membership requirements of the Section. As is customary in a peer review, we are issuing a letter of comment relating to certain policies and procedures or compliance with them. This matter was not considered to be of sufficient significance to affect the opinion expressed in the report.

Because there are inherent limitations in the effectiveness of any system of quality control, departures from the system may occur and not be detected. Also, projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Ref to OIG Evaluation	Auditee Comments

In our opinion, the system of quality control for the accounting and auditing practice of Lefkowitz, Garfinkel, Champi and DeRienzo P.C., in effect for the year ended March 31, 2001 has been designed to meet the requirements of the quality control standards for an accounting and auditing practice established by the AICPA, and was complied with during the year then ended to provide the firm with reasonable assurance of complying with professional standards. Also, in our opinion, the firm has complied with the membership requirements of the Section in all material respects.

Daniel Becker & Co. LLP

Certified Public Accountants

Ref to OIG Evaluation　　　　Auditee Comments

AICPA

SEC PRACTICE SECTION

September 26, 2001

Jerome L. Lefkowitz, CPA
Lefkowitz, Garfinkel, Champi
& DeRienzo, P. C.
10 Weybosset St
Providence, RI 02903

Dear Mr. Lefkowitz:

It is my pleasure to notify you that on September 17, 2001 the SECPS Peer Review Committee accepted the report on the most recent peer review of your firm, the related letter of comments, and your firm's response thereto. Those documents will now be placed in the public files of the SEC Practice Section. The exit conference on your next review must occur by December 31, 2004.

As you know, the reviewer's opinion was unmodified. The Committee asked me to convey its congratulations to the firm.

Sincerely,

Richard L. Miller, CPA
Chair
SECPS Peer Review Committee

cc: Robert M Sattler, CPA

Firm Number: 10115075　　　　Review Number: 173653

American Institute of Certified Public Accountants
Harborside Financial Center, 201 Plaza Three, Jersey City, NJ 07311-3881
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<u>Ref to OIG Evaluation</u> <u>Auditee Comments</u>

Lefkowitz, Garfinkel, Champi & DeRienzo P.C.
Certified Public Accountants / Business Consultants

Principals
Jerome L. Lefkowitz, CPA
Stephen M. Garfinkel, CPA
Frank J. Champi, CPA
Richard J. DeRienzo, CPA
Jerrold N. Dorfman, CPA, PFS
Peter Mezei, CPA
Stephen W. Geremia, CPA
Susan R. Johnson, CPA
Michael E. Criscione, CPA

May 14, 2002

Mr. Antone L. Giordano, General Partner
Mount St. Francis Health Center Associates
4 St. Joseph Street
Woonsocket, RI 02895

RE: Mount St. Francis Associates, LP d/b/a Mount St. Francis Health Center 401(k) Plan

Dear Mr. Giordano:

Thank you for the opportunity for Lefkowitz, Garfinkel, Champi & DeRienzo P.C. (LGC&D) to provide services for the Mt. St. Francis Associates, LP d/b/a Mount St. Francis Health Center 401K Plan (the Plan) for the year ended December 31, 2001. This letter confirms our understanding of the terms and objectives of our engagement and the nature of the services we will provide.

<u>Our Responsibilities</u>

We will audit the statement of net assets available for benefits of the Plan as of December 31, 2001, and the related statement of changes in net assets available for benefits for the year then ended.

We will plan and perform the audit in accordance with auditing standards generally accepted in the United States. Those standards require that we obtain reasonable, rather than absolute, assurance that the financial statements are free of material misstatement, whether caused by error or fraud. Accordingly, a material misstatement might remain undetected. In our audit, we will examine, on a test basis, evidence supporting the amounts and disclosures in the financial statements, and evaluate the overall financial statement presentation. Using professional judgment, we will decide what, how much and when to test, and what the results mean.

We will obtain an understanding of the Plan's internal control. Our purpose is to plan the audit and determine the nature, timing, and extent of the audit procedures needed to be performed to express our opinion on the financial statements and not to provide assurance on, or identify significant deficiencies in, internal control.

10 Weybosset Street ▪ Suite 700 ▪ Providence, Rhode Island 02903 ▪ Tel (401) 421-4800 ▪ 1-800-927-LGCD ▪ Fax (401)421-0643

Ref to OIG Evaluation

Auditee Comments

Mr. Antone L. Giordano, General Partner
May 14, 2002
Page 2

Our Responsibilities (continued)

An audit is not designed to detect error or fraud, including irregularities, illegal acts or theft that is immaterial to the financial statements. Accordingly, we will not design our audit or perform procedures to detect error or fraud that is not material to the financial statements. Error or fraud is considered to be material only if its magnitude, individually or in the aggregate, is such that a reasonable person relying on management's presentation of the Plan's financial statements would be influenced by its inclusion or omission. Materiality is determined annually and applies to the Plan's financial statements taken as a whole. Our engagement excludes services designed to detect error or fraud that is not material to the Plan's financial statements, which are available under a separate engagement at substantial additional cost.

We understand that the Plan has elected the method of compliance permitted by Section 2520.103-8 of the Department of Labor Rules and Regulations for Reporting and Disclosure under ERISA. Accordingly, as permitted under such election, we will not perform any audit procedures with respect to information certified by the Trustee's agent of the Plan, except that we will compare such information to the related information included in the financial statements. We understand that the Trustee's agent holds the Plan's investment assets and executes transactions therein, and that the Plan will obtain a certificate from the Trustee's agent that the information provided by the Trustee's agent is complete and accurate.

Our auditing procedures will include tests of documentary evidence supporting the transactions recorded in the accounts and direct confirmation of investments, except those certified to by the Trustee's agent, and certain other assets and liabilities by correspondence with selected participants, legal counsel and financial institutions.

Because of the significance of the information that we will not audit, we will be unable to express an opinion on the financial statements taken as a whole.

The purpose of our audit will be to permit us to render an opinion as to the compliance of information included in the financial statements, other than the information certified by the Trustee's agent, with the Department of Labor Rules and Regulations for Reporting and Disclosure under ERISA.

In accordance with requirements of the Secretary of Health and Human Services (HHS), we will retain our books and records (that are necessary to certify the nature and extent of the fee for our services) for the necessary time periods and allow the necessary access to such books and records by duly authorized agents of the Secretary of Health and Human Services (HHS), the Comptroller General and their duly authorized representatives.

Ref to OIG Evaluation | Auditee Comments

Mr. Antone L. Giordano, General Partner
May 14, 2002
Page 3

Our Responsibilities (continued)

Our workpapers for this engagement are the property of Lefkowitz, Garfinkel, Champi & DeRienzo P.C. and constitute confidential information. However, we may be requested by the United States Department of Labor (DOL) pursuant to authority given to it by law to make certain workpapers and other documents in our possession related to this engagement (or photocopies thereof) available to authorized representatives of the DOL, and the DOL may intend or decide to distribute the photocopies of information provided to them to others including other governmental agencies. Also, we may be requested by third party auditors to make certain workpapers and other documents in our possession related to this engagement (or photocopies thereof) available to duly authorized agents of Secretary of HHS, the Comptroller General and their duly authorized representatives and/or representative of the third party auditors. We will retain our workpapers for the necessary time periods and provide to the appropriate duly authorized agents and their representatives access to requested workpapers and other documents under the supervision of LGC&D audit personnel and at a location designated by our firm.

Your signing this letter constitutes both your acknowledgement of our requirement to provide such access and your permission to make requested workpapers and other documents, or to provide photocopies thereof, available to the appropriate duly authorized agents and their representatives for the purposes described in the preceding two paragraphs. We will advise you if such requests are made.

If, for any reason, we are unable to complete the engagement or are unable to form or have not formed a limited-scope opinion as permitted by Regulation 2520.103-8 of the DOL's Rules and Regulations for Reporting and Disclosure under ERISA, we may decline to express such an opinion or to issue a report as a result of this engagement.

Our Communications to the Plan's Administrator

We will communicate in writing to the Plan's Administrator any matters coming to our attention that, in our judgment, represent significant deficiencies in the Plan's internal control, which could adversely affect its ability to record, process, summarize, and report financial data.

We also will communicate in writing to the Plan's Administrator any significant irregularities or fraud that may come to our attention.

Ref to OIG Evaluation

Auditee Comments

Mr. Antone L. Giordano, General Partner
May 14, 2002
Page 4

The Plan's Responsibilities

The management of the Plan is responsible for the financial statements and for maintaining effective internal control over financial reporting that will, among other things, help assure the preparation of financial statements in conformity with the principles generally accepted in the United States. Management also is responsible for identifying and ensuring that the Plan complies with all laws and regulations related to its activities.

Although we can advise the Plan, it is management's responsibility to adopt sound accounting policies, maintain an adequate and efficient accounting system, safeguard assets, and devise policies to prevent fraud.

Management's responsibility for financial reporting includes establishing a process to prepare the accounting estimates included in the financial statements. Management judgments are necessary, and are typically based on its knowledge and experience about past and current events, and its expected courses of action.

At the completion of our audit, management will provide us with a representation letter confirming, among other things, that management is responsible for the Plan's financial statements and, should any misstatements not be corrected do to immateriality, that management considers such uncorrected misstatements as immaterial, individually and in the aggregate, in relation to the Plan's financial statements taken as a whole.

Management and the Plan Administrator are responsible for making all financial records and related information available to us. The Plan and Mt. St. Francis Health Center Associates (the Center) agree to release, indemnify, defend, and hold harmless LGC&D and its principals and personnel from any liability or claim, and pay any legal fees and other costs incurred by LGC&D, as a result of LGC&D's reliance on any misrepresentations made by the Plan or management of the Center.

Mr. Peter Fournier, Administrator of the Center and his staff will provide us with the Plan's Form 5500 and all other requested schedules and analyses. Timely completion of the audit depends on preparing schedules and analyses timely and accurately. If there are delays in preparing this material or if schedules must be continually revised, our fees will increase. We will advise you of any difficulties or delays in completing the engagement.

We understand that The Hartford Life Insurance Company will prepare Form 5500 for the year ended December 31, 2001. We will read the Form 5500 as it relates to our audit. If our reading of the Form 5500 leads us to believe there is an inconsistency between the return and our audited financial statements we will advise you accordingly.

Ref to OIG Evaluation | Auditee Comments

Mr. Antone L. Giordano, General Partner
May 14, 2002
Page 5

Fees

Our fee for the above mentioned services will be based on our customary rates for these services, plus out-of-pocket costs. An invoice will be submitted at the completion of the audit and is due when presented.

Should services other than those covered by this letter be required or requested, we will discuss with you before beginning the work the extent of these services and the basis for additional fees.

Additional Services

Both parties may agree that we perform additional services not contemplated by this engagement letter. If this occurs, we will communicate with you regarding the scope and estimated cost of these additional services. Engagements for additional services may necessitate that we issue a separate engagement letter to reflect the obligations of both parties. In the absence of any other written communications from us documenting such additional services, our services will be governed by the terms of this engagement letter.

Agreement

Please sign and return the enclosed two copies of this letter to signify your understanding of the arrangements and as authorization for us to proceed.

We look forward to a continuing and mutually beneficial association.

Very truly yours,

LEFKOWITZ, GARFINKEL, CHAMPI & DeRIENZO P.C.

Michael E. Criscione

Michael E. Criscione, Principal
Certified Public Accountant

MEC/mp

ACCEPTED:

By: Antone L. Giordano

Date: 6-17-02

G:\Client Data\00000900-00999\00945 00.3\ St Francis Health Center Assoc\Pension or Profit Sharing Correspondence\2001\Engagement Letter.doc

Ref to OIG Evaluation

Auditee Comments

Lefkowitz, Garfinkel, Champi & DeRienzo P.C.
Certified Public Accountants / Business Consultants

January 13, 2003

Mr. Antone L. Giordano, General Partner
Mount St. Francis Health Center Associates
4 St. Joseph Street
Woonsocket, RI 02895

RE: Mount St. Francis Associates, LP d/b/a Mount St. Francis Health Center 401(k) Plan

Dear Mr. Giordano:

Thank you for continuing to use Lefkowitz, Garfinkel, Champi & DeRienzo P.C. (LGC&D) as the independent auditors for the Mt. St. Francis Associates, LP d/b/a Mount St. Francis Health Center 401(k) Plan (the Plan) for the year ended December 31, 2002. This letter confirms our understanding of the terms and objectives of our engagement and the nature of the services we will provide.

Our Responsibilities

We will audit the statement of net assets available for benefits of the Plan as of December 31, 2002, and the related statement of changes in net assets available for benefits for the year then ended.

We will plan and perform the audit in accordance with auditing standards generally accepted in the United States. Those standards require that we obtain reasonable, rather than absolute, assurance that the financial statements are free of material misstatement, whether caused by error or fraud. Accordingly, a material misstatement might remain undetected. In our audit, we will examine, on a test basis, evidence supporting the amounts and disclosures in the financial statements, and evaluate the overall financial statement presentation. Using professional judgment, we will decide what, how much and when to test, and what the results mean.

We will update our understanding of the Plan's internal control. Our purpose is to plan the audit and determine the nature, timing, and extent of the audit procedures needed to be performed to express our opinion on the financial statements and not to provide assurance on, or identify significant deficiencies in, internal control.

10 Weybosset Street ▪ Suite 700 ▪ Providence, Rhode Island 02903 ▪ Tel (401) 421-4800 ▪ 1-800-927-LGCD ▪ Fax (401)421-0643

Ref to OIG Evaluation | Auditee Comments

Mr. Antone L. Giordano, General Partner
January 13, 2003
Page 2

Our Responsibilities (continued)

An audit is not designed to detect error or fraud, including irregularities, illegal acts or theft that is immaterial to the financial statements. Accordingly, we will not design our audit or perform procedures to detect error or fraud that is not material to the financial statements. Error or fraud is considered to be material only if its magnitude, individually or in the aggregate, is such that a reasonable person relying on management's presentation of the Plan's financial statements would be influenced by its inclusion or omission. Materiality is determined annually and applies to the Plan's financial statements taken as a whole. Our engagement excludes services designed to detect error or fraud that is not material to the Plan's financial statements, which are available under a separate engagement at substantial additional cost.

We understand that the Plan has elected the method of compliance permitted by Section 2520.103-8 of the Department of Labor Rules and Regulations for Reporting and Disclosure under ERISA. Accordingly, as permitted under such election, we will not perform any audit procedures with respect to information certified by the Trustee's agent of the Plan, except that we will compare such information to the related information included in the financial statements. We understand that the Trustee's agent holds the Plan's investment assets and executes transactions therein, and that the Plan will obtain a certificate from the Trustee's agent that the information provided by the Trustee's agent is complete and accurate.

Our auditing procedures will include tests of documentary evidence supporting the transactions recorded in the accounts and direct confirmation of investments, except those certified to by the Trustee's agent, and certain other assets and liabilities by correspondence with selected participants, legal counsel and financial institutions.

Because of the significance of the information that we will not audit, we will be unable to express an opinion on the financial statements taken as a whole.

The purpose of our audit will be to permit us to render an opinion as to the compliance of information included in the financial statements, other than the information certified by the Trustee's agent, with the Department of Labor Rules and Regulations for Reporting and Disclosure under ERISA.

In accordance with requirements of the Secretary of Health and Human Services (HHS), we will retain our books and records (that are necessary to certify the nature and extent of the fee for our services) for the necessary time periods and allow the necessary access to such books and records by duly authorized agents of the Secretary of Health and Human Services (HHS), the Comptroller General and their duly authorized representatives.

Ref to OIG Evaluation

Auditee Comments

Mr. Antone L. Giordano, General Partner
January 13, 2003
Page 3

Our Responsibilities (continued)

Our workpapers for this engagement are the property of Lefkowitz, Garfinkel, Champi & DeRienzo P.C. and constitute confidential information. However, we may be requested by the United States Department of Labor (DOL) pursuant to authority given to it by law to make certain workpapers and other documents in our possession related to this engagement (or photocopies thereof) available to authorized representatives of the DOL, and the DOL may intend or decide to distribute the photocopies of information provided to them to others including other governmental agencies. Also, we may be requested by third party auditors to make certain workpapers and other documents in our possession related to this engagement (or photocopies thereof) available to duly authorized agents of Secretary of HHS, the Comptroller General and their duly authorized representatives and/or representative of the third party auditors. We will retain our workpapers for the necessary time periods and provide to the appropriate duly authorized agents and their representatives access to requested workpapers and other documents under the supervision of LGC&D audit personnel and at a location designated by our firm.

Your signing this letter constitutes both your acknowledgement of our requirement to provide such access and your permission to make requested workpapers and other documents, or to provide photocopies thereof, available to the appropriate duly authorized agents and their representatives for the purposes described in the preceding two paragraphs. We will advise you if such requests are made.

If, for any reason, we are unable to complete the engagement or are unable to form or have not formed a limited-scope opinion as permitted by Regulation 2520.103-8 of the DOL's Rules and Regulations for Reporting and Disclosure under ERISA, we may decline to express such an opinion or to issue a report as a result of this engagement.

Our Communications to the Plan's Administrator

We will communicate in writing to the Plan's Administrator any matters coming to our attention that, in our judgment, represent significant deficiencies in the Plan's internal control, which could adversely affect its ability to record, process, summarize, and report financial data.

We also will communicate in writing to the Plan's Administrator any significant irregularities or fraud that may come to our attention.

Ref to OIG Evaluation

Auditee Comments

Mr. Antone L. Giordano, General Partner
January 13, 2003
Page 4

The Plan's Responsibilities

The management of the Plan is responsible for the financial statements and for maintaining effective internal control over financial reporting that will, among other things, help assure the preparation of financial statements in conformity with the principles generally accepted in the United States. Management also is responsible for identifying and ensuring that the Plan complies with all laws and regulations related to its activities.

Although we can advise the Plan, it is management's responsibility to adopt sound accounting policies, maintain an adequate and efficient accounting system, safeguard assets, and devise policies to prevent fraud.

Management's responsibility for financial reporting includes establishing a process to prepare the accounting estimates included in the financial statements. Management judgments are necessary, and are typically based on its knowledge and experience about past and current events, and its expected courses of action.

At the completion of our audit, management will provide us with a representation letter confirming, among other things, that management is responsible for the Plan's financial statements and, should any misstatements not be corrected do to immateriality, that management considers such uncorrected misstatements as immaterial, individually and in the aggregate, in relation to the Plan's financial statements taken as a whole.

Management and the Plan Administrator are responsible for making all financial records and related information available to us. The Plan and Mt. St. Francis Health Center Associates (the Center) agree to release, indemnify, defend, and hold harmless LGC&D and its principals and personnel from any liability or claim, and pay any legal fees and other costs incurred by LGC&D, as a result of LGC&D's reliance on any misrepresentations made by the Plan or management of the Center.

Mr. Peter Fournier, Administrator of the Center and his staff will provide us with the Plan's Form 5500 and all other requested schedules and analyses. Timely completion of the audit depends on preparing schedules and analyses timely and accurately. If there are delays in preparing this material or if schedules must be continually revised, our fees will increase. We will advise you of any difficulties or delays in completing the engagement.

We understand that The Hartford Life Insurance Company will prepare Form 5500 for the year ended December 31, 2002. We will read the Form 5500 as it relates to our audit. If our reading of the Form 5500 leads us to believe there is an inconsistency between the return and our audited financial statements we will advise you accordingly.

Ref to OIG Evaluation | Auditee Comments

Mr. Antone L. Giordano, General Partner
January 13, 2003
Page 5

Fees

Our fee for the above mentioned services will be based on our customary rates for these services, plus out-of-pocket costs. An invoice will be submitted at the completion of the audit and is due when presented. # See attached for Schedule.

Should services other than those covered by this letter be required or requested, we will discuss with you before beginning the work the extent of these services and the basis for additional fees.

Additional Services

Both parties may agree that we perform additional services not contemplated by this engagement letter. If this occurs, we will communicate with you regarding the scope and estimated cost of these additional services. Engagements for additional services may necessitate that we issue a separate engagement letter to reflect the obligations of both parties. In the absence of any other written communications from us documenting such additional services, our services will be governed by the terms of this engagement letter.

Agreement

Please sign and return the enclosed two copies of this letter to signify your understanding of the arrangements and as authorization for us to proceed.

We look forward to a continuing and mutually beneficial association.

Very truly yours,

LEFKOWITZ, GARFINKEL, CHAMPI & DeRIENZO P.C.

Michael E. Criscione

Michael E. Criscione, Principal
Certified Public Accountant

MEC/mp

ACCEPTED:

By: Antone L. Giordano

Date: 2/24/03

G:\Client Data\03003300-03399\03368.00-Mt. St. Francis Health Ctr. 401(k) Plan\Audit Correspondence\2002\Engagement Letter.doc

Ref to OIG Evaluation Auditee Comments

Lefkowitz, Garfinkel, Champi & DeRienzo P.C.
Certified Public Accountants / Business Consultants

Principals
Jerome L. Lefkowitz, CPA
Stephen M. Garfinkel, CPA
Frank J. Champi, CPA
Richard J. DeRienzo, CPA
Jerrold N. Dorfman, CPA, PFS
Peter Mezei, CPA
Stephen W. Geremia, CPA
Susan R. Johnson, CPA
Michael E. Criscione, CPA

February 13, 2003

Mr. Antone L. Giordiano, General Partner
Mount St. Francis Health Center
4 St. Joseph Street
Woonsocket, RI 02895

RE: Engagement Letters – Mount St. Francis Health Center (the Partnership)
401(K) Plan and Electronic Submission of Financial Statements to HUD
Year Ended December 31, 2002

Dear Antone:

The following fee ranges will be incorporated into our original engagement letters dated January 13, 2003 by way of this addendum.

Fees

The fee for the Partnership's 401(K) Plan audit will be in the range of $3,500 to $4,000 plus customary out-of-pocket costs. The fee for the electronic submission of the Partnership's financial statements to HUD will be approximately $750.

Agreement

If this addendum correctly expresses your understanding, please indicate your approval by signing and returning the enclosed two copies of this letter along with two copies of the original engagement letter to me.

Very truly yours,

LEFKOWITZ, GARFINKEL, CHAMPI & DeRIENZO P.C.

Michael E. Criscione

Michael E. Criscione, Principal
Certified Public Accountant

ACCEPTED:

By:

Date:

10 Weybosset Street ▪ Suite 700 ▪ Providence, Rhode Island 02903 ▪ Tel (401) 421-4800 ▪ 1-800-927-LGCD ▪ Fax (401) 421-0643

Ref to OIG Evaluation | Auditee Comments

LGCD

Lefkowitz, Garfinkel, Champi & DeRienzo P.C.
Certified Public Accountants / Business Consultants

February 13, 2003

Mr. Antone L. Giordiano, General Partner
Mount St. Francis Health Center
4 St. Joseph Street
Woonsocket, RI 02895

RE: Engagement Letters – Mount St. Francis Health Center (the Partnership)
401(K) Plan and Electronic Submission of Financial Statements to HUD
Year Ended December 31, 2002

Dear Antone:

The following fee ranges will be incorporated into our original engagement letters dated January 13, 2003 by way of this addendum.

Fees

The fee for the Partnership's 401(K) Plan audit will be in the range of $3,500 to $4,000 plus customary out-of-pocket costs. The fee for the electronic submission of the Partnership's financial statements to HUD will be approximately $750.

Agreement

If this addendum correctly expresses your understanding, please indicate your approval by signing and returning the enclosed two copies of this letter along with two copies of the original engagement letter to me.

Very truly yours,

LEFKOWITZ, GARFINKEL, CHAMPI & DeRIENZO P.C.

Michael E. Criscione

Michael E. Criscione, Principal
Certified Public Accountant

ACCEPTED:

By: Antone L. Giordiano

Date: 2/24/03

10 Weybosset Street ▪ Suite 700 ▪ Providence, Rhode Island 02903 ▪ Tel (401) 421-4800 ▪ 1-800-927-LGCD ▪ Fax (401)421-0643

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Lefkowitz, Garfinkel, Champi & DeRienzo P.C.
Certified Public Accountants / Business Consultants

Principals
Jerome L. Lefkowitz, CPA
Stephen M. Garfinkel, CPA
Frank J. Champi, CPA
Richard J. DeRienzo, CPA
Jerrold N. Dorfman, CPA, PFS
Peter Mezei, CPA
Stephen W. Geremia, CPA
Susan R. Johnson, CPA
Michael E. Criscione, CPA

January 13, 2003

Mr. Antone L. Giordano, General Partner
Mount Saint Francis Health Center Associates
4 Joseph Street
Woonsocket, RI 02895

Dear Mr. Giordano:

Thank you for continuing to use Lefkowitz, Garfinkel, Champi & DeRienzo P.C. (LGC&D) as the independent auditors and third-party reimbursement consultants for Mount Saint Francis Health Center Associates (a Limited Partnership) (the Partnership). This letter confirms our understanding of the terms and objectives of our engagement and the nature and the limitations of the services we will provide.

Our Responsibilities

We will audit the Partnership's balance sheet as of December 31, 2002 and the related statements of loss, partners' equity deficiency and cash flows for the year then ended. We also will audit the Partnership's compliance with specific requirements applicable to its major HUD-assisted program for the year ended December 31, 2002.

We will plan and perform the audit in accordance with auditing standards generally accepted in the United States, standards for financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the Consolidated Audit Guide for Audits of HUD Programs (the Guide) issued by HUD. Those standards and the Guide require that we obtain reasonable, rather than absolute, assurance that the financial statements are free of material misstatement, whether caused by error or fraud. Accordingly, a material misstatement might remain undetected. In our audit, we will examine, on a test basis, evidence supporting the amounts and disclosures in the financial statements and evaluate the overall financial statement presentation. Using professional judgment, we will decide what, how much and when to test, and what the results mean.

The financial statements will include such supplementary data as may be required by HUD. This data will be presented for the purpose of additional analysis and will be subjected to the auditing procedures applied in the audit of the basic financial statements.

We will update our understanding of the Partnership's internal control. Our purpose is to plan the audit and determine the nature, timing, and extent of the audit procedures needed to be performed to express our opinion on the financial statements, express our opinion on compliance with specific requirements applicable to its major HUD-assisted program, and to report on internal control in accordance with the provisions of the Guide, and not to provide assurance on, or identify significant deficiencies in, internal control.

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Mr. Antone L. Giordano, General Partner
January 13, 2003
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Our Responsibilities (continued)

We will perform tests of control, as required by the Guide, to evaluate the effectiveness of the design and operation of internal control relevant to preventing or detecting material noncompliance with specific requirements applicable to HUD-assisted programs. Our procedures will be substantially less in scope than would be necessary to render an opinion on internal control and, accordingly, we will not express an opinion on internal control.

We will perform procedures, as required by the Guide, to test compliance with specific requirements applicable to transactions related to non-major HUD-assisted programs, if any, selected as part of performing our audit of the financial statements or our consideration of internal control used to administer HUD-assisted programs, and to test compliance with Fair Housing and Non-Discrimination requirements applicable to HUD-assisted programs. Our procedures will be substantially less in scope than would be necessary to render an opinion and, accordingly, we will not express an opinion. However, we will report instances of noncompliance, or report that the results of our tests disclosed no instances of noncompliance that are required to be reported under the Guide.

An audit is not designed to detect error or fraud, including irregularities, illegal acts or theft that is immaterial to the financial statements. Accordingly, we will not design our audit or perform procedures to detect error or fraud that is not material to the financial statements. Error or fraud is considered to be material only if its magnitude, individually or in the aggregate, is such that a reasonable person relying on management's presentation of the Partnership's financial statements would be influenced by its inclusion or omission. Materiality is determined annually and applies to the Partnership's financial statements taken as a whole. Our engagement excludes services designed to detect error or fraud that is not material to the Partnership's financial statements, which are available under a separate engagement at substantial additional cost.

If, for any reason, we are unable to complete the audit or form an opinion on the Partnership's financial statements or on its compliance with specific requirements applicable to its major HUD-assisted program, we may decline to express an opinion or issue reports as a result of this engagement.

We will also prepare the Partnership's federal and state income tax returns for the year ended December 31, 2002. The income tax returns will be prepared from the Partnership's general ledger. We will not express an opinion or other form of assurance on the income tax returns.

We will use our judgment in resolving questions where the tax laws are unclear or where there may be conflict between the taxing authorities' interpretation of the law and what seem to be other supportable positions. We will discuss alternatives with Mr. John Montecalvo and we resolve such questions in the Partnership's favor, if Mr. Montecalvo and we believe there is a reasonable justification for the position being taken.

In accordance with requirements of the Secretary of Health and Human Services (HHS), we will retain our books and records (that are necessary to certify the nature and extent of the fee for our services) for the necessary time periods and allow the necessary access to such books and records by the duly authorized agents of the Secretary of HHS, the Comptroller General and their duly authorized representatives.

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Auditee Comments

Mr. Antone L. Giordano, General Partner
January 13, 2003
Page 3

Our Responsibilities (continued)

Our workpapers for this engagement are the property of LGC&D and constitute confidential information. However, as required by Government Auditing Standards, we are required to make certain workpapers and other documents in our possession related to our audit reports, or photocopies thereof, available to duly authorized agents of the Comptroller General of the United States, the Secretary of HUD, the HUD Inspector General, or other cognizant agencies, and their duly authorized representatives, upon request for their regulatory oversight purposes. In addition, we may be requested by third parties to make certain workpapers and other documents in our possession related to this engagement (or photocopies thereof) available to duly authorized agents of Secretary of HHS, the Comptroller General and their duly authorized representatives and/or representatives of other third party auditors. We retain our workpapers and other documents for the necessary time periods and provide to the appropriate duly authorized agents and their representatives access to, or photocopies of, requested workpapers and other documents under the supervision of LGC&D personnel and at a location designated by our Firm.

Your signing this letter constitutes both your acknowledgment of our requirement to provide such access and your permission to make requested workpapers and other documents, or to provide photocopies thereof, available to the appropriate duly authorized agents and their representatives for the purpose described in the preceding two paragraphs. We will advise Mr. Montecalvo if such requests are made.

As required by Government Auditing Standards, we have previously provided you with a copy of our Firm's latest Peer Review Report dated June 7, 2001.

Other Communications to the Partnership

We will communicate in writing to Mr. Montecalvo and/or you any matters coming to our attention that, in our judgment, represent significant deficiencies in the Partnership's internal control, which could adversely affect its ability to record, process, summarize, and report financial data.

We also will communicate in writing to Mr. Montecalvo and/or you any significant irregularities or fraud that may come to our attention, as well as any comments relative to third-party reimbursement planning, compliance and/or strategies.

The Partnership's Responsibilities

The management of the Partnership is responsible for the financial statements and for maintaining effective internal control that will, among other things, help assure the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America and help assure that HUD-assisted programs are managed in compliance with applicable laws and regulations. Management also is responsible for identifying and ensuring that the Partnership complies with the provisions of laws and regulations and contracts, and specific program requirements related to its activities, including HUD-assisted programs.

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Mr. Antone L. Giordano, General Partner
January 13, 2003
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The Partnership's Responsibilities (continued)

Although we can advise the Partnership, Sterling Health Care Management Co., LLC (Sterling), the management agent, and Mr. Montecalvo, it is management's responsibility to adopt sound accounting policies, maintain an adequate and efficient accounting system, safeguard assets, and devise policies to detect and prevent fraud.

Management's and Sterling's responsibility for financial reporting includes establishing a process to prepare the accounting estimates included in the financial statements. Management judgments are necessary, and are typically based on its knowledge and experience about past and current events, and its expected courses of action.

Management and Sterling are responsible to make available to us all correspondence, inspection and other reports issued by HUD, as well as the Partnership's response, corrective action plan, or similar correspondence to HUD.

In the event that we issue a schedule of findings and questioned costs, HUD requires that the Partnership and the management agent develop and transmit to them a corrective action plan. In addition, to the extent there were findings from prior years, the Partnership and the management agent are required to comment on the status of corrective action taken on these prior findings.

At the completion of our audit, management will provide us with a representation letter confirming, among other things, that management is responsible for the Partnership's financial statements and compliance with provisions of laws, regulations and contracts, and specific program requirements, that have a direct and material effect on the financial statements and HUD-assisted programs, and the detection and prevention of fraud resulting from both fraudulent financial reporting and misappropriation of assets.

Management is responsible for adjusting the financial statements to correct material misstatements and for affirming to us in the representation letters that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the Partnership's financial statements taken as a whole.

Management and Sterling are responsible for making all financial records and related information available to us. The Partnership, its General Partner and Sterling agree to release, indemnify, defend, and hold harmless LGC&D and its principals and personnel from any liability or claim, and pay any legal fees and other costs incurred by LGC&D, as a result of LGC&D's reliance on any misrepresentations made by the Partnership, its General Partner or Sterling.

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Mr. Antone L. Giordano, General Partner
January 13, 2003
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The Partnership's Responsibilities (continued)

We will provide Ms. Jeanne Frappier with a list of required schedules before the audit begins. Ms. Frappier and the Partnership's staff will prepare the requested schedules and analyses. Timely completion of the audit depends on preparing schedules and analyses timely and accurately, and providing us on a concurrent basis with trial balances, subsidiary listings of accounts receivable and accounts payable, and other supporting data for the year ended December 31, 2002. If there are delays in preparing this material, if schedules must be continually revised, and/or if we are not able to perform on a concurrent basis the financial statement audit, our fees will increase. We will advise Mr. Montecalvo of any difficulties or delays in completing the engagement.

Fees and Payment Arrangements

Our fee for the aforementioned services will be $32,000, plus out-of-pocket costs. Invoices will be submitted every two weeks as the work progresses. We shall make every effort to keep our time and expenses to the absolute minimum commensurate with the needs of this engagement.

The Partnership will continue to make minimum weekly payments to LGC&D of $2,000. Should the Partnership fail to make any required weekly payment, a revised weekly payment arrangement will be negotiated with Mr. Montecalvo. In addition, we reserve the right to suspend our audit and/or not release the financial statements until such time as the Partnership brings the weekly payments current on a cumulative basis.

Additional Services

We will compile, from information you provide, the Partnership's third-party cost reporting forms for Medicaid (Form BM-64) and Medicare (Form CMS-2540) for the year ended December 31, 2002. We will not audit or review these cost reports and will not express an opinion or any other form of assurance on them.

We will electronically submit the Partnership's annual financial statements and supplemental data to HUD.

We will use our judgment in resolving questions where either the reimbursement rules or tax law are unclear or where there may be conflict between the reimbursement or taxing authorities' interpretation of the law and what seem to be other supportable positions. We will resolve such questions in your favor, if there is a reasonable justification for the position being taken, and discuss alternatives with you.

We shall also be available for meetings, in person or via telephone, and as you may request, to discuss tax and reimbursement matters relating to the aforementioned companies.

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Mr. Antone L. Giordano, General Partner
January 13, 2003
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Additional Services (continued)

Our fee for these above mentioned services will be based on our customary rates for these services, plus out-of-pocket costs. An invoice will be submitted every two weeks as work progresses and is due when presented.

We shall issue separate engagement letters for any additional services you may request, not covered by this letter.

Agreement

Please sign and return the enclosed two copies of this letter to signify your understanding of the arrangements and as authorization for us to proceed.

We look forward to a continuing and mutually beneficial association.

Very truly yours,

LEFKOWITZ, GARFINKEL, CHAMPI & DeRIENZO P.C.

Michael E. Criscione

Michael E. Criscione, Principal
Certified Public Accountant

MEC/mp

ACCEPTED:

By: Antone L. Giordano

Date: 2/24/03

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LGCD

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Michael E. Criscione, CPA

February 13, 2003

Mr. Antone L. Giordiano, General Partner
Mount St. Francis Health Center
4 St. Joseph Street
Woonsocket, RI 02895

RE: Engagement Letters – Mount St. Francis Health Center (the Partnership)
401(K) Plan and Electronic Submission of Financial Statements to HUD
Year Ended December 31, 2002

Dear Antone:

The following fee ranges will be incorporated into our original engagement letters dated January 13, 2003 by way of this addendum.

Fees

The fee for the Partnership's 401(K) Plan audit will be in the range of $3,500 to $4,000 plus customary out-of-pocket costs. The fee for the electronic submission of the Partnership's financial statements to HUD will be approximately $750.

Agreement

If this addendum correctly expresses your understanding, please indicate your approval by signing and returning the enclosed two copies of this letter along with two copies of the original engagement letter to me.

Very truly yours,

LEFKOWITZ, GARFINKEL, CHAMPI & DeRIENZO P.C.

Michael E. Criscione

Michael E. Criscione, Principal
Certified Public Accountant

ACCEPTED:

By: ______________________

Date: 2/24/03

10 Weybosset Street ▪ Suite 700 ▪ Providence, Rhode Island 02903 ▪ Tel (401) 421-4800 ▪ 1-800-927-LGCD ▪ Fax (401) 421-0643

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Michael E. Criscione, CPA

January 13, 2003

Mr. Antone L. Giordano, General Partner
Mount Saint Francis Health Center Associates
4 Joseph Street
Woonsocket, RI 02895

Dear Mr. Giordano:

We are pleased to confirm our understanding of the nature and limitations of the services we are to provide for Mount Saint Francis Health Center Associates (the Partnership) for the year ended December 31, 2002.

We will apply the agreed-upon procedure, which was agreed to by the Partnership and the U.S. Department of Housing and Urban Development, Real Estate Assessment Center (REAC).

We will compare the electronic submission with the corresponding hard copy documents. The results of the performance of our agreed-upon procedure indicate agreement or non-agreement of electronically submitted information and hard copy documents.

This engagement is solely to assist REAC in determining whether the electronic submission of certain information agrees with the corresponding hard copy documents included within the *Consolidated Audit Guide for Audits of HUD Programs* issued by the U.S. Department of Housing and Urban Development, the *Uniform Financial Reporting Standards for HUD Housing Programs*, and the *Industry User Guide for the Financial Assessment Subsystem – Submission (FASSUB)* reporting package. Our engagement to apply agreed-upon procedures will be performed in accordance with the attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the reports. Consequently, we make no representation regarding the sufficiency of the procedures described above either for the purpose for which these reports have been requested or for any other purpose. If, for any reason, we are unable to complete the procedures, we will describe any restrictions on the performance of the procedures in our reports.

Because the agreed-upon procedures specified above do not constitute an examination, we will not express an opinion on compliance with the electronic submission requirements. In addition, we have no obligation to perform any procedures beyond those specified above.

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Mr. Antone L. Giordano, General Partner
January 13, 2003
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A copy of the reporting packages required by HUD, which includes the auditors' reports, is available in its entirety from the Partnership. We take no responsibility for the security of the information transmitted electronically to the U.S. Department of Housing and Urban Development, REAC.

Our reports are intended solely for the information and use of the Partnership and the U.S. Department of Housing and Urban Development, REAC, and is not intended to be and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.

At the conclusion of our engagement, we will request certain written representations from management about compliance with the electronic submission requirements. You agree to hold us harmless from any liability and costs from misrepresentations made to us by management.

We understand that you will provide us access to the Partnership's electronic submissions and corresponding hard copy documents for the year ended December 31, 2002, we deem necessary to complete our engagement.

The workpapers for this engagement are the property of Lefkowitz, Garfinkel, Champi & DeRienzo P.C. (LGC&D) and constitute confidential information. However, we may be requested to make certain workpapers available to the Secretary of Housing and Urban Development, the U.S. Department of Housing and Urban Development (HUD) Inspector General and the General Accounting Office (GAO) or their representatives, pursuant to authority given to them by law or regulation. Access to such workpapers will be provided under the supervision of LGC&D's personnel. Furthermore, upon request, we may provide photocopies of selected workpapers to HUD or GAO representatives. HUD and the GAO may distribute the photocopies or information contained therein to others, including other governmental agencies.

* See attached fee schedule

Our fees for these services will be based on the actual time spent at our standard hourly rates, plus travel and other out-of-pocket costs such as report reproduction, typing, postage, etc. Our standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit. Our invoices for these fees will be rendered upon completion and are payable upon presentation. Ms. Tammy Anderson from our office will be your contact person for these engagements.

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Mr. Antone L. Giordano, General Partner
January 13, 2003
Page 3

We appreciate the opportunity to be of service to you and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy of this letter and return it to us.

Very truly yours,

LEFKOWITZ, GARFINKEL, CHAMPI & DeRIENZO P.C.

Michael E. Criscione, Principal
Certified Public Accountant

MEC/mp

ACCEPTED:

By: ____________________

Date: 2/24/03

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Lefkowitz, Garfinkel, Champi & DeRienzo P.C.
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February 13, 2003

Mr. Antone L. Giordiano, General Partner
Mount St. Francis Health Center
4 St. Joseph Street
Woonsocket, RI 02895

RE: Engagement Letters – Mount St. Francis Health Center (the Partnership)
401(K) Plan and Electronic Submission of Financial Statements to HUD
Year Ended December 31, 2002

Dear Antone:

The following fee ranges will be incorporated into our original engagement letters dated January 13, 2003 by way of this addendum.

Fees

The fee for the Partnership's 401(K) Plan audit will be in the range of $3,500 to $4,000 plus customary out-of-pocket costs. The fee for the electronic submission of the Partnership's financial statements to HUD will be approximately $750.

Agreement

If this addendum correctly expresses your understanding, please indicate your approval by signing and returning the enclosed two copies of this letter along with two copies of the original engagement letter to me.

Very truly yours,

LEFKOWITZ, GARFINKEL, CHAMPI & DeRIENZO P.C.

Michael E. Criscione

Michael E. Criscione, Principal
Certified Public Accountant

ACCEPTED:

By: Antone Giordiano

Date: ______________________

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Tab 2

U. S. Department of Housing and Urban Development

Providence Office, Region I
John O. Pastore Federal Building, Room 330
2 Exchange Terrace
Providence, Rhode Island 02903-1785

AUG 18 '93

John J. Montecalvo, Controller
Coventry Health Ctr. and
Mount Saint Francis Assoc.
190 Broad St.
Providence, RI 02903

Dear Mr. Montecalvo:

Enclosed, please find executed copies of form HUD-9839-B (Project Owner's & Management Agent's Certification for Multifamily Housing Projects for Identity-of-Interest or Independent Management Agents) for both Consultants Inc., and Health Management Services, who provide managerial services to Coventry Health Center (Project No. 016-43050). There is also an executed copy of this form for Antonio L. Giordano as Managing General Partner for Mount Saint Francis Health Center (Project No. 016-43044).

Also enclosed, please find executed copies of form HUD-9832 (Management Entity Profile) for both Coventry Health Center and Mount Saint Francis.

Inquiries may be directed to Christine Keshura of my staff at 528-5255.

Very sincerely yours,

Claire Oberman
Acting Director
Housing Management Division

Enclosures

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Project Owner's & Management Agent's Certification for Multifamily Housing Projects for Identity-of-Interest or Independent Management Agents

U.S. Department of Housing and Urban Development
Office of Housing

OMB Approval No. 2502-0305 (exp. 7/31/92)

Public reporting burden for this collection of information is estimated to average 0.16 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to the Reports Management Officer, Office of Information Policies and Systems, U.S. Department of Housing and Urban Development, Washington, D.C. 20410-3600 and to the Office of Management and Budget, Paperwork Reduction Project (2502-0305), Washington, D.C. 20503.

Project name:	FHA project no:	Date:
Mount St. Francis Health Center	016-43044	4/20/93
City, State:		Section 8 no:
4 St. Joseph Street, Woonsocket, RI		N/A

Acting on behalf of Mount St. Francis Associates the Project Owner (Owner), and Antonio L. Giordano, the Management Agent (Agent), we make the following certifications and agreements to the United States Department of Housing and Urban Development (HUD) regarding management of the above project.

1. We certify that:
   a. We have executed or will execute, within 30 days after receiving the approval(s) required by paragraph b below, a Management Agreement for this project The Agreement provides / will provide that the Management Agent will manage the project for the term and fee described below. Changes in the fee will be implemented only in accordance with HUD's requirements
      (1) Term of Agreement: Coterminous with Partnership Agreement to expire when PA expires
      (2) Fees:
         (a) N/A % of residential income collected;
         (b) N/A % of commercial income collected;
         (c) N/A % of miscellaneous income collected (This percentage must not exceed the percentage in (2)(a) above).
         (d) Special Fees No ☐ Yes ☒ If yes, describe in paragraph 4 of Attachment 1.
      (3) Calculation of Estimated Yield (See Attachment 1.)
   b. We will disburse management fees from project income only after:
      (1) We have submitted this Certification to HUD;
      (2) HUD has approved the Agent to manage this project; and
      (3) HUD has approved the management fee (if required).
   c. We understand that no fees may be earned or paid after HUD has terminated the Management Agreement.
   d. If HUD notifies me of an excessive management fee, I, the Agent, will within 30 days of HUD's notice either:
      (1) Reduce the compensation to an amount HUD determines to be reasonable and
      (2) Require the administrator to refund to the project all excessive fees collected, or
      (3) Appeal HUD's decision and abide by the results of the appeal process, making any required reductions and refunds within 30 days after the date of this decision letter on the appeal.
   e. If HUD holds the residential management fee yield harmless under the transition provisions of Chapter 2, Section VI of HUD Handbook 4381.5,
      (1) We understand that HUD will adjust the management fee percentage each time HUD approves a rent increase.
      (2) We agree to be bound by that percentage until the next rent increase or until HUD approves a different fee, pursuant to our request.
2. We will, if the project is subsidized by HUD, select and admit tenants, compute tenant rents and assistance payments, recertify tenants and carry out other subsidy contract administration responsibilities in accordance with HUD Handbook 4350.3 and other HUD instructions.
3. We agree to:
   a. Comply with this project's Regulatory Agreement, Mortgage & Mortgage Note, and any Subsidy Contract or Workout / Modification Agreement.
   b. Comply with HUD handbooks, notices or other policy directives that relate to the management of the project.
   c. Comply with HUD requirements regarding payment and reasonableness of management fees and allocation of management costs between the management fee and the project account (This does not apply to projects listed in Paragraph 2-1B of HUD Handbook 4381.5).
   d. Refrain from purchasing goods or services from entities that have identity-of-interest with us unless the costs are as low as or lower than arms-length, open-market purchases.
4. The Agent agrees to:
   a. Assure that all expenses of the project are reasonable and necessary.
   b. Exert reasonable effort to maximize project income and to take advantage of discounts, rebates and similar money-saving techniques.
   c. Obtain contracts, materials, supplies and services, including the preparation of the annual audit, on terms most advantageous to the project.
   d. Credit the project with all discounts, rebates or commissions (including any sales or property tax relief granted by the state or local government) received.
   e. Obtain the necessary verbal or written cost estimates and document the reasons for accepting other than the lowest bid.
   f. Maintain copies of such documentation and make such documentation available for your inspection during normal business hours.
   g. Invest project funds that HUD policies require to be invested and take reasonable effort to invest other project funds unless the owner specifically directs the Agent not to invest those other funds.
5. We certify that the types of insurance policies checked below are in force and will be maintained to the best of our ability at all times. Fidelity bonds and hazard insurance policies will name HUD as an additional loss payee. Note: For any box not checked, attach an explanation as to why you cannot obtain that type of insurance. Such situations should be extremely rare.
   a. ☒ Fidelity bond or employee dishonesty coverage for $300,000
      (1) all principals of the Agent and;
      (2) all persons who participate directly or indirectly in the management and maintenance of the project and its assets, accounts and records. Coverage will be at least equal to the project's gross potential income for two (2) months.
   b. ☒ Hazard insurance coverage in an amount required by the projects Mortgage. See Attached Let. 10/23/91
   c. ☒ Public liability coverage with the Agent designated as one of the insured.
6. The Agent agrees to:
   a. Furnish a response to HUD's management review reports, physical inspection reports and written inquiries regarding the project's annual financial statements or monthly accounting reports within 30 days after receipt of the report or inquiry.
   b. Establish and maintain the project's accounts, books and records in accordance with:
      (1) HUD's administrative requirements;
      (2) generally accepted accounting principles; and
      (3) in a condition that will facilitate audit.
7. We agree that:
   a. All records related to the operation of the project, regardless of where they are housed, shall be considered the property of the project.
   b. HUD, the General Accounting Office (GAO), and those agencies' representatives may inspect :
      (1) any records which relate to the project's purchase of goods or services,

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(2) the records of the Owner and the Agent, and

(3) the records of companies having an identity-of-interest with the owner and the agent.

c. The following clause will be included in any contract entered into with an identity-of-interest individual or business for the provision of goods or services to the project: "Upon request of HUD or (name of owner or Agent), (name of contractor or supplier) will make available to HUD, at a reasonable time and place, its records and records of identity-of-interest companies which relate to goods and services charged to the project. Records and information will be sufficient to permit HUD to determine the services performed, the dates the services were performed, the location at which the services were performed, the time consumed in providing the services, the charges made for materials, and the per-unit and total charges levied for said services." The owner agrees to request such records within seven (7) days of receipt of HUD's request to do so.

8. We certify that any Management Agreement does not contain the type of "hold harmless" clause prohibited by HUD.

9. We agree to include the following provisions in the Management Agreement and to be bound by them:

a. HUD has the right to terminate the Management Agreement for failure to comply with the provisions of this Certification, or other good cause, thirty days after HUD has mailed the owner a written notice of its desire to terminate the Management Agreement.

b. In the event of a default under the Mortgage, Note or Regulatory Agreement, HUD has the right to terminate the Management Agreement immediately upon HUD's issuance of a notice of termination to the Owner and Agent.

c. If HUD exercises this right of termination, I, the Owner, agree to promptly make arrangements for providing management that is satisfactory to HUD.

d. If there is a conflict between the Management Agreement & HUD's rights and requirements, HUD's rights & requirements will prevail.

e. If the Management Agreement is terminated I, the Agent, will give to the Owner all of the project's cash, trust accounts investments and records within thirty (30) days of the date the Management Agreement is terminated.

10. I, the Owner, agree to submit a new Management Certification to HUD before taking any of the following actions:

a. Authorizing the agent to collect a fee different from the percentages fees and any special fees specified in Paragraph 1 of this Certification:

b. Changing the expiration date of the Management Agreement.

c. Renewing the Management Agreement.

d. Permitting a new Agent to operate the project.

e. Permitting a new Agent to collect a fee.

f. Undertaking self-management of the project.

11. We agree to:

a. Comply with all Federal state, or local laws prohibiting discrimination against any persons on grounds of race, color, creed, familial status, handicap, sex or national origin, including Title VI of the Civil Rights Act of 1964, Fair Housing Act, , Executive Order 11063 and all regulations implementing those laws.

b. When the head or spouse is otherwise eligible, give families with children equal consideration for admission.

c. Give handicapped persons priority for subsidized units that were built and equipped specifically for the handicapped.

d. If the project receives any form of direct Federal financial assistance, comply with the provisions of Section 504 of the Rehabilitation Act of 1973, as amended, the Age Discrimination Act of 1975 and all regulations and administrative instructions implementing these laws. The Agent understands that these laws and regulations prohibit discrimination against applicants or tenants who are handicapped or of a certain age.

Furnish HUD's Office of Fair Housing and Equal Opportunity any reports and information required to monitor the project's compliance with HUD's fair housing and affirmative marketing requirements (including HUD Form 949, if applicable).

f. Not discriminate against any employee, applicant for employment or contractor because of race, color, handicap, religion, sex or national origin.

g. Provide minorities, women and socially and economically disadvantaged firms equal opportunity to participate in the project's procurement and contracting activities.

h. If the project receives any form of direct Federal financial assistance, comply with Section 3 of the Housing and Urban Development Act of 1968 and its implementing regulations. I, the Agent, understand that this law and the regulations require the project to make training, employment and contracting opportunities available, to the greatest extent feasible, to lower-income project area residents and small businesses.

12. We certify that we have read and understand HUD's definition of "identity-of-interest" and that the statement(s) checked and information entered below are true. (Check box a or boxes b and / or c.)

a. ☐ No identity-of-interest exists among the Owner, the Agent and any individuals or companies that regularly do business with the project.

b. X☐ Only individuals and companies listed in Section 11a of the Management Entity Profile have an identity-of-interest with the Agent.

c. X☐ Only the individuals and companies listed below have an identity-of-interest with the Owner. (Show the name of the individual or company; list the services rendered; and describe the nature of the identity-of-interest relationship. Attach additional sheets, if necessary.)

13. I, the Agent, certify & agree:

a. that the Management Entity Profile, dated 4/20/93, is accurate and current as of the date of this Certification.

b. To submit an updated profile whenever there is a significant change in the organization or operations of the Management Entity.

14. The items checked below are attached:

X☐ Attachment 1--Calculation of Est. Yields from Proposed Mgt Fees

☐ New Management Entity Profile

☐ Updated Management Entity Profile

X☐ Other (Specify) Owner Identity of Interes Co's = Gregory Building Co, My Place Inc., Construction Software Inc., Consultants Inc.

Warnings:

There are fines and imprisonment—$10,000/5years—for anyone who make false, fictitious, or fraudulent statements or entries in any matter within th jurisdiction of the Federal Government (18 U.S.C 1001).

There are fines and imprisonment—$250,000/5years—for anyone who misuses rents & proceeds in violation of HUD regulations relative to this project. This applies when the motgage note is in default or when the project is in a nonsurplus cash position (12 U.S.C 1715z-9).

HUD may seek a "double damages" civil remedy for the use of assets or income in violation of any Regulatory Agreement or any applicable HUD regulations (12 U.S.C 1715z-4a).

HUD may seek additional civil money penalties to be paid by the mortgagor through personal funds for :

(1) Violation of an agreement with HUD to to use nonproject funds for certain specified purposes as a condition of receiving transfers of physic assets, flexible subsidy loan, capital improvement loan, modification of mortgage terms or workout. The penalties could be as much as the HU Secretary's loss at foreclosure sale or sale after foreclosure.

(2) Certain specific violations of the Regulatory Agreement, the penaltie could be as much as $25,000 per occurrence (12 U.S.C 1735f-15).

Antonio L. Giordano 6/28/93

By Project Owner: Name, title, signature, date:

Antonio L. Giordano – Managing G.P.

Antonio L. Giordano 6/28/93

By Management Agent: Name, title, signature, date:

Antonio L. Giordano

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Name:	FHA Project Number:	Date:
unt St. Francis Health Center	016-43044	4/20/93

Field Office Use Only (Check all boxes that apply)

p review of the management fee was: [X] Required [ ] Not required

The management fees quoted in paragraph 1a and explained in Attachment 1 of this Certification are approved.

The management fees quoted in Paragraph 1a and explained in Attachment 1 of this Certification are not approved. The attached letter, dated _________, explains the reasons for this disapproval and sets forth the allowable management fees.

The residential management fee **Percentage** is held harmless at _________%.

The residential management fee **Yield** is capped at $_________PUPM. Each time you approve a rent increase, adjust the management fee **Percentage** to maintain this yield and enter the information required below.

Effective Date of New Fee %*	Monthly Rent Potential	Collections % Assumed**	Adjusted Management Fee Percentage

* This should be the same date the rent increase is effective.
** ... unless you approve a different percentage.

oan Servicer		By Supervisory Load Servicer/Loan Management Branch Chief	
ture	Date	Signature	Date
Christine Keshura	8/17/93	[signature]	8/17/93
hristine Keshura		Name: Claire Oberman	
oan Management Specialist		Title: Chief, LM/PD	

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form HUD-9839-B

Ref to OIG Evaluation | Auditee Comments

ttachment 1—Calculation of Estimated Yields from Proposed Management Fees

oject Name:	FHA Project No.:	Date:
unt St. Francis Health Center	016-43-44	4/20/93

Residential Fee		2. Commercial Fee (Describe commercial space, how it is used and what services management provides.)
hly residential rent potential (from Part A .e most recent HUD-approved Rent Schedule	$ N/A	N/A
Line 1a times .95**	$	
Percentage fee	%	
Monthly residential fee yield (Line 1b times 1c)	$	
Total number of residential units (include rent-free units.)	N/A units	
Residential fee yield per unit per month (Line 1d divided by 1e.)	$ PUPM	

lote: Generally collections must be estimated at 95% of gross potential. If r use a lower percentage, attach an explanation for the collections centage used. Make sure that any assumption of a lower collections base es not compensate the agent for services for which a special fee will be d.

a. Monthly commercial rent potential (from Part E of the most recent HUD-approved Rent Schedule)	$ N/A
b. Percentage fee	%
c. Commercial fee yield (Line 2a times 2b)	$

Miscellaneous Fee

Percentage fee (not to exceed the residential income fee percentage in Line 1c) %

N/A

List any miscellaneous income on which HUD allows a fee to be taken, but on which you have agreed a fee will not be paid.

N/A

Special Fees

w dollar amount(s), purpose(s) and time period(s) covered. Describe performance standards and target dates for accomplishment of special tasks. (Attach itional sheets, if needed.)

ie Agent, as Managing General Partner, is compensated at the rate of 3% : Net Patient Revenue, for services required by the special purpose nature : the facility. See Adler Pollock & Sheehan letter to Providence Office inager dated May 5, 1989 and Powell, Goldstein, Frazer and Murphy letter › Providence office Manager dated July 24, 1992.
ie compensation to the Agent is exclusive of compensation to Health inagement Services Inc. - also at the rate of 3% of Net Patient Revenue ider a Management Agreement dated November 1, 1984 as amended as of ›ril 1, 1989.

*: Projects listed in Paragraph 2-1B of HUD Handbook 4381.5 REV-1 may quote management fees in ways other than as shown in this attachment.

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inagement Entity
ofile

U.S. Department of Housing
and Urban Development
Office of Housing
Federal Housing Commissioner

OMB Approval No. 2502-0305 (exp.7/30/92)

c reporting burden for this collection of information is estimated to average 2 hours for an initial response and 0.5 hours for an updated response, including the for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of nation. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to e Management Officer, Office of Information Policies and Systems, U.S. Department of Housing and Urban Development, Washington, D.C. 20410-3600 ; Office of Management and Budget, Paperwork Reduction Project (2502-0305), Washington, D.C. 20503.

cy Act Statement: The Department of Housing and Urban Development (HUD) is authorized to collect this information by the U.S. Housing Act of 1937, as ided, and the Social Security Numbers (SSN) by the Housing and Community Development Act of 1987, 42 U.S.C. 3543. The information concerning gement documents for Multifamily Housing projects is being collected by HUD to: (1) determine the acceptability of proposed management agents, (2) ensure liance with program requirements, (3) provide leverage for removing poor managers, and (4) recover excessive management fees. The information is being as a management tool to avoid the misuse of HUD subsides and defaults against the FHA insurance fund by management agents. Specifically, the information ovide for improved project management by ensuring: that subsidy funds are administered in accordance with HUD rules, project expenses are reasonable, enance of documented records, and use of project funds only in accordance with HUD requirements. The SSN is used as a unique identifier. HUD may disclose iformation to Federal, State and local agencies when relevant to civil, criminal, or regulatory investigations and prosecutions. It will not be otherwise disclosed eased outside of HUD, except as permitted or required by law. Failure to provide the information could result in HUD's denial of proposed management or fees ncellation of management contracts for noncompliance with HUD procedures. Providing the SSN is mandatory, and failure to provide it could affect your ipation in HUD programs.

uctions: The management entity may develop its own format for providing the information requested in this form. Independent fee managers and identity-erest management agents must provide all the information requested. Owner-managers and administrators of projects for the elderly must provide responses o the asterisked items. They must also state whether they have previously managed insured and/or HUD-held projects and, if so, list such projects.

Name of Management Entity: Antonio L. Giordano

*1b. Management Entity Type: [ ] Owner/Manager [ ] Project Administrator [ ] Independent Fee Agent [X] Identity-of-Interest Agent

Employer Identification Number (EIN): [redacted]

*1d. Organization Type: [ ] Corporation [ ] Partnership [X] Individual [ ] Other (specify)

ve names, titles and Social Security Numbers of firm's principals (e.g., general partner, president, treasurer, etc.)

Name	Title	Social Security Number
SEE ATTACHMENT		

ailing addresses for the Company's home office and any branch offices involved in management of HUD-related multifamily projects. geographic area covered by each office.

190 Broad Street
Providence, RI 02903

nat year did the company begin managing: D-subsidized projects | b. HUD-related unsubsidized projects | c. Conventional projects

5. Estimate what percent of company's activities involve management of: a. Conventional projects % | b. HUD-related projects % | c. Commercial space % | d. Other %

w many of the following projects does the company manage? ith rentals and cooperatives) HUD-unsubsidized jects units | HUD-subsidized projects units | HUD-owned projects units

6b. How many of the projects included in 6a: Have HUD-held mortgages | Are non-insured | Are subsidized co-ops | Are unsubsidized co-ops

proximately what percent of the projects in 6a fall into the following categories: Elderly % | Family % | Owned by a non-profit or coop % | Core city | Troubled neighborhood % | Suburban % | Rural area %

cate where each of the following activities are administered. Use the following codes: C = central office; R = regional office; P = project site
lookkeeping | Landscaping | Maintenance | Purchasing | Tenant application | Certifications/recertifications | Regular monthly subsidy billings | Special claims subsidy billings

w many of the company's full-time employees serve in the following supervisory or advisory roles? wner-managers and administrators of projects for the elderly should provide this information on project employees.)
Engineers | Maintenance supervisors | Occupancy supervisors | Training specialists | Social service coordinators | Regional property managers | How many are minorities | What percentage are minority %

ntify any professional memberships, licenses, certificates or accreditations which are related to property management activities and are held by the company, company ecutives, or the employees considered in item 8.

SEE ATTACHMENT

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10. Describe any purchasing procedures you have implemented to control or reduce costs (e.g., bulk purchasing, paying early to take advantage of discounts, cost comparisons or bids, etc.)

11. List any companies which regularly supply goods or services to your HUD-related projects and have an identity-of-interest with the management entity or its principals (e.g., officers, general partners). Specify the type of goods and services provided. (See paragraph 2 - 3D of HUD Handbook 4381.5 for a definition of the term "identity-of-interest.") If these companies do not provide goods/services to all your HUD-related projects, identify the projects that do not deal with these companies.

SEE ATTACHMENT

11b. Do any of the identity-of-interest companies listed in 11a. function as "pass-throughs" -- i.e., does the identity-of-interest company purchase goods or services from another party and pass those goods or services through to the project? For each pass-through arrangement:
(1) Name the identity-of-interest company involved.
(2) Explain how the identity-of-interest company's compensation is determined.
(3) Explain why it is more advantageous for the project to use the pass-through arrangement than to purchase directly from the ultimate supplier.

12. What types of property management procedures or operating manuals are used by on-site or supervisory staff?

SEE ATTACHMENT

13. What types of recurring written reports are prepared on project operations (e.g., maintenance, move-in/outs, payables, comparisons of budgeted and actual expenses)? Specify who (by position title) prepares the report, frequency of the report, and who reviews the report.

14a. How frequently do company executives or supervisory staff visit the projects the company manages?	*14b. Specify who (by position title) conducts the on-site visits or reviews.

SEE ATTACHMENT

15. If the company manages subsidized projects, identify by job title who *prepares and reviews* the HUD-required documents listed below. Specify the frequency of review.

	Prepares documents	Reviews documents	Frequency of review
. Form HUD-50059, Initial Certifications			
. Form HUD-50059, Recertifications			
. Regular Monthly Subsidy Billings			
. Special Claims Subsidy Billings			
. Proposals to terminate tenant assistance payments			
. Proposals to evict			
. Monthly Accounting Reports (Forms HUD-93479, 80, 81)			
. Form HUD-949, Civil Rights Tenant Characteristics/Occupancy Reports			

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nt Name

Date

If applicable, describe how the home office supervises supervisory staff (e.g., property managers, occupancy specialists, maintenance supervisors), who operate out of branch offices.

Describe how the company trains its employees in the areas listed below. Discuss both on-going training and initial training provided when the employee is hired. Specify the frequency and duration of the training and who/what organization conducts the training. Discuss training for both supervisory and front-line staff.

a. Property management practices.

b. Financial and recordkeeping requirements.

SEE ATTACHMENT

c. Civil rights and fair housing laws.

d. Occupancy requirements in HUD Handbook 4350.3, *Occupancy Requirements of Subsidized Multifamily Housing Programs* (if the company manages subsidized projects).

Has an owner of a HUD-related project, at any time during the past three years, cancelled a property management contract held by the company? ☐ Yes ☐ No

During the past three years, how many HUD-related projects have not renewed their management contracts with the company? (Number)__________

Explain the reasons for any cancellations or failure to renew and identify the projects involved.

SEE ATTACHMENT

Page 3 of 4

form HUD-9832

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List all HUD Field Offices that have jurisdiction over the projects included in 6a. For companies that operate in more than five Field Office jurisdictions, identify the five jurisdictions where the greatest number of your HUD-related projects are located.

SEE ATTACHMENT

List all State Agencies in whose jurisdiction you have managed or are managing State Agency-financed projects. For companies that operate in more than five States, identify the five where the greatest number of your State Agency projects are located.

List all FmHA offices in whose jurisdiction you have managed or are managing FmHA projects. For companies that operate in more than five FmHA jurisdictions, identify the five where the greatest number of your FmHA projects are located.

SEE ATTACHMENT

ication: The undersigned hereby certifies that the statements and information contained in this profile are true and correct.

ing: 18 U.S.C. 1001 provides, among other things, that whoever knowingly and willingly makes or uses a document or writing containing any false, fictitious, or fraudulent statement or entry, in any matter within the jurisdiction of any department or agency of the United States, shall be fined not more than $10,000 or imprisoned for not more than five years, or both.

d nagement Entity Representative

ture: Antonio Giordano | Date: 6/28/93

Name: Antonio L. Giordano | Title: Individually

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Auditee Comments

MOUNT SAINT FRANCIS HEALTH CENTER
FHA No. 016-43044

MANAGEMENT AGENT PROFILE -- Attachment

The services which Antonio L. Giordano, the Managing General Partner, provides or obtains are peculiar to the project's status as a special-purpose and regulated facility, distinct from a multifamily rental project. Principal among such services are monitoring and advising with respect to all matters necessary and appropriate to maintaining in full force and effect the facility's license from the Rhode Island Department of Health to operate the facility as a nursing home (see paragraph 9 (h) (1) of the regulatory agreement), reviews and approval of operating budgets prepared by the managing agent, reviews and approval of Medicare and Medicaid reports and cost reports, including participation in presentations to the Department of Human Services in connection with establishment of the reimbursement of rate, establishment, monitoring and maintaining credit relationships with financial institutions, contractors and suppliers, and arrangement of all necessary insurance coverages, including participation in all negotiations or appeals with respect to ratings and rates pertinent to such required and appropriate coverages.

The Managing General Partner subcontracts with Consultants, Inc., an entity controlled by the Managing General Partner, for a substantial portion of the above services. The Managing General Partner is President of Consultants, Inc. Other personnel of Consultants, Inc., engaged in the provisions of the above-described services include the following:

-- John J. Montecalvo, Controller and Chief Financial Officer. Mr. Montecalvo is a licensed nursing home administrator under license issued by the State of Rhode Island # 572 in 1983. Bachelors of Science in Business Administration from Bryant College, Masters of Business Administration from Boston University, and Masters of Business Administration from Northwestern University.

-- Antonio A. Giordano, Financial Analysis. Bachelors of Science in Business Administration from Catholic University and a Masters of Science in Real Estate Development& Investment from New York University.

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Tab 3

cc: PF 4/7/02

MANAGEMENT AGREEMENT

This agreement made and entered into as of January 1, 1995 by and between Mount St. Francis Associates d/b/a Mount St. Francis Health Center, a Rhode Island Limited Partnership (herinafter called "OWNER"), and Sterling Health Care Management Company, LLC, a Rhode Island Limited Liability Company, (hereinafter called "MANAGER").

1. Introduction

1.1 OWNER desires to arrange for the management and operation of Mount St. Francis Associates, d/b/a Mount St. Francis Health Center, a 198 bed nursing facility located in Woonsocket, Rhode Island (herinafter called the "FACILITY").

1.2 MANAGER is in the business of operating and furnishing management and other services to nursing facilities in Rhode Island.

2. Management Services

2.1 MANAGER shall have complete authority to manage and control all health care and financial aspects of the operation of the FACILITY. MANAGER'S authority shall include, without limitation thereto, the powers to select, employ, fix the compensation of, discharge and direct the activities of all personnel; to establish and from time to time change all accounting, bookkeeping, record keeping, and reporting activities; to effect the purchase, and control the disposition of, all supplies and equipment; and from time to time institute, implement and effectuate such policies, rules, regulations and procedures for the rendering of nursing care as it deems necessary or appropriate for the proper and orderly functioning of the FACILITY.

2.2 MANAGER shall provide all necessary services for the operation of the FACILITY, including but not limited to the following:

a. Select, employ and supervise one or more administrators, a director of nursing, a chef, and all other personnel required to operate the FACILITY;

b. Act as a liaison between FACILITY and outside State, Federal and Private entities;

c. Arrange for contracts for the purchase of all medical supplies, dietary, office and other items required to operate the FACILITY;

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d. Establish standardized personnel and operational policies and procedures;

e. Provide management review of costs of all departments of the FACILITY:

f. Arrange for in-service training seminars for all personnel;

g. Provide continuous review of all operational aspects of the FACILITY;

h. Advise on all laws and regulations with respect to compliance requirements for licenser of the FACILITY; and

i. Establish and maintain banking relationships for said FACILITY including but not limited to bank financing if necessary;

j. Provide management review for all interior, exterior and equipment maintenance for the FACILITY;

k. Do everything necessary to ensure the continued operation of the FACILITY.

3. Statements and Reports

3.1 MANAGER shall furnish or cause to be furnished to OWNER (a) computerized operating and management statements within twenty-one (21) days after the end of each month showing all income, expense, and cash flow, and (b) prepare and file quarterly payroll tax returns within twenty-five (25) days after the end of each quarter, unless delayed by circumstances beyond its control.

3.2 MANAGER shall prepare or cause to be prepared for the FACILITY Medicare and Medicaid reports, budgets, internal financial reports, and MANAGER shall supervise the preparation of such other reports or statements as may be required by City, State and Federal laws and regulations. MANAGER shall submit to OWNER for prior review any such report ten (10) days before such report is filed with the proper City, State or Federal agency. If OWNER does not notify MANAGER of any changes to such report within five days, then it shall be assumed OWNER has approved such report.

3.3 OWNER shall appoint independent certified public accountants to perform an annual audit and prepare annual certified financial statements and all tax returns except payroll tax returns which shall be prepared and filed by MANAGER.

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4. Term of Agreement

4.1 This Agreement shall be co-terminous with the Partnership Agreement and will expire when the Partnership Agreement expires.

4.2 At the termination of this Agreement, OWNER hereby grants to MANAGER the right to employ directly or in any other nursing facility owned or managed by MANAGER all key and/or supervisory employees of the FACILITY, including, but not limited to, the Administrator, any assistant Administrator or Co-Administrator, the Director of Nurses, and the Chef. Any employee leaving the employ of OWNER at termination of this Agreement to then be employed by MANAGER as above shall give OWNER at least four (4) months written notice of termination.

4.3 The United States Department of Housing & Urban Development (HUD) may terminate this agreement:

a. For failure to comply with the provisions of the management certification or other good cause, 30 days after HUD has mailed the OWNER and MANAGER a written notice of its desire to terminate the agreement.

b. In the event of a default under the mortgage note or regulatory agreement, immediately upon HUD's issuance of a notice of termination to the owner and agent. If HUD terminates the agreement, the owner will promptly make arrangements for providing management satisfactory to HUD. HUD's rights and requirements will prevail in the event the management agreement conflicts with their requirements. The MANAGER will turn over to the OWNER all of the FACILITY'S cash, trust accounts, investments, and records within 30 days of the date the management agreement is terminated.

5. Compensation of Manager

5.1 As its compensation for providing services under this Agreement, Owner shall pay to MANAGER, commencing January 1, 1995, three percent (3%) of net patient revenue. Compensation shall be due and payable by OWNER to MANAGER by the Twentieth (20th) day of each month for the services rendered in that month.

6. Expenses

FACILITY shall reimburse MANAGER for all proper, reasonable, and reimbursable out-of-pocket expenses incurred or paid by MANAGER in connection with performance under this Agreement, including, but not limited to, reproduction costs, telephone charges, and items which OWNER would normally purchase on its own, but which are purchased by MANAGER on behalf of OWNER. MANAGER shall cause vendors of all items purchased for the FACILITY to bill the FACILITY directly on a net

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basis including any pro rata credits which may be due by virtue of pooled or joint purchases. The FACILITY shall promptly pay all such charges. MANAGER shall under no circumstances be required to advance any funds, or to obligate itself in any manner, to employees of OWNER or to third parties for or on behalf of OWNER.

7. Insurance

MANAGER will arrange for all insurance coverage normally in effect for the operation of a nursing facility, including, but not limited to, fire and extended coverage, workers' compensation, and malpractice. MANAGER will be named a co-insured under all liability and other insurance policies covering any phase of the operation of the FACILITY. All such insurance policies will be with reputable companies, and in amounts reasonably satisfactory to MANAGER.

8. Representations and Warranty of OWNER

Owner hereby represents and warrants as follows:

8.1 That OWNER is a duly formed Rhode Island Limited Partnership and is in compliance with all applicable Federal, State and local laws and regulations.

8.2 That Antonio L. Giordano is the general partner and that he is authorized to enter into this agreement on behalf of OWNER.

9. Representations and Obligations of MANAGER

Based upon all representations and warranties of OWNER as set forth in this Agreement, and on condition that OWNER fulfills and continues to fulfill all such representations and warranties on a timely basis, MANAGER hereby represents as follows:

9.1 That MANAGER is a duly formed Rhode Island Limited Liability Company and is in compliance with all applicable Federal, State and local laws and regulations.

10. Reserves for Replacement

10.1 The FACILITY'S mortgage is insured by HUD, therefore, MANAGER will use its best efforts to insure that all capital improvements, major repairs and replacement of major movable equipment (as defined by HUD) are paid for from available cash flow of the FACILITY; however, if such capital improvements, major repairs, and major and/or minor movable replacement cannot be so funded, then OWNER shall be responsible for obtaining funding for said items.

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11. **Indemnification:**

OWNER agrees to indemnify and hold harmless the MANAGER in any situation arising out of or from this agreement, where the AGENT has notified the OWNER, by certified mail, return receipt requested, of any event, occurrence of happening which places the OWNER or MANAGER in non-compliance with any local State or Federal notice or where the OWNER instructs the AGENT not to take any action.

12. **Other Activities**

OWNER acknowledges that MANAGER is engaged in the business of owning, operating and advising nursing facilities, some of which may be in the geographical area of the FACILITY. MANAGER may continue all such activities and may at some time in the future acquire, advise or manage other such facilities in the geographic area of the FACILITY, provided that it will in no way favor any of such other facilities over the FACILITY.

13. **Disputes**

Any controversy or claim arising out of or relating to this Agreement shall be settled by arbitration conducted in Rhode Island, in accordance with the rules then obtaining of the American Arbitration Association, and judgement upon the award rendered by the arbitrator(s) may be entered in any court, Federal or State.

14. **Notices**

Notices required or permitted to be given hereunder shall be in writing and shall be deemed sufficient only if sent by United States registered or certified mail, return receipt requested, postage prepaid, as follows:

If to OWNER:	Mount St. Francis Associates 190 Broad Street Providence, RI 02903
If to MANAGER:	Sterling Health Care Management Co., LLC 190 Broad Street Providence, RI 02903

or at such other addresses as the respective parties designated by written notice.

Ref to OIG Evaluation

Auditee Comments

15. Parties Bound and Benefited; Assignment; Subcontracts

This Agreement shall bind the parties hereto, their successors and assigns. This Agreement is solely for the benefit of OWNER and MANAGER, their successors and assigns; no other person or entity shall acquire or have any right under or by virtue of this Agreement; and MANAGER shall have no obligation or liability to any person or entity other than OWNER in connection with this Agreement or the providing of services hereunder

16. Miscellaneous

This Agreement contains the complete understanding of the parties and incorporates all prior agreements, oral or written. Any modification of this Agreement shall be ineffective unless made in writing and signed by both parties. The headings used before the various paragraphs of this Agreement are for ease of reference only and do not constitute parts of this Agreement. If any provision of this Agreement shall be declared invalid or unenforceable, the remaining terms of this Agreement shall not be affected thereby. This Agreement shall be governed by and construed in accordance with the laws of the State of Rhode Island applicable to contracts made and to be preformed therein in conformity with Department of Human Services Guidelines or HUD Regulatory Agreement or any other Federal/State requirements. "Upon request of HUD or OWNER, MANAGER will make available to HUD, at a reasonable time and place, its records and records of identity-of-interest companies which relate to goods and services charged to the project. Records and information will be sufficient to permit HUD to determine the services performed, the dates the services were performed, the location at which the services were performed, the time consumed in providing the services, the charges made for materials, and the per-unit and total charges levied for said services." The OWNER agrees to make available such records within seven (7) days of receipt of HUD's request to do so.

In the event of non-compliance with any of the aforesaid, then said parties to this agreement shall have ninety (90) days to cure said non-compliance.

18. Severability Clause

Wherever possible, each provision of this agreement shall be interpreted in such manner as to be effective and valid under applicable law. Should any portion of this agreement be declared invalid for any reason in any jurisdiction, such declaration shall have no effect upon the remaining portions of this agreement. Furthermore, the entirety of this agreement shall continue in full force and effect in all other jurisdictions and said remaining portions of this agreement had been executed with the invalid portions thereof deleted.

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In Witness Whereof, OWNER, by its duly authorized general partner, and MANAGER, by its duly authorized officer, have executed the Agreement in multiple originals as of January 1, 1995.

WITNESS:

Martine S. Medeiros BY John J. Giordano
Mount. St. Francis Associates

Martine S. Medeiros BY: Mitte A. Uccaro
Sterling Health Care Management Company, LLC.

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Ref to OIG Evaluation | Auditee Comments

AMENDMENT
to the
MANAGEMENT AGREEMENT
for
MOUNT ST. FRANCIS HEALTH CENTER

Item 16

Until the expiration of four years after the furnishing of the services provided under this contract, MANAGER will make available to the Secretary, U.S. Department of Health and Human Services, and the U.S. Comptroller General, and their representatives, this contract and all books, documents, and records necessary to certify the nature and extent of the costs of those services. If MANAGER caries out the duties of the contract through a subcontract worth $10,000 or more over a 12-month period with a related organization, the subcontract will also contain an access clause to permit access by the Secretary, Comptroller General, and their representatives to the related organization's books and records.

Ref to OIG Evaluation | Auditee Comments

Project Owner's & Management Agent's Certification for Multifamily Housing Projects f dentity-of-Interest or Independent Management Agents

U.S. Department of Housing and Urban Developr
Office of Housing
Federal Housing Commissioner

OMB Approval No. 2502-0305 (exp. 10/31/

Public reporting burden for this collection of information is estimated to average 0.16 hours per response, including the time for reviewing instructions, searching exis data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estim y other aspect of this collection of information, including suggestions for reducing this burden, to the Reports Management Officer, Office of Information Policies ems, U.S. Department of Housing and Urban Development, Washington, D.C. 20410-3600 and to the Office of Management and Budget, Paperwork Reduction Proj (2502-0305), Washington, D.C. 20503. Do not send this completed form to either of the above addresses.

Project name: Mount St. Francis Health Center	FHA project no: 016-43044	Date: 1/8/97 (Revised fc
City, State: Woonsocket, RI 02895		Section 8 no: N/A

Acting on behalf of Mount St. Francis Assoc., the Project Owner (Owner), and Sterling Health Care Mgmt. Co., the Management Agent (Agent), we make the following certifications and agreements to the United States Department of Housing and Urban Development (HUD) regarding management of the above project.

1. We certify that:

a. We will comply with HUD requirements and contract obligations, and agree that no payments will be made to the owner in return for awarding the management contract to the agent, and that such payments will not be made in the future.

b. We have executed or will execute, within 30 days after receiving the approval(s) required by paragraph b below, a Management Agreement for this project The Agreement provides / will provide that the Management Agent will manage the project for the term and fee described below. Changes in the fee will be implemented only in accordance with HUD's requirements

(1) Term of Agreement: Coterminius with Partnership Agreement,
(2) Fees: to expire when Partnership agreement expires.

(a) N/A % of residential income collected;

(b) N/A % of commercial income collected;

(c) N/A % of miscellaneous income collected (This percentage must not exceed the percentage in (2)(a) above).

(d) Special Fees No ☐ Yes [xx] If yes, describe in paragraph 4 of Attachment 1.

(3) Calculation of Estimated Yield (See Attachment 1.)

c. We will disburse management fees from project income only after:

(1) We have submitted this Certification to HUD;

(2) HUD has approved the Agent to manage this project; and

(3) HUD has approved the management fee (if required).

d. We understand that no fees may be earned or paid after HUD has terminated the Management Agreement.

e. If HUD notifies me of an excessive management fee, I, the Agent, will within 30 days of HUD's notice either:

(1) Reduce the compensation to an amount HUD determines to be reasonable and

(2) Require the administrator to refund to the project all excessive fees collected, or

(3) Appeal HUD's decision and abide by the results of the appeal process, making any required reductions and refunds within 30 days after the date of this decision letter on the appeal.

f. If HUD holds the residential management fee yield harmless under the transition provisions of Chapter 3, Section 4 of HUD Handbook 4381.5,

(1) We understand that HUD will adjust the management fee percentage each time HUD approves a rent increase.

(2) We agree to be bound by that percentage until the next rent increase or until HUD approves a different fee, pursuant to our request.

2. We will, if the project is subsidized by HUD, select and admit tenants, compute tenant rents and assistance payments, recertify tenants and carry out other subsidy contract administration responsibilities in accordance with HUD Handbook 4350.3 and other HUD instructions.

We agree to:

Comply with this project's Regulatory Agreement, Mortgage & Mortgage Note, and any Subsidy Contract or Workout / Modification Agreement.

b. Comply with HUD handbooks, notices or other policy directives that relate to the management of the project.

c. Comply with HUD requirements regarding payment and reasonableness of management fees and allocation of management costs between the management fee and the project account.

d. Refrain from purchasing goods or services from entities that have identi of-interest with us unless the costs are as low as or lower than arms-lengt open-market purchases.

4. The Agent agrees to:

a. Assure that all expenses of the project are reasonable and necessar

b. Exert reasonable effort to maximize project income and to take advantag of discounts, rebates and similar money-saving techniques.

c. Obtain contracts, materials, supplies and services, including the prepar tion of the annual audit, on terms most advantageous to the project.

d. Credit the project with all discounts, rebates or commissions (includin any sales or property tax relief granted by the State or local governmen received.

e. Obtain the necessary verbal or written cost estimates and document th reasons for accepting other than the lowest bid.

f. Maintain copies of such documentation and make such documentatio available for your inspection during normal business hours.

g. Invest project funds that HUD policies require to be invested and tak reasonable effort to invest other project funds unless the owner specificall directs the Agent not to invest those other funds.

5. We certify that the types of insurance policies checked below are in force an will be maintained to the best of our ability at all times. Fidelity bonds and hazar insurance policies will name HUD as an additional payee in the event of loss. Note For any box not checked, attach an explanation as to why you cannot obtain tha type of insurance. Such situations should be extremely rare.

a. [XX] Fidelity bond or employee dishonesty coverage for

(1) all principals of the Agent and;

(2) all persons who participate directly or indirectly in the management an maintenance of the project and its assets, accounts and records. Coverage will be at least equal to the project's gross potential income for two (2 months.

b. [XX] Hazard insurance coverage in an amount required by the project's Mortgage.

c. [XX] Public liability coverage with the Agent designated as one of the insured.

6. The Agent agrees to:

a. Furnish a response to HUD's management review reports, physica inspection reports and written inquiries regarding the project's annual financia statements or monthly accounting reports within 30 days after receipt of the report or inquiry.

b. Establish and maintain the project's accounts, books and records ir accordance with:

(1) HUD's administrative requirements;

(2) generally accepted accounting principles; and

(3) in a condition that will facilitate audit.

7. We agree that:

a. All records related to the operation of the project, regardless of where they are housed, shall be considered the property of the project.

b. HUD, the General Accounting Office (GAO), and those agencies' representatives may inspect :

(1) any records which relate to the project's purchase of goods or services,

(2) the records of the Owner and the Agent, and

(3) the records of companies having an identity-of-interest with the owner and the agent.

Ref to OIG Evaluation | Auditee Comments

Project Name: Mount St. Francis Health Center

FHA Project Number: 016-43044

Date: 1/8/97 (Revised For

HUD Field Office Use Only (Check all boxes that apply)

Up-front review of the management fee was: [ ] Required [ ] Not required

[ ] The management fees quoted in paragraph 1a and explained in Attachment 1 of this Certification are approved.

[ ] The management fees quoted in Paragraph 1a and explained in Attachment 1 of this Certification are not approved. The attached letter, dated ______ explains the reasons for this disapproval and sets forth the allowable management fees.

[ ] The residential management fee Percentage is held harmless at ______%.

[ ] The residential management fee Yield is capped at $______PUPM. Each time you approve a rent increase, adjust the management fee Percentage t maintain this yield and enter the information required below.

Effective Date of New Fee %*	Monthly Rent Potential	Collections % Assumed**	Adjusted Management Fee Percentage

* This should be the same date the rent increase is effective.
** 95% unless you approve a different percentage.

Loan Servicer		By Supervisory Loan Servicer/Loan Management Branch Chief	
Signature: William F. Morales	Date: 3/17/97	Signature: [signature]	Date: 3/17/97
Name: William F. Morales		Name: Michael G. Watson	
Title: Asset Manager		Title: Chief, Asset Management Branch	

Ref to OIG Evaluation Auditee Comments

STERLING HEALTH CARE
MANAGEMENT COMPANY, LLC

THE STANLEY BUILDING
190 BROAD STREET
PROVIDENCE, RI 02903

TEL 401-331-5454
FAX 401-831-2540

February 13, 1997

Ms. Luisa G. Osborne
Director, Multifamily Division
U.S. Department of Housing & Urban Development
Rhode Island State Office
10 Weybosset Street - Sixth Floor
Providence, RI 02903

Re: Revision to Management Certification (form HUD-9839-B)
Revision to Management Entity Profile (form HUD-9832)
Mount St. Francis Health Center
4016-43044

Dear Ms. Osborne:

In connection with my conversation with William Morales and in conjunction with the Asset Management Circular Letter 96-11, enclosed is the revised Management Entity Profile form HUD 9832 showing the staff salary for Sterling Health Care Management Company. Also enclosed is a copy of the Partnership Agreement for the above referenced nursing facility, which we referenced on the Project Owner's & Management Agent's Certification form HUD 9839-B, Item 1- Term of Agreement.

I trust the above and enclosed meet with your approval; however, should you have any questions or need any additional information, please do not hesitate to contact my office.

Very truly yours,

Juliette A. Vaccaro

Juliette A. Vaccaro
General Manager

JAV:msm

Enclosure

Ref to OIG Evaluation | Auditee Comments

Management Entity Profile

U.S. Department of Housing and Urban Development
Office of Housing
Federal Housing Commissioner

OMB Approval No. 2502-0305 (exp.7/30/92)

Public reporting burden for this collection of information is estimated to average 2 hours for an initial response and 0.5 hours for an updated response, including the me for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of ormation. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to e Reports Management Officer, Office of Information Policies and Systems, U.S. Department of Housing and Urban Development, Washington, D.C. 20410-3600 and to the Office of Management and Budget, Paperwork Reduction Project (2502-0305), Washington, D.C. 20503.

Privacy Act Statement: The Department of Housing and Urban Development (HUD) is authorized to collect this information by the U.S. Housing Act of 1937, as amended, and the Social Security Numbers (SSN) by the Housing and Community Development Act of 1987, 42 U.S.C. 3543. The information concerning management documents for Multifamily Housing projects is being collected by HUD to: (1) determine the acceptability of proposed management agents, (2) ensure compliance with program requirements, (3) provide leverage for removing poor managers, and (4) recover excessive management fees. The information is being used as a management tool to avoid the misuse of HUD subsides and defaults against the FHA insurance fund by management agents. Specifically, the information will provide for improved project management by ensuring: that subsidy funds are administered in accordance with HUD rules, project expenses are reasonable, maintenance of documented records, and use of project funds only in accordance with HUD requirements. The SSN is used as a unique identifier. HUD may disclose this information to Federal, State and local agencies when relevant to civil, criminal, or regulatory investigations and prosecutions. It will not be otherwise disclosed or released outside of HUD, except as permitted or required by law. Failure to provide the information could result in HUD's denial of proposed management or fees or cancellation of management contracts for noncompliance with HUD procedures. Providing the SSN is mandatory, and failure to provide it could affect your participation in HUD programs.

Instructions: The management entity may develop its own format for providing the information requested in this form. Independent fee managers and identity-of-interest management agents must provide all the information requested. Owner-managers and administrators of projects for the elderly must provide responses only to the asterisked items. They must also state whether they have previously managed insured and/or HUD-held projects and, if so, list such projects.

*1a. Name of Management Entity: Sterling Health Care Management Co., LLC.

*1b. Management Entity Type: [ ] Owner/Manager [ ] Project Administrator [x] Independent Fee Agent [x] Identity-of-Interest Agent

*1c. Employer Identification Number (EIN): [redacted]

*1d. Organization Type: [ ] Corporation [ ] Partnership [ ] Individual [x] Other (specify) Limited Liability Co.

*2. Give names, titles and Social Security Numbers of firm's principals (e.g., general partner, president, treasurer, etc.)

Name	Title	Social Security Number
Juliette A. Vaccaro	General Manager	[redacted]
Catherine Diedrich	Comptroller	[redacted]

Provide mailing addresses for the Company's home office and any branch offices involved in management of HUD-related multifamily projects. Specify the geographic area covered by each office.

190 Broad Street
Providence, RI 02903

*4. What year did the company begin managing: 1994

a. HUD-subsidized projects	b. HUD-related unsubsidized projects	c. Conventional projects
Nursing Homes	1995	

5. Estimate what percent of company's activities involve management of:

a. Conventional projects	b. HUD-related projects	c. Commercial space	d. Other
%	100 %	%	%

6a. How many of the following projects does the company manage? (Both rentals and cooperatives)

HUD-unsubsidized projects	HUD-unsubsidized ~~XXXX~~ Beds	HUD-subsidized projects	HUD-subsidized units	HUD-owned projects	HUD-owned units
2	378				

6b. How many of the projects included in 6a:

Have HUD-held mortgages	Are non-insured	Are subsidized co-ops	Are unsubsidized co-ops

6c. Approximately what percent of the projects in 6a fall into the following categories:

Elderly	Family	Owned by a non-profit or coop	Core city	Troubled neighborhood	Suburban	Rural area
100 %	%	%	%	%	100 %	%

7. Indicate where each of the following activities are administered. Use the following codes: C = central office; R = regional office; P = project site

Bookkeeping	Landscaping	Maintenance	Purchasing	Tenant application	Certifications/ recertifications	Regular monthly subsidy billings	Special claims subsidy billings
P	P	P	P		N/A	N/A	N/A

*8. How many of the company's full-time employees serve in the following supervisory or advisory roles? (Owner-managers and administrators of projects for the elderly should provide this information on project employees.)

Engineers	Maintenance supervisors	Occupancy supervisors	Training specialists	Social service coordinators	Regional property managers	How many are minorities	What percentage are minority
	1			1			%

*9. Identify any professional memberships, licenses, certificates or accreditations which are related to property management activities and are held by the company, company executives, or the employees considered in Item 8.

General Manager - CPM Key #8491, Senior RAM, Real Estate Salesman's License #S13746
Comptroller - Certified Public Accountant
Rhode Island Health Care Association

Ref to OIG Evaluation | Auditee Comments

*10. Describe any purchasing procedures you hav[e im]plemented to control or reduce costs (e.g., bulk purchasing, paying early to take a[dvant]age of discounts, cost comparisons or bids, etc.)

Became member of Health Share Associates, Inc. which is a group purchasing program.
No purchases without a purchase order request approved by Administrator.
Cost comparisons and bids are obtained when applicable.

*11a. List any companies which regularly supply goods or services to your HUD-related projects and have an identity-of-interest with the management entity or its principals (e.g., officers, general partners). Specify the type of goods and services provided. (See paragraph 2 - 30 of HUD Handbook 4381.5 for a definition of the term "identity-of-interest.") If these companies do not provide goods/services to all your HUD-related projects, identify the projects that do not deal with these companies.

Management Realty Services, Inc.
Gregory Building Company
Simon & Windsor Interiors, Inc.
My Place Inc.
Consultants Inc.

*11b. Do any of the identity-of-interest companies listed in 11a. function as "pass-throughs" -- i.e., does the identity-of-interest company purchase goods or services from another party and pass those goods or services through to the project? For each pass-through arrangement:
(1) Name the identity-of-interest company involved.
(2) Explain how the identity-of-interest company's compensation is determined.
(3) Explain why it is more advantageous for the project to use the pass-through arrangement than to purchase directly from the ultimate supplier.

N/A

*12. What types of property management procedures or operating manuals are used by on-site or supervisory staff?

HUD Handbooks
Written State and Company Policies
Health Department Regulations

*13. What types of recurring written reports are prepared on project operations (e.g., maintenance, move-in/outs, payables, comparisons of budgeted and actual expenses)? Specify who (by position title) prepares the report, frequency of the report, and who reviews the report.

Weekly administration reports sent to General Manager of management company. Site problem reports prepared monthly by Maintenance Supervisor and submitted to Administrator and General Manager of management company. Payables are computer generated and submitted weekly to Administrator by Accounts Payable clerk. Monthly income/expense reports prepared by bookeeper and sent to General Manager and Owner. Admission reports submitted to Administrator and Gener. Manager of management company by Admissions person.

*14a. How frequently do company executives or supervisory staff visit the projects the company manages?	*14b. Specify who (by position title) conducts the on-site visits or reviews.
Weekly - at a minimum	General Manager Comptroller

*15. If the company manages subsidized projects, identify by job title who *prepares and reviews* the HUD-required documents listed below. Specify the frequency of review.

	Prepares documents	Reviews documents	Frequency of review
a. Form HUD-50059, Initial Certifications	N/A		
b. Form HUD-50059, Recertifications	N/A		
c. Regular Monthly Subsidy Billings	N/A		
d. Special Claims Subsidy Billings	N/A		
e. Proposals to terminate tenant assistance payments	N/A		
f. Proposals to evict	N/A		
g. Monthly Accounting Reports (Forms HUD-93479, 80, 81)	N/A		
h. Form HUD-949, Civil Rights Tenant Characteristics/Occupancy Reports	N/A		

Ref to OIG Evaluation | Auditee Comments

Agent Name Sterling Health Car Management Company, LLC | Date 2/11/97 (Revised For

16. If applicable, describe how the home office supervises supervisory staff (e.g., property managers, occupancy specialists, maintenance supervisors), who operate out of branch offices.

Weekly meetings with Department Heads.

*17. Describe how the company trains its employees in the areas listed below. Discuss both on-going training and initial training provided when the employee is hired. Specify the frequency and duration of the training and who/what organization conducts the training. Discuss training for both supervisory and front-line staff.

a. Property management practices.

N/A

b. Financial and recordkeeping requirements.

Comptroller and independent CPA instruct all employees. New employees would also receive training by out-going personnel

c. Civil rights and fair housing laws.

New employees are given copies of Executive Order 11063 and Title VIII of the Civil Rights Act of 1968 as well as the Fair Housing Laws of Rhode Island.

d. Occupancy requirements in HUD Handbook 4350.3, *Occupancy Requirements of Subsidized Multifamily Housing Programs* (if the company manages subsidized projects).

N/A

*18. Has an owner of a HUD-related project, at any time during the past three years, cancelled a property management contract held by the company? [ ] Yes [X] No

During the past three years, how many HUD-related projects have not renewed their management contracts with the company? (Number) N/A

Explain the reasons for any cancellations or failure to renew and identify the projects involved.

Ref to OIG Evaluation | Auditee Comments

19a. List *all* HUD Field Offices that have jurisdiction over the projects included in 6a. For companies that operate in more than five Field Office jurisdictions, identify the five jurisdictions where the greatest number of your HUD-related ... are located.

HUD - Providence Service Office

19b. List *all* State Agencies in whose jurisdiction you have managed or are managing State Agency-financed projects. For companies that operate in more than five States, identify the five where the greatest number of your State Agency projects are located.

Rhode Island Housing & Mortgage Finance Corp.
Providence HUD Office
State of Rhode Island Department of Health

19c. List *all* FmHA offices in whose jurisdiction you have managed or are managing FmHA projects. For companies that operate in more than five FmHA jurisdictions, identify the five where the greatest number of your FmHA projects are located.

N/A

Certification: The undersigned hereby certifies that the statements and information contained in this profile are true and correct.

Warning: 18 U.S.C. 1001 provides, among other things, that whoever knowingly and willingly makes or uses a document or writing containing any false, fictitious, or fraudulent statement or entry, in any matter within the jurisdiction of any department or agency of the United States, shall be fined not more than $10,000 or imprisoned for not more than five years, or both.

...ned by Management Entity Representative

Signature: Juliette A. Vaccaro

Date: 2/11/97 (Revised Form

Print Name: Juliette A. Vaccaro

Title: General Manager

Ref to OIG Evaluation | Auditee Comments

SCHEDULE A

(Management Entity Profile - Sterling Health Care Management Company, LLC (SHCMC): Staff Salaries)

Employee Name	Salary*	% of Salary Charged to SHCMC
Juliette A. Vaccaro General Manager	$24,180	50% (adjusted to actual hours worked on ongoing basis)
Martine Medeiros Administrative Assistant	17,550	50% (adjusted to actual hours worked on ongoing basis)
Catherine Diedrich Comptroller	52,380	100%
Patricia Heaney Assistant Comptroller	33,040	100%
Laurie Chivarini Clerk	9,100	50%

* This is the portion of salary attributed to SHCMC, but in no way is indicative of the actual amount of time spent managing the facilities under the management contract.

Ref to OIG Evaluation | Auditee Comments

Tab 4

My Place Inc.'s Services

Ref to OIG Evaluation | Auditee Comments

My Place Inc.

Daily & Weekly Responsibilities:

1) company representative available from 9:00 AM to 5:00 PM five days a week

Representative capable of answering phones in a professional manor and be able to direct calls to the proper department accessing an available answering service during off hours for messages.

a) Representative able to help employees with any social service questions or needs regarding:
   i) social agencies,
   ii) state agencies,
   iii) psychological services,
   iv) health programs,
   v) adult programs,
   vi) childcare programs,
   vii) federal programs,
   viii) dependence programs,
   ix) and other financial aid programs.
b) This representative will also make the first introduction of the employee and/or their families to the agencies that they have requested. Further, they will follow-up with the employee to see if they are happy with the agency or program they have chosen and if they would like to be directed to another agency.

2) Counseling
   a) Provide Short-Term and Long-Term Counseling models to better service employees needs. Access to these programs is provided through the In-Service Coordinator, Personnel Director and the Administrator at the request of an employee or the request of an Administrator for an under performing employee. The Counseling services provided will aid employees with the following:
      i) Coping with juggling daily responsibilities.
      ii) Coping with Life's Problems.
      iii) Dealing with an unexpected crisis.
      iv) Dependence issues.
      v) Dealing with stress.
      vi) Dealing with self esteem.
      vii) Dealing with relationships.
      viii) Dealing with Health issues.
      ix) Dealing with job performance issues.
   b) Counselor made available on site once a month or on a as need basis for evaluations and/or guidance on which counseling direction would be best suited for an employee.
3) Health and Wellness Program
   a) Set-up Exercise Weight Loss Programs on a need basis
4) Make available a Comprehensive Child Care Referral Program for all employees on a daily as needed basis. This program unites employees with the proper child care, educational, and social agencies necessary to suit their child care needs. Note, the program contains the following components and sub-activities.

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Auditee Comments

a) Need Assessment Program: with the ability to conduct a survey to determine need;

Set-up a Referral Network Program

i) Aide families in the selection for an appropriate child care service by making the selection process more informed and easier. Further, the goal of the referral network program is to help parents understand the following:

(1) The different types of child care offered;

(a) For Profit or Non-profit

(b) In-Home Care

(c) Family Day Care Homes

(d) Day Care Centers and Nurseries

(2) The advantages and disadvantages to each type of child care.

(3) The importance of certification and licensure of child care facilities.

(4) What to look for when choosing a child care facility.

(5) Questions to ask child care providers when researching child care facilities.

(6) How to monitor your child's progress in the day care setting you have chosen.

b) Set-up Screening Services

i) The purpose of this service is to help parents identify, at an early age, potential problems with their children which could interfere with their natural growth and development. Further, to unite parents with the appropriate agencies that could help them. With early identification, many of these problems may be alleviated before the child is ready for school. The following are some of the Screening services we offer:

(1) Hearing Screening

(2) Vision Screening

(3) Speech and Language Screening

(4) Development Screening

c) Hotline

i) Employees are able to call any time during business hours and ask staff for assistance in finding child care services or just talk about a simple parental concern.

d) Corporate Liaison

i) maintaining a list of all licensed and certified day care centers in the State of Rhode Island in order to act as a resource for employee child care options.

ii) a ready and available list of specialists for children who are found during the testing period to have special needs.

e) Financial Child Care Assistance

i) providing employees who are in need of subsidized child care information, to determine eligibility, and determine which program best suits family's needs. circumstances.

Monthly Responsibilities:

5) Educational & Motivational programs:

a) Provide (2) ½ hour seminars per month.

i) Hold Meetings with the In-Service Director, social service department, employee relations department, administrators, and employees to determine seminar topics that will meet their needs or the facility needs.

ii) All Seminars provided by a Licensed Therapist, Psychiatrist, or Certified Specialist.

Page 3 of 7

Ref to OIG Evaluation

Auditee Comments

6) Newsletters and Flyers
   a) Produce Communication and Management bulletins for the administrator, and management.
   b) Produce Health newsletters for employees.
7) Produce Monthly Social Event calendars in conjunction with the state Department of Tourism for all employees on up coming family events within the State.
8) Administrative Consulting Services
   a) Work with administrators to help implement top-down management policies, company policies, company procedures, and additional concerns.
9) Employee Assistance Program suggestion box
   a) Provide suggestion Box for employees to make comments and suggestions.
   b) Analyze all comments/suggestions and formalize a report to Owners, Administrator, and Management Company.
10) Stress Reduction In-Services
   a) Provide (2) ½ hour seminars per month.
      i) The Goal is to provide employees and management with an opportunity to work together in a relaxing and fun atmosphere through in-service activities.
      ii) Some examples are as follows:
         (1) Arts-n-crafts
         (2) Mini-projects

Yearly Responsibilities

11) Children Activities
   a) Provide (2) Holiday Activities per year for the parents and their children to get together and enjoy each others company.
      i) Activities consist of following and include clowns, magicians, and holiday characters
         (1) dinner and or lunch
         (2) beverages and party favors
      ii) Providing at least two personnel for the event.
12) Provide an annual employee appreciation/ health fair in the form of a carnival atmosphere. It held on a Pay Day and begining at 6:00am and ending at 4:30pm.
   a) providing all:
      i) Outdoor Tents
      ii) Tables
      iii) Electircal equipment needed
      iv) Chairs
      v) Table Cloths
      vi) Table skirts
      vii) Provide at least six personnel for the event.
      viii) Breakdown of equipment
   b) Set-Up booths with outside agencies targeting the employees well being. Following are some examples:
      i) Health Representative.
      ii) Nutrition and/or Weight Control Representative.
      iii) Athletic Club Representative.
      iv) Insurance Coverage Representative.

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v) Hobby and Crafts Representative.
vi) Childcare Representative.
vii) Counseling Representative.
viii) Motivational Representative.
ix) Uniform Representative.
x) Massage Therapist Representative.
xi) Other or by Special Request.

c) Provide each attendant with giveaways such as:
   i) T-shirts
   ii) Hats
   iii) Bags
d) Set-up Carnival Games (At least 3)
   i) Provide Prizes such as the following examples:
      (1) Stuffed Animals
      (2) Lollipops
      (3) Chocolate Bars
      (4) Flowers
      (5) Key-chains
      (6) Coffee Mugs
      (7) Pens/Pencils
      (8) Miniature Tool Sets
      (9) Fanny Packs
      (10) Lunch Bags
      (11) Frisbees
e) Set-up Carnival Activities (At Least 3)
   i) Balloons
   ii) One minute craft
   iii) Tattoo's and Face Painting
   iv) Other ie pie eating contest
f) Set-up Food Concessions (At Least 3)
   i) Candy
   ii) Complimentary Lunch
   iii) Coffee
   iv) Pastry
   v) Other
g) Provide Seminars on a variety of topics such as the following examples:
   i) Employee Seminars
      (1) How to Budget a Single Paycheck
      (2) Understanding Attitudes of The Aging
      (3) Communication Workshop – How to Work with Resident's Families
      (4) Stress Workshop
      (5) Team Building
      (6) Stress on The Job
      (7) Relationships – Who? What? And Why?
      (8) How to Create a Positive Environment
      (9) Little Things Make a Difference

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(10) Time Management
(11) Understanding Different Personality Types
(12) Assertive Communication
(13) Caring For the Elderly
(14) Having Patience With Your Patient
(15) Resident Skin, Nail and Hair Care
(16) Massage Therapy – How to Give a Massage
(17) Reflexology – Care of Resident Hands and Feet
(18) The Importance of Wearing a Nursing Uniform

ii) Corporate mandatory Seminars
(1) Hire Vision- Secrets to Reducing Absenteeism & Turnover or If You want Eagles, Stop Hiring Turkeys
(2) How to Motivate Employees to do More Than is Expected!
(3) Beyond Superior Customer Service – The Competitive Edge
(4) Dynamic Community Relations That Work and Win Support!
(5) How to Help People Work Together More Effectively!

iii) Facility Seminars
(1) Achieving The Ultimate Winning Team!
(2) I Do Make a Difference

13) Set-Up employee picnic
a) Provide the Following:
i) Games
ii) Prizes
iii) Raffle
iv) Organization and Oversite of events such as:
(1) Baseball
(2) Volley Ball
(3) Relay Races
(4) Etc.
v) Clowns, Magicians, & Holiday Characters when requested
vi) Provide at least two personnel for the Event.

14) Provide entertainment or prizes for the community when the facility is holding open houses for new patients during their outreach weeks.
a) Entertainment could be following:
i) Magicians
ii) Musicians
iii) Other

15) Provide flyers to employees explaining the employee assistance program available to them

16) Promotional Activities Monthly.
a) Door Prizes provided for each seminar.
b)Each month the facility is provided with a raffle for every employee. Some examples are as follows:
i) Thanksgiving Turkey Raffle
ii) St. Patty's Day Raffle
iii) Mother's Day Raffle

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iv) Father's Day Raffle
v) 4th of July Raffle
vi) Christmas Raffle
vii) Easter Hunts

Each employee would receive a free raffle ticket with their pay check to enter. Prizes consisted of the following:

viii) Alexander Uniform Shopping Spree
ix) A Turkey Basket, Easter Basket or other gift basket themes
x) Pawtucket Red Sox, Broadway Plays or other event tickets
xi) Gift certificates to grocery stores
xii) Free Gift Certificates to stores and restaurants
xiii) Carnation Gifts
xiv) Employee Carnival Day
xv) Candy Giveaways
xvi) Movie Passes

b) Each month each employee would receive a small perishable gift to thank them for their dedication and hard work. (gourmet chocolates or lemonade on hot days).

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Tab 5

I – General Information

A – The Chaîne in Brief

- **History**

Confrérie de la Chaîne des Rôtisseurs, the world's largest and, with the second of its two karmas, the oldest gastronomic society, was founded in Paris in the year 1248, under St. Louis, King of France, as the Royal Guild of Oyers Rôtisseurs. Limited at first to the "Masters" in the art of roasting geese, the object of the Guild was to perpetuate the standards of quality befitting the royal table.

The Guild developed rapidly, soon encompassing the preparation of all the various meats and fowls destined for the spit or rack. Eventually, the activities of the Guild, always under royal patronage, enlarged to include the development of an apprentice program, wage and work standards, and the conferment of appropriate honors. In 1509, the Rôtisseurs formally adopted statutes defining their profession, as well as a Coat of Arms. This increasingly wealthy monopoly continued until 1776, when the King declared freedom of work laws in an effort to forestall the French Revolution. A bit too late, unfortunately, and in 1791, the Chaîne was disbanded.

One hundred sixty years passed until three amateurs and two professionals joined in Paris in 1950 with a common goal — to restore the pride in culinary excellence lost during wartime shortages. The Chaîne des Rôtisseurs was re-incorporated and the Coat of Arms of the ancient guild restored by the French Government. Among the founders were Jean Valby, who served as Grand Chancelier until his retirement in 1993, and Curnonsky, known as the "Prince of Gastronomes."

- **Purposes**

The purposes of the Confrérie de la Chaîne des Rôtisseurs are: to promote, foster, and encourage the culinary arts and particularly the techniques of cooking by spit, rotisserie, barbecue, broiling and grilling; to collect and disseminate information with respect to the preparation and serving of foods, and the enjoyment, tasting and understanding of wines and distilled spirits; and, to encourage educational institutions to teach all phases of the culinary arts, enology and viticulture.

- **Membership and Philosophy**

Throughout the world, membership includes persons of the highest talent and distinction. There are Chaîne members in well over 100 countries. With the approval of the International President, countries

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establish their own Bailliages (Chapters) and coordinate their programs through the Chaîne's International Office in Paris.

The Bailliage des Etats-Unis is made up of approximately 140 Local Bailliages, with over 6,500 Members sharing the special bond Chaîne membership affords. Membership is by invitation only and is extended to both men and women, with rank being signified by Ribbons bestowed at formal Induction Ceremonies. Organized as a not-for-profit New York corporation and operated by a Board of Directors, the Bailliage des Etats-Unis is endowed with stability, prestige and the knowledge that the Chaîne des Rôtisseurs is a recognized leader in the support and appreciation of the gastronomic arts.

Underlying its phenomenal growth and success is that which distinguishes the Chaîne from other organizations involved in wine or food — the unique interfacing of professionals and amateur connoisseurs. Professional Members, for whom the Chaîne affords the opportunity to demonstrate exceptional skills, include the finest chefs, as well as hotel and restaurant owners and managers. Amateur Members provide the highly-trained professionals with an appreciative and knowledgeable learning audience.

Because the Chaîne offers opportunities to meet people who share an extraordinary and lively interest in the gastronomic arts, Members can cultivate richly rewarding friendships locally, regionally, nationally and internationally. Fellow Members can anticipate being made especially welcome when visiting Chaîne Member establishments displaying the Chaîne Plaque, a symbol of culinary excellence recognized around the world.

- **The Pledge of the Rôtisseurs**

"I do solemnly pledge to follow the rules of the Chaîne des Rôtisseurs, to honor my fellow Members and join in harmony with them at the table."

- **Chaîne Events**

Chaîne Bailliages schedule a variety of events to provide not only the camaraderie experienced by gathering around the table to enjoy the pleasures of the fine food and wine, but also to honor the chefs, restaurateurs, and service personnel responsible for providing these pleasures. Harkening back to its origins, the focus is often on regional and foreign cuisines and features fish, fowl, meat and game that has been roasted. Planning and execution of a Chaîne event involves an extraordinary effort on the part of a Bailliage as well as the host establishment. Whether it's an informal "Diner Amical" or a formal black tie eight-course dinner with white glove service, the concentration is on exceptional food, well-matched wines and impeccable service.

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Appropriate food and wine commentaries are often offered during an event, and at the event's conclusion, the chefs and waitstaff are usually introduced, allowing the guests to show their appreciation.

- **The Ordre Mondial**

The Ordre Mondial des Gourmets Dégustateurs is an adjunct of the Chaîne devoted to specialized wine activities. Its membership is comprised of Chaîne professional and amateur Members who are advanced connoisseurs of wine, and its purpose is to encourage the collection and dissemination of information on wines and crafted spirits. Members may elect to take part in various excursions and educational events and are encouraged to schedule their own events within their respective Bailliages. This adjunct organization has its own traditions and Induction Ceremony and offers an added enriching dimension to the Chaîne experience.

- **The Chaîne Foundation and Outreach Efforts**

In keeping with its purpose of encouraging the professional and academic pursuit of culinary excellence, the Bailliage des Etats-Unis has established the Chaîne Foundation, a separate not-for-profit, tax exempt corporation. Its funds are used to further career development, including providing scholarships and sponsoring culinary competitions. In addition, many Bailliages design their own educational and outreach programs.

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Tab 6

Mt. Saint Francis Health Center

Job Description
Position: Director of Purchasing

Supervisor: General Partner, Mt. Saint Francis

Description: To oversee the purchasing function for Mt. Saint Francis Health Center

Duties:

- Ongoing review and analysis of competitive pricing with all vendors
- Meet with vendors and/or their representatives; attend pertinent industry trade shows
- Review master mailing and price lists for all primary and secondary vendors
- Review inventory levels maintained by facility. Review necessary year end inventory reports for Controller
- Review master list of house stock inventory items and par levels for each nursing station.
- Review month end inventory reports received from facility.
- Ongoing communication with business office on current pricing information
- Assist Controller with establishing and reviewing supply markup to ensure proper cost to charge ratios are in place
- Review construction bids and oversee actual construction work.
- Review a Capital Needs Assessment for building.
- Work with Maintenance Supervisor as to Scope of Work and priority of projects.

Qualifications:

- Bachelor Degree in Business Administration or related field
- Three to five years purchasing experience in health care or related field
- Excellent communication skills

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Tab 7

MT. SAINT FRANCIS HEALTH CENTER

Job Description

POSITION: Assistant Administrator

DEPARTMENT: Administration

SUPERVISOR: Administrator

DESCRIPTION: The primary purpose of this position is to assist in directing the day-to-day functions of the facility in accordance with current federal, state and local standards, guidelines and regulations that govern the Long term care facility and as may be directed by the Administrator to assure that the highest degree of quality care is maintained at all times.

SUPERVISION EXERCISED: As the Assistant Administrator, you are delegated the administrative authority, responsibility and accountability necessary for carrying out your assigned duties. In the absence of the Administrator, act on his/her behalf.

SUPERVISION RECEIVED:Under the direction of the Administrator, Owner & Sterling Health Care Management Co.

DUTIES:

ADMINISTRATIVE FUNCTIONS:

- Act on behalf of the Administrator during his/her absence.
- As part of its commitment to providing quality care in accordance with the laws and regulations applicable to Nursing homes, Mt. Saint FrancisHealth Center has adopted a Compliance plan. You will be expected to be familiar with the Compliance plan and to abide by its provisions.
- Assume overall administrative responsibility for all the departments and programs at Mt. Saint FrancisHealth Center.
  Accounts Receivable, Accounts Payable & Resident accounts, Medical Records, Housekeeping, Rehab, Purchasing, Admissions, and Risk Management.

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Develop and implement a Quality Assurance program in the facility to continuously strive toward providing the highest quality of care.

- Assist Administrator in planning, developing, organizing, implementing and directing the day-to-day functions of the facility, its programs and activities.
- Assist in the development and implementation of our written policies and procedures that govern the operation of the facility.
- Assist department directors assigned to you in the development and use of department policies and procedures, and establishes a rapport in and among departments so that each can realize the importance of teamwork.
- Assist in establishing policies that govern the resident's right to quality of life and care as defined by the resident's comprehensive assessment and care plan.
- Interpret the facilities policies and procedures to employees, residents, family members, visitors, government agencies, etc. as necessary or instructed.
- Attend department head meetings etc., as scheduled or as may be called.
- Work with department heads and committees to help ensure the facility is in compliance with all state and federal guidelines i.e.: (OBRA, OSHA, ADA, JACHO).
- Assume the administrative authority, responsibility and accountability of directing the activities and programs for the assigned departments.
- In the absence of the Administrator, represent the facility at and participate in to-level meetings as may be assigned.
- When requested, represent the facility in dealings with outside agencies, including governmental agencies and third party payers or provide an authorized representative of the facility when unable to attend such meetings.
- Make written and oral reports/recommendations to the Administrator concerning the operation of the facility.
- Accept and perform temporary or long-term assignments/projects to various departments within the facility as required by the Administrator.
- Participate in facility surveys (inspections) made by authorized government agencies.

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- Assist in developing a plan of correction for deficiencies noted during survey inspections and provided a written copy of such plan to the Administrator for his/her review/approval.

- Maintain an adequate liaison with families and residents.

- Assist in developing and maintaining a good public relations program that serves the best interest of the facility and community alike.

COMMITTEE FUNCTIONS:

- Serve on various committees of the facility (i.e.: Infection Control, Quality Assurance, Safety etc. as appointed by the Administrator) and provide written/oral reports of such committee meetings to the Administrator as necessary.

- Assist the Quality Assurance committee in developing and implementing appropriate plans of action to correct identified quality deficiencies.

- Evaluate and implement recommendations from the facility's committees as necessary or as may be directed.

PERSONNEL FUNCTIONS:

- Assist in the recruitment and selection of competent department directors, supervisors, consultants and other auxiliary personnel. Make recommendations to the Administrator.

- Delegate administrative authority, responsibility, and accountability to other staff personnel as deemed necessary to perform their assigned duties.

- Work with the facility's consultants as necessary and implement recommended changes as approved by the Administrator.

- Consult when necessary with department directors concerning the operation of their departments to assist in eliminating/correcting problem areas and/or improvement of services. Report such findings/solutions to the Administrator.

- Assist in scheduling department working hours, personnel, work assignments, etc. as necessary or required.

- Counsel/discipline personnel as requested or as may become necessary.

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- Ensure that disciplinary action is administered fairly and without regard to race, color, creed, national origin, age, sex, religion, handicap, or marital status.
- Terminate employment of personnel when necessary, documenting and coordinating such actions with the Administrator and/or Human Resource Manager.
- Conduct performance evaluations as necessary
- Schedule and participate in departmental meetings.
- Serve as liaison to the Administrator, medical staff and other professional and supervisory staff.
- Maintain an excellent working relationship with the medical profession and other health related facilities and organizations through formal working and transfer agreements.

STAFF DEVELOPMENT:

- Attend and participate in workshops, seminars, etc. to keep abreast of current changes in the long-term care field, as well as to maintain a professional status.
- Ensure that all personnel attend and participate in annual OSHA AND CDC in-service training programs for hazard communication, TB management and bloodborne pathogens standard and other mandatory in-service programs.
- Create and maintain an atmosphere of warmth, personal interest and positive emphasis as well as a calm environment throughout the facility.

SAFETY & SANITATION:

- Assist in insuring that the building and grounds are maintained in good repair.
- Participates in insuring that facility personnel follow established ergonomics policies and procedures (i.e.: a back brace and/or a mechanical lifter is used when lifting or moving heavy objects.)
- Assist in insuring that personnel follow established policies governing the use/disposal of personal protective equipment, and disposal of infectious wastes.

EQUIPMENT & SUPPLY FUNCTIONS:

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- Recommended to the Administrator equipment and supply needs.
- Assist in insuring that the facility is maintained in a clean and safe manner for resident comfort and convenience by assuring that necessary equipment and supplies are maintained in an operable manner to perform such duties/services.
- Assist in insuring that adequate supplies and equipment are on hand to meet the day-to-day operational needs of the facility and resident.

BUDGET & PLANNING FUNCTIONS:

- Assist in preparing an annual operating budget for approval by the Administrator and allocate the resources to carry out programs and activities of the facility.
- Assist all department heads in the review and planning of their department's annual or periodic budgets.
- Assist Administrator in financial negotiations with outside entities such as lenders, purchasers, suppliers, etc.

WORKING CONDITIONS:

- Works in office areas as well as throughout the facility and its premises.
- Moves intermittently during working hours.
- Is subject to frequent interruptions.
- Is involved with residents, family members, personnel, visitors, government agencies/personnel etc. under all conditions/circumstances.
- Is subject to hostile and emotionally upset residents, family members, personnel and visitors.
- Works beyond normal working hours and on weekends and holidays when necessary.
- Is subject to call-back during emergency conditions (i.e.: severe weather, evacuation, post-disaster, etc.)
- May be involved in community/civic health matters/projects.

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- Attends and participates in continuing education programs.
- Is subject to injury from falls, burns from equipment, odors, etc. throughout the work day, as well as reactions from dust, disinfectants, tobacco smoke and other air contaminants.
- Is subject to exposure to infectious waste, diseases, conditions etc. including TB and AIDS and Hepatitis B viruses.
- May be subject to the handling of exposure to hazardous chemicals.
- Communicates with the medical staff, nursing personnel and other department supervisors.
- Maintains a liaison with the residents, their families, support personnel etc., to assure that the resident's needs are continually met.

EDUCATIONAL REQUIREMENTS;

- Must have a Bachelor's degree in Health Care Administration, Accounting or in Business Administration from an accredited college or university.

EXPERIENCE:

- Must have a minimum of 3 years in a supervisory capacity in a hospital or long-term care facility.
- Must possess a working knowledge of long-term care operational standards set forth in the Federal Register, Requirements of Participation.

SPECIFIC REQUIREMENTS:

- Must hold a current Rhode Island Nursing Home Administrator's License.
- Must be able to read, write, speak and understand the English language.
- Must possess the ability to make independent decisions when circumstances warrant such action.
- Must possess the ability to deal tactfully with personnel, residents, family members, visitors, government agencies/personnel and the general public.
- Must be knowledgeable of reimbursement regulations, nursing and medical practices and procedures, as well as laws, regulations and guidelines pertaining to long-term care administration.

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- Must possess the ability to work harmoniously with and supervise other personnel.
- Must have patience, tact, cheerful disposition and enthusiasm, as well as be willing to handle residents, staff and visitors based on whatever maturity level at which they are currently functioning.

HIPAA POLICY:

The Assistant Administrator shall have unlimited access to treatment, payment and operations.

*ESSENTIAL ELEMENTS

OIG Evaluation of Auditee Comments

Comment 1 HUD did not approve the $305,967 in advances or repayments while Mount Saint Francis was in a non-surplus cash position. The Mount Saint Francis regulatory agreement prohibited the owner or management agent from using project revenue to engage in any other business or activity not related and essential to the operation of the project. The agreement also stated that the owners shall not assign, transfer, dispose of, or encumber any personal property of the project.

No matter what the reason for the advances, they require prior approval and, therefore, the $305,967 is an ineligible cost. In addition, submission of monthly accounting reports does not constitute approval of those items from HUD.

In reviewing the detail of the $305,967 disbursed from Mt. Saint Francis Health Center, we realized we inadvertently combined the total disbursements under Consultants Inc. There were two companies operating out of 190 Broad Street in Providence, Rhode Island with similar registered names. We determined that $61,247 was paid to Consultants, Inc. The remaining $244,720 was paid to Consultants Associates, Inc., another identity of interest company. We have revised the report to reflect the two companies.

Comment 2 The repayment of the Hillside Health Center, LLC's advance of $104,520 to Mount Saint Francis was not approved by HUD. In addition, when Hillside Health Center, LLC, a related HUD insured property, made the loan, it violated its regulatory agreement with HUD since the Mount Saint Francis mortgage payment was not a reasonable and necessary cost of Hillside Health Center, LLC. Also, as stated in Comment 1 above, the Mount Saint Francis regulatory agreement prohibits such activity. In addition, submission of monthly accounting reports does not constitute approval of those items from HUD. Therefore, the $104,520 is an ineligible cost.

Comment 3 $95,000 of the $109,812 in questionable payments to Mount Saint Francis represent loans made to Sterling Health Care Management. We have attached details of the remaining $14,812 (see Attachment A), of which $8,671 is unsupported.

HUD approved a Mount Saint Francis request to borrow funds from the Reserve Fund for Replacement account to cover payroll expenses of the project. The $95,000 was subsequently wired by Suburban Mortgage Associates, Inc., to Mount Saint Francis' bank account. Mount Saint Francis then transferred $45,000 of the $95,000 to Sterling Health Care Management's bank account. Sterling Health Care Management ultimately transferred the $45,000 to Hillside Health Center, LLC (a related nursing home) for their payroll. The Mount Saint Francis regulatory agreement prohibited the owner or management agent from using project revenue to engage in any other business or activity not related and essential to the operation of the project. The agreement also stated that the owners shall not assign, transfer, dispose of, or encumber any personal property of the project.

Additionally, the following list of check disbursements by Mount Saint Francis to Sterling Health Care Management represents the balance of the $95,000 in questionable payments:

Check No.	Check Date		Amount
15678	5/18/2001		$20,000
15730	6/14/2001		$25,000
15953	10/4/2001		$ 5,000
		Total	$50,000

No approvals were made by HUD for these loans. The fact that payments to Sterling Health Care Management were noted in monthly accounting reports to HUD is not an authorization of such loans and does not constitute HUD approval. In fact, the monthly reports filed with HUD show the disbursement description simply as “Management.” This would not necessarily raise suspicion since the same description was used every month for Sterling Health Care Management’s management fee payments. As stated above, the Mount Saint Francis regulatory agreement prohibits such a transfer. Therefore, these costs are ineligible costs.

Comment 4 Mount Saint Francis was well aware of it cash flow cycle given the nature of its revenue stream, and should have planned accordingly. For the project to incur and pay $22,326 in late fees was avoidable and unreasonable. The fact that the late fees ultimately go to an investor is irrelevant.

Comment 5 Payroll taxes are not an optional business expense. Mount Saint Francis used monies earmarked for the Internal Revenue Service to support their operations. Mount Saint Francis’s failure to submit payroll taxes and subsequently incur legal costs to defend possible litigation was not a reasonable operating expense of the project since they should have been paid when due and payable. Therefore, the $44,226 in legal fees to Adler, Pollock & Sheehan is an ineligible cost.

Legal fees pertaining to a proposed project expansion are development costs, not project operating costs. Therefore, this cost is ineligible as an operating cost. Also according to HUD records, there was no approval consenting to the $19,310 in legal fees to pay for development costs.

Mount Saint Francis paid $15,000 (Check # 14025, dated 4/18/2000) in legal fees to Adler, Pollock, & Sheehan that were invoiced to Sterling Health Care Management. The payment was made for non-project expenses to remove Antonio L. Giordano as general partner from Edmund Place, another nursing home. We determined these costs were not related to the project.

Also, the unsupported disbursement for $250.00 (Check # 14752, dated 7/28/2000) was made to Adler, Pollack, & Sheehan.

Comment 6 The auditee's response indicated that the $9,249 in legal fees paid to Mr. Babcock were covered under a policy of insurance. Mount Saint Francis should have sought recovery from the insurer and repaid the costs to the project. In addition, the auditee's response did not provide supporting documentation indicating the removal of $6,775 in accruals to Mr. Babcock.

Comment 7 In 1995, Mount Saint Francis executed a $200,000 promissory note, at an interest rate of 10%, with O. Ahlborg & Sons, Inc., for construction costs. Mount Saint Francis did not obtain HUD approval for this note and had it done so, the note would have required payments only from surplus cash. The rehabilitation should have been paid for out of development funds and not operating funds. Additionally, as noted above, Mount Saint Francis's regulatory agreement stated that the owners shall not assign, transfer, dispose of, or encumber any personal property of the project or pay out any funds except from surplus cash, and except for reasonable operating expenses and necessary repairs. Therefore, payments could only have been made from surplus cash and Mount Saint Francis's note repayments from operating funds totaling $223,308 violated the project's regulatory agreement with HUD. Disclosure of payments to HUD in monthly accounting reports did not constitute approval of such loans. Additionally, the principal balance remaining at December 31, 2003 of $85,524 is an ineligible cost.

Comment 8 The details of the $86,802 in non identity-of-interest payments are provided in Attachment B.

Comment 9 We determined that payments to My Place Inc., Construction Software, and Antonio L. Giordano were made in addition to their regular monthly billing and payment cycle. Also, all of these payments were expensed to general ledger account 5340 "Other Expense", including the one made to Consultants, Inc. These costs were paid at the direction of the Mount Saint Francis' administrator as noted in an interoffice memo to the business office (See Attachment E). None of the payments had any supporting documentation. Therefore, our position that these costs are unsupported remains unchanged.

Comment 10 The auditee's response contained several engagement letters from Lefkowitz, Garfinkel, Champi & DeRienzo (Tab 1) to support disbursements totaling $263,832 for accounting services. The primary engagement letters were for audits of Mount Saint Francis' financial statements for calendar years 1999, 2000, 2001, and 2002 with estimated fees totaling $112,000 plus out of pocket expenses. Based on these documents it appears that significant additional services were performed/billed for which no support was provided. Also, invoices obtained at the audit site lacked sufficient detail to allow reconciliation back to contracted amounts. Although we believe some of the costs may be eligible, until detailed backup and reconciliation is provided for all expenditures we consider the $263,832 to be unsupported.

Comment 11 The following list of check disbursements provide detail to unsupported payments made to various vendors:

Check No.	Check Date		Amount
13925	2/16/2000		$ 250.00
14679	7/21/2000		$ 500.00
15082	7/28/2000		$ 241.82
20660	6/13/2003		$1,500.00
		Total	$2,491.82

Comment 12 The management agent's certification for Mount Saint Francis and Antonio L. Giordano contained in the auditee's response expired, and was superseded by a subsequent management certification for Mount Saint Francis and Sterling Health Care Management dated January 1, 1995 (see Attachment C). Section 4 of the revised agreement (Special Fees) did not provide for compensation to the owner at 3% of net patient revenue, in addition to the 3% management agent fee, to Sterling Health Care Management. Therefore, the owner's fees were not approved by HUD as auditee's response claims.

In addition, copies of partnership management agreements and management agent profiles were not sufficient evidence to support the reasonableness and necessity of services actually provided. Although monthly accounting reports submitted to HUD indicated payments were made for the management fees, HUD's receipt of monthly accounting reports does not constitute approval.

Comment 13 The listing of My Place, Inc. on the management agent certification only identifies the business as an identity-of-interest company. However, HUD's approval of the management agent certification did not give My Place, Inc., authority to invoice and receive payment for services that were grossly inflated. The auditee did not provide any evidence to support or justify the need for My Place Inc.'s services.

The management agent's certification, dated January 1, 1995, signed by Mount Saint Francis and Sterling Health Care Management certified both parties agreed to comply with item 3(d) of the certification (see Attachment C). Item 3(d) states that, "both parties agree to refrain from purchasing goods and services from entities that have identity-of-interest with us unless the costs are low as or lower than arms-length, open market purchases." We could not locate any business that My Place, Inc., provided services to other than related nursing homes or affiliates owned by Antonio L. Giordano. The auditee did not provide documentation to assure that Mount Saint Francis was in fact receiving a competitive price for the services provided My Place Inc.

Furthermore, on March 29, 2005, Mount Saint Francis responded (see Attachment D) to HUD's concerns with various expenses related to Mount Saint Francis's January 2005 monthly accounting report. Mount Saint Francis's response stated that contracts with Sterling Health Care Management Co., My Place Inc., and Construction Software were canceled; effective July 1, 2004 a full 9 months before Mount Saint Francis issued the March 29, 2005 letter. After many years, the services provided by these companies were abruptly cut off by the auditee with no adverse impact to project operations. Therefore, it is obvious that the services were unnecessary. In addition to canceling the contracts, all accrued balances owed to the identity-of-interest companies were voluntarily written off. These facts further support our position that these services were unreasonable and unnecessary.

Comment 14 As stated in comment 13 above, listing Construction Software Inc. in the management agent certification only notifies HUD that they are an identity-of-interest company. It does not indicate HUD had approved all payments and those payments are reasonable and necessary. We identified $46,080 in payments to Construction Software Inc. Construction Software Inc. was paid for services that the auditee's response described as systems specialization. However, according to various monthly accounting reports submitted to HUD by Mount Saint Francis, the services were described simply as either "management" or "management fees." Construction Software Inc., invoice billings to the Mount Saint Francis describe the services as accounting related. The invoices list the services provided as follows:

1. Accounting and General Ledger Review
2. Review of Monthly Reports
3. Submission of Monthly Reports to HUD
4. Review of Input for Financial Statements
5. Review of Quarterly Operations Report

The services provided by Construction Software Inc., overlap and/or conflict with services provided by Sterling Health Care Management, which was receiving a management fees to perform these functions. Also, Mount Saint Francis' accountants, Lefkowitz, Garfinkel, Champi & DeRienzo, as well as Mount Saint Francis staff were paid to perform accounting services.

In the management agent's certification, both parties certified that all expenses of the project would be necessary and reasonable. During our audit, we interviewed the nursing home administrator and the management agent's general manger and neither could provide requested, contracts or adequate explanation of the services provided by Construction Software, Inc. Therefore, our position remains that these costs were unnecessary and unreasonable.

Comment 15 We concur that Chaine Des Rotisseurs was not an "IOI company." We have revised the report to reflect this change. However, Antonio L. Giordano does have an affiliation and exerts control over the Rhode Island chapter. According to the organizations web site “www.chaineus.org/rhodeisland,” Antonio L. Giordano is the Rhode Island’s chapter President.

Gatherings to Chaine De Rotisseurs events were at the request of the project owner. Administrators and selected staff were strongly encouraged to attend the various events. The cost per attendee varied from $75 to as much as $125 per person, a fee the project paid. Given the fact the project was in a non-surplus cash position and had failed to pay over $3,700,000 in federal taxes attendance at these events was clearly unnecessary to reward management in what resulted in unreasonable project expenses.

Comment 16 Mount Saint Francis’s response did not provide adequate documentation to justify payment of $108,580 to the Director of Purchasing at Mount Saint Francis. During our audit, we determined that Mount Saint Francis had adequate staff in place to support purchasing duties. The director of purchasing position was created in late 2001. Mount Saint Francis had been in existence since the early 1980’s. Since the project ran almost 20 years without a purchasing director we disagree that this position was even required. We have also demonstrated the most services performed by identity-of-interest companies were not properly procured. In addition, the management agent’s agreement stated that one of the services to be provided was “Arrange for contracts for the purchase of all medical supplies, dietary, office and other items required to operate the Facility.” Therefore, $108,580 paid for a director of purchasing position was clearly unnecessary and unreasonable. Lastly, the audits performed by the State of Rhode Island Medicaid program are not relevant, since we do not know the scope and objectives of their audit.

Comment 17 The assistant administrator’s position should have been compensated on an as needed basis. It was unnecessary and unreasonable for the project to pay for a position that was required periodically. The general manager could not justify his hours and duties to warrant payment of 20 hours per week as assistant administrator. The general manager was already receiving compensation from Construction Software and Sterling Health Care Management.

Comment 18 As detailed in our previous comments, all costs were not adequately disclosed to HUD, nor approved by HUD. Moreover, receipt of an operating loss (working capital) loan insured by HUD does not constitute approval of all prior expenses. Therefore, we continue to maintain that the costs claimed were unnecessary/unreasonable or unsupported.

Comment 3

FY 2000 - 2003
QUESTIONABLE PAYMENTS TO
STERLING HEALTH CARE MGMT

CHECK NUMBER	CHECK DATE	AMOUNT
12838	1/3/2000	107.69
12863	1/10/2000	1,399.00
12882	1/17/2000	1,399.00
13009	1/24/2000	1,399.00
13041	1/31/2000	1,399.00
13044	1/31/2000	1,558.30
16312	5/2/2001	1,500.00
20739	6/27/2003	6,050.00
	TOTAL	$ 14,811.99

Comment 8

FY 2000 - 2003
QUESTIONABLE PAYMENTS TO
NON-IOI VENDORS

CHECK NUMBER	CHECK DATE	AMOUNT
13858	01/05/00	1,078.50
13914	02/14/00	300.00
13917	02/14/00	230.89
13180	02/22/00	334.36
13178	02/22/00	450.00
14067	05/10/00	591.18
14469	06/16/00	401.36
14585	06/30/00	500.00
14930	08/22/00	646.00
15140	08/24/00	500.00
15143	08/24/00	1,500.99
15191	09/12/00	289.00
15190	09/12/00	329.65
15205	09/15/00	287.00
15415	11/22/00	252.90
15407	12/15/00	300.00
15401	12/15/00	2,716.09
15403	12/15/00	209.50
15435	01/09/01	334.52
15714	01/23/01	367.01
15481	01/31/01	350.00
15496	02/08/01	1,178.12
16609	06/18/01	377.90
15752	06/21/01	250.90
15828	08/08/01	225.00
15837	08/10/01	225.00
15912	09/14/01	500.00
15910	09/14/01	1,280.79
16019	10/29/01	289.57
17583	11/16/01	327.34
16111	12/14/01	225.00
16110	12/14/01	588.50
16115	12/14/01	227.50
16120	12/14/01	1,559.30
16122	12/18/01	2,100.00
17767	12/21/01	442.35
16267	03/06/02	1,173.79
16276	03/08/02	123.82
16417	05/16/02	1,203.87
18707	05/24/02	259.11
16539	07/12/02	866.70
16552	07/19/02	994.57
19322	09/20/02	375.47
16769	10/24/02	994.57
16839	11/21/02	1,147.58
16863	12/06/02	250.00
16901	12/19/02	4,195.75
16904	12/19/02	5,674.39
16903	12/19/02	875.00
19812	12/23/02	273.88
17059	02/21/03	230.00
17482	08/15/03	9,396.47
17557	09/19/03	208.40
17556	09/19/03	10,870.80
17594	10/01/03	750.00
244920	10/17/03	5,169.20
244920	10/17/03	859.31
111403	11/14/03	15,000.00
17739	11/26/03	354.32
17772	12/12/03	2,000.83
17797	12/18/03	350.00
17784	12/19/03	250.00
17800	12/19/03	875.00
17821	12/29/03	313.24
	Total	$ 86,802.29

Comment 12

Project Owner's & Management Agent's Certification for Multifamily Housing Projects for Identity-of-Interest or Independent Management Agents

U.S. Department of Housing and Urban Development
Office of Housing

OMB Approval No. 2502-0305 (exp. 12/31/90)

Public reporting burden for this collection of information is estimated to average 0.15 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to the Reports Management Officer, Office of Information Policies and Systems, U.S. Department of Housing and Urban Development, Washington, D.C. 20410-3600 and to the Office of Management and Budget, Paperwork Reduction Project (2502-0000), Washington, D.C. 20503.

Project name: Mount St. Francis Health Center	FHA project no: 4016-43044	Date: 1/1/95
City, State: Woonsocket, Rhode Island		Section 8 no:

Acting on behalf of Mount St. Francis Assoc, the Project Owner (Owner), and Sterling Health Care Mgmt Co. the Management Agent (Agent), we make the following certifications and agreements to the United States Department of Housing and Urban Development (HUD) regarding management of the above project.

1. We certify that:
   a. We have executed or will execute, within 30 days after receiving the approval(s) required by paragraph b below, a Management Agreement for this project The Agreement provides / will provide that the Management Agent will manage the project for the term and fee described below. Changes in the fee will be implemented only in accordance with HUD's requirements
      (1) Term of Agreement: Coterminius with Partnership Agreement, to expire when partnership agreement expires
      (2) Fees:
         (a) N/A % of residential income collected;
         (b) N/A % of commercial income collected;
         (c) N/A % of miscellaneous income collected (This percentage must not exceed the percentage in (2)(a) above).
         (d) Special Fees No ☐ Yes ☒ If yes, describe in paragraph 4 of Attachment 1.
      (3) Calculation of Estimated Yield (See Attachment 1.)
   b. We will disburse management fees from project income only after We have:
      (1) Submitted this Certification to HUD;
      (2) HUD has approved the Agent to manage this project; and
      (3) HUD has approved the management fee (if required).
   c. We understand that no fees may be earned or paid after HUD has terminated the Management Agreement.
   d. If HUD notifies me of an excessive management fee, I, the Agent, will within 30 days of HUD's notice either:
      (1) Reduce the compensation to an amount HUD determines to be reasonable and
      (2) Require the administrator to refund to the project all excessive fees collected, or
      (3) Appeal HUD's decision and abide by the results of the appeal process, making any required reductions and refunds within 30 days after the date of this decision letter on the appeal.
   e. If HUD holds the residential management fee yield harmless under the transition provisions of Chapter 2, Section VI of HUD Handbook 4381.5.
      (1) We understand that HUD will adjust the management fee percentage each time HUD approves a rent increase.
      (2) We agree to be bound by that percentage until the next rent increase or until HUD approves a different fee, pursuant to our request.
2. We will, if the project is subsidized by HUD, select and admit tenants, compute tenant rents and assistance payments, recertify tenants and carry out other subsidy contract administration responsibilities in accordance with HUD Handbook 4350.3 and other HUD instructions.
3. We agree to:
   a. Comply with this project's Regulatory Agreement, Mortgage & Mortgage Note, and any Subsidy Contract or Workout / Modification Agreement.
   b. Comply with HUD handbooks, notices or other policy directives that relate to the management of the project.
   c. Comply with HUD requirements regarding payment and reasonableness of management fees and allocation of management costs between the management fee and the project account (This does not apply to projects listed in Paragraph 2-1B of HUD Handbook 4381.5).
   d. Refrain from purchasing goods or services from entities that have identity-of-interest with us unless the costs are as low as or lower than arms-length, open-market purchases.
4. The Agent agrees to:
   a. Assure that all expenses of the project are reasonable and necessary.
   b. Exert reasonable effort to maximize project income and to take advantage of discounts, rebates and similar money-saving techniques.
   c. Obtain contracts, materials, supplies and services, including the preparation of the annual audit, on terms most advantageous to the project.
   d. Credit the project with all discounts, rebates or commissions (including any sales or property tax relief granted by the state or local government) received.
   e. Obtain the necessary verbal or written cost estimates and document the reasons for accepting other than the lowest bid.
   f. Maintain copies of such documentation and make such documentation available for your inspection during normal business hours.
   g. Invest project funds that HUD policies require to be invested and take reasonable effort to invest other project funds unless the owner specifically directs the Agent not to invest those other funds.
5. We certify that the types of insurance policies checked below are in force and will be maintained to the best of our ability at all times. Fidelity bonds and hazard insurance policies will name HUD as an additional loss payee. Note: For any box not checked, attach an explanation as to why you cannot obtain that type of insurance. Such situations should be extremely rare.
   a. ☒ Fidelity bond or employee dishonesty coverage for
      (1) all principals of the Agent and;
      (2) all persons who participate directly or indirectly in the management and maintenance of the project and its assets, accounts and records. Coverage will be at least equal to the project's gross potential income for two (2) months. Attached letter 10/23/ $300,000
   b. ☒ Hazard Insurance coverage in an amount required by the project's Mortgage.
   c. ☒ Public liability coverage with the Agent designated as one of the insured.
6. The Agent agrees to:
   a. Furnish a response to HUD's management review reports, physical inspection reports and written inquiries regarding the project's annual financial statements or monthly accounting reports within 30 days after receipt of the report or inquiry.
   b. Establish and maintain the project's accounts, books and records in accordance with:
      (1) HUD's administrative requirements;
      (2) generally accepted accounting principles; and
      (3) in a condition that will facilitate audit.
7. We agree that:
   a. All records related to the operation of the project, regardless of where they are housed, shall be considered the property of the project.
   b. HUD, the General Accounting Office (GAO), and those agencies' representatives may inspect :
      (1) any records which relate to the project's purchase of goods or services,

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(2) the records of the Owner and the Agent. and

(3) the records of companies having an identity-of-interest with the owner and the agent.

c. The following clause will be included in any contract entered into with an identity-of-interest individual or business for the provision of goods or services to the project: "Upon request of HUD or (name of owner or Agent), (name of contractor or supplier) will make available to HUD, at a reasonable time and place, its records and records of identity-of-interest companies which relate to goods and services charged to the project. Records and information will be sufficient to permit HUD to determine the services performed, the dates the services were performed, the location at which the services were performed, the time consumed in providing the services, the charges made for materials, and the per-unit and total charges levied for said services." The owner agrees to request such records within seven (7) days of receipt of HUD's request to do so.

8. We certify that any Management Agreement does not contain the type of "hold harmless" clause prohibited by HUD.

9. We agree to include the following provisions in the Management Agreement and to be bound by them:

a. HUD has the right to terminate the Management Agreement for failure to comply with the provisions of this Certification, or other good cause, thirty days after HUD has mailed the owner a written notice of its desire to terminate the Management Agreement.

b. In the event of a default under the Mortgage, Note or Regulatory Agreement, HUD has the right to terminate the Management Agreement immediately upon HUD's issuance of a notice of termination to the Owner and Agent.

c. If HUD exercises this right of termination, I the Owner agree to promptly make arrangements for providing management that is satisfactory to HUD.

d. If there is a conflict between the Management Agreement & HUD's rights and requirements, HUD's rights & requirements will prevail.

e. If the Management Agreement is terminated I, the Agent, will give to the Owner all of the project's cash, trust accounts investments and records within thirty (30) days of the date the Management Agreement is terminated.

10. I, the Owner, agree to submit a new Management Certification to HUD before taking any of the following actions:

a. Authorizing the agent to collect a fee different from the percentages fees and any special fees specified in Paragraph 1 of this Certification:

b. Changing the expiration date of the Management Agreement.

c. Renewing the Management Agreement.

d. Permitting a new Agent to operate the project.

e. Permitting a new Agent to collect a fee.

f. Undertaking self-management of the project.

11. We agree to:

a. Comply with all Federal state, or local laws prohibiting discrimination against any persons on grounds of race, color, creed, familial status, handicap, sex or national origin, including Title VI of the Civil Rights Act of 1964, Title VIII of the Civil Rights Act of 1968, Executive Order 11063 and all regulations implementing those laws.

b. Give families with children equal consideration for admission, except in housing for older persons as determined by HUD.

c. Give handicapped persons priority for subsidized units that were built and equipped specifically for the handicapped.

d. If the project receives any form of direct Federal financial assistance, comply with the provisions of Section 504 of the Rehabilitation Act of 1973, as amended, the Age Discrimination Act of 1975 and all regulations and administrative instructions implementing these laws. The Agent understands that these laws and regulations prohibit discrimination against applicants or tenants who are handicapped or of a certain age.

e. Furnish HUD's Office of Fair Housing and Equal Opportunity any reports and information required to monitor the project's compliance with HUD's fair housing and affirmative marketing requirements (including HUD Form 949, if applicable).

f. Not discriminate against any employee, applicant for employment or contractor because of race, color, handicap, religion, sex or national origin.

g. Provide minorities, women and socially and economically disadvantaged firms equal opportunity to participate in the project's procurement and contracting activities.

h. If the project receives any form of direct Federal financial assistance, comply with Section 3 of the Housing and Urban Development Act of 1968 and its implementing regulations. I, the Agent, understand that this law and the regulations require the project to make training, employment and contracting opportunities available, to the greatest extent feasible, to lower-income project area residents and small businesses.

12. We certify that we have read and understand HUD's definition of "identity-of-interest" and that the statement(s) checked and information entered below are true. (Check box a or boxes b and / or c.)

a. ☐ No identity-of-interest exists among the Owner, the Agent and any individuals or companies that regularly do business with the project.

b. XX Only individuals and companies listed in Section 11a of the Management Entity Profile have an identity-of-interest with the Agent.

c. XX Only the individuals and companies listed below have an identity-of-interest with the Owner. (Show the name of the individual or company; list the services rendered; and describe the nature of the identity-of-interest relationship. Attach additional sheets, if necessary.)

13. I, the Agent certify & agree:

a. that the Management Entity Profile, dated 1/1/95, is accurate and current as of the date of this Certification.

b. To submit an updated profile whenever there is a significant change in the organization or operations of the Management Entity.

14. The items checked below are attached:

XX Attachment 1–Calculation of Est. Yields from Proposed Mgt Fees

XX New Management Entity Profile

☐ Updated Management Entity Profile

☐ Other (Specify)____________

Warnings:

There are fines and imprisonment—$10,000/5years—for anyone who makes false, fictitious, or fraudulent statements or entries in any matter within the jurisdiction of the Federal Government (18 U.S.C 1001).

There are fines and imprisonment—$250,000/5years—for anyone who misuses rents & proceeds in violation of HUD regulations relative to this project. This applies when the motgage note is in default or when the project is in a nonsurplus cash position (12 U.S.C 1715z-9).

HUD may seek a "double damages" civil remedy for the use of assets or income in violation of any Regulatory Agreement or any applicable HUD regulations (12 U.S.C 1715z-4a).

HUD may seek additional civil money penalties to be paid by the mortgagor through personal funds for:

(1) Violation of an agreement with HUD to to use nonproject funds for certain specified purposes as a condition of receiving transfers of physical assets, flexible subsidy loan, capital improvement loan, modification of mortgage terms or workout. The penalties could be as much as the HUD Secretary's loss at foreclosure sale or sale after foreclosure.

(2) Certain specific violations of the Regulatory Agreement, the penalties could be as much as $25,000 per occurance (12 U.S.C 1735f-15).

Date: 1/1/95

By Project Owner: Name, title, signature, date:

Antonio Giordano, General Partner

Date: 1/1/95

By Management Agent: Name, title, signature, date:

Juliette A. Vaccaro, General Manager
Sterling Health Care Management Company, LLC.

Project Name: Mount St. Francis Health Center

FHA Project Number: 016-43044

Date: 11/1/95

HUD Field Office Use Only (Check all boxes that apply)

An up-front review of the management fee was: [X] Required [ ] Not required

[X] The management fees quoted in paragraph 1a and explained in Attachment 1 of this Certification are approved.

[ ] The management fees quoted in Paragraph 1a and explained in Attachment 1 of this Certification are not approved. The attached letter, dated ________, explains the reasons for this disapproval and sets forth the allowable management fees.

[ ] The residential management fee Percentage is held harmless at ________%.

[ ] The residential management fee Yield is capped at $________PUPM. Each time you approve a rent increase, adjust the management fee Percentage to maintain this yield and enter the information required below.

Effective Date of New Fee %*	Monthly Rent Potential	Collections % Assumed**	Adjusted Management Fee Percentage

* This should be the same date the rent increase is effective.
** 95% unless you approve a different percentage.

By Loan Servicer

Signature: David A. Cloutier Date: 7/14/95

Name: DAVID A. CLOUTIER

Title: Asset Manager

By Supervisory Loan Servicer/Loan Management Branch Chief

Signature: Signed by Date:

Name: MGW 7/14/95

Title:

form HUD-9839-B (11/26/90)
Ref. Handbook 4381.5 Rev-1

1/91

*Attachment 1—Calculation of Estimated Yields from Proposed Management Fees

Project Name:	FHA Project No.:	Date:
Mount St. Francis Health Center	016-43044	1/1/95

1. Residential Fee	
a. Monthly residential rent potential (from Part A of the most recent HUD-approved Rent Schedule	$ N/A
b. Line 1a times .95**	$
c. Percentage fee	%
d. Monthly residential fee yield (Line 1b times 1c)	$
e. Total number of residential units (include rent-free units.)	N/A units
f. Residential fee yield per unit per month (Line 1d divided by 1e.)	$ PUPM

**Note: Generally collections must be estimated at 95% of gross potential. If you use a lower percentage, attach an explanation for the collections percentage used. Make sure that any assumption of a lower collections base does not compensate the agent for services for which a special fee will be paid.

2. Commercial Fee (Describe commercial space, how it is used and what services management provides.)

a. Monthly commercial rent potential (from Part E of the most recent HUD-approved Rent Schedule)	$ N/A
b. Percentage fee	%
c. Commercial fee yield (Line 2a times 2b)	$

3. Miscellaneous Fee

a. Percentage fee (not to exceed the residential income fee percentage in Line 1c) %

N/A

b. List any miscellaneous income on which HUD allows a fee to be taken, but on which you have agreed a fee will not be paid.

N/A

4. Special Fees

Show dollar amount(s), purpose(s) and time period(s) covered. Describe performance standards and target dates for accomplishment of special tasks. (Attach additional sheets, if needed.)

The Managing Agent is compensated at the rate of 3% of net patient service revenues, under Management Agreement dated as of 1/1/95.

*Note: Projects listed in Paragraph 2-18 of HUD Handbook 4381.5 REV-1 may quote management fees in ways other than as shown in this attachment.

MOUNT St. FRANCIS Health Center

Mount Saint Francis Health Center
4 St. Joseph Street
Woonsocket
Rhode Island 02895
401-765-5844

RECEIVED PROVIDENCE HUD MULTIFAMILY HOUSING
2005 APR 11 P 2:17

March 29, 2005

Joseph Crisafulli
U. S. Department of Housing and Urban Development
10 Weybosset Street
Providence, RI 02903

Re: Mt. Saint Francis - 016-15011

Dear Mr. Crisafulli,

I received your letter dated March 24, 2005 requesting an explanation of various items from the January, 2005 Monthly Accounting Report for Mt. Saint Francis. You addressed your letter to Sterling Health Care Management Company. Sterling is no longer managing Mt. Saint Francis Health Center. I, as a representative of the owner, will attempt to answer them as best I can. The answers are as follows:

1. Debrah Putman is the Administrator at Mt. Saint Francis Health Center. She has been since the date she was hired (May 17, 2004). I don't know where the confusion came in but this has not changed.
2. We have reached an agreement with the Internal Revenue Service for payment of the payroll taxes (see attached). Our attorney is working with the IRS on a revised payment plan.

Comment 13

3. The contracts have been canceled between Mt. Saint Francis and Sterling Health Care Management co., My Place Inc., and Construction Software effective July 1, 2004. As such, there are no dollars being accrued or paid.
4. Aged Trial Balance for the following expenses:
   a. Antonio L. Giordano - $213,974.30 – this is for loans and the monthly General Partner fees. Amount has been written off.
   b. O. Ahlborg & Sons - $15,840.16 – this is for services rendered. A Payment arrangement was made for $3,000 per month until paid.

EQUAL HOUSING OPPORTUNITY

Professionally managed by Sterling Health Care Management Co., LLC

Comment 13

c. Sundance Rehabilitation - $458,264.71 – this is for Rehab services billed but disputed. Since SunDance has filed Bankruptcy and closed, our attorneys have not heard from the attorney for SunDance in over two years.
d. Sterling Health Care - $103,852.14 – this was for services provided per contract. Amount has been written off.
e. My Place Inc. - $106,800 – this is for services provided per contract. Amount has been written off.

5. Operating Loss Loan payment is $7,187.61. Our payment to Suburban Mortgage Associates Inc. for $7,781.36 includes $450.00 for MIP and $143.75 in late fees (see attached.)
6. Mortgage payment is $66,467.44, plus an additional $25,000 to the replacement reserve in January. Our payment to Suburban Mortgage Associates Inc. in the amount of $117,096.79 includes $4,600 for MIP, $1,700 for insurance, $18,000 for taxes and $1,329.35 for late fees (see attached.) (The regular replacement reserve deposit of $10,000 each month was not billed by Suburban in January or February in error due to some confusion on the repayment plan, and has been corrected and paid in full for both January and February.)
7. Check Sequencing: the jump in check numbering is due to having some checks written by hand and others computer generated. They are both drawn from the same account.
8. Check number 31963211, PNA Computer Checks, is to cover checks written to various residents or residents' family members either for their monthly personal expenses or upon their death or discharge.

I hope this answers your concerns about the monthly report and for future monthly reports. Please feel free to contact me if you have any questions.

Sincerely,

John Montecalvo
For Antonio L. Giordano,
General Partner

JJM/crb

Comment 9

Mount St. Francis Health Center
INTEROFFICE MEMO

August 21, 200~~2~~3
To: [redacted]
Fr: [redacted] **– Administrator**

Please make the following checks payable as noted. The money will be taken from the savings account. [illegible]

My Place	$ 4000.00	# 17499
Construction Software	1200.00	# 17500
Consultants Inc.	8000.00	# 17501
Antone	6000.00	# 17502

MOUNT ST. FRANCIS

DATE REC'D __________

REC'D BY __________

ACCT. # __________

JOURNAL POSTED __________

PAYMENT APPROVED __________

PAYMENT DATE 8-21-03

Antonio L. Giordano Related Entities

1. **Construction Software Inc.**
   (Computer systems business) **Giordano interest**
   RI Office of Secretary of State records indicate the officers as follows;
   President: John J. Montecalvo, From 2000 to 2004
   Secretary: Janice M. Strang, From 2001 to 2004
   Treasurer: Antonio A. Giordano, From 2001 to 2004, (Son of Antonio L. Giordano)

2. **Consultants Associates, Inc.**
   (Real estate consulting firm) **Giordano interest**
   RI Office of Secretary of State records indicate the officers as follows;
   President: Antonio A. Giordano, From 2001 to 2003, (Son of Antonio L. Giordano)
   Vice President: Mary D. Gentili, From 2001 to 2003, (Daughter of Antonio L. Giordano)
   Secretary: Madonna D. Giordano, From 2001 to 2003, (Daughter of Antonio L. Giordano)
   Treasurer: Antonio A. Giordano, From 2001 to 2003, (Son of Antonio L. Giordano)
   President: Casimir Kolaski, From 2004 (Former Director of HUD Providence Field Office)
   Secretary: Janice M. Strang, From 2004

3. **Consultants, Inc.**
   (Real estate consulting firm) **Giordano interest**
   RI Office of Secretary of State records indicate the officers as follows;
   President: Antonio A. Giordano, From 2000 to 2004, (Son of Antonio L. Giordano)
   Vice President: Mary D. Gentili, From 2002 to 2004, (Daughter of Antonio L. Giordano)
   Secretary: Janice M. Strang, From 2000 to 2004
   Treasurer: John J. Montecalvo, From 2000 to 2004

4. **Gregory Building Company**
   (Construction company) **Giordano interest**
   RI Office of Secretary of State records indicate the officers as follows;
   President: Antonio A. Giordano, From 2001 to 2004, (Son of Antonio L. Giordano)
   Vice President: Peter Castriotta, From 2001 to 2004
   Secretary: Madonna D. Giordano, From 2002 to 2004, (Daughter of Antonio L. Giordano)
   Secretary: Mary D. Gentili, 2001, (Daughter of Antonio L. Giordano)
   Treasurer: Mary D. Gentili, From 2001 to 2004, (Daughter of Antonio L. Giordano)

5. **Hillside Health Center Associates, LP**
   (Nursing home owner) **Giordano interest**
   RI Office of Secretary of State records indicate the officers as follows;
   General Partner: Consultants Inc. (See above)

6. **Hillside Health Center, LLC**
(Nursing home operator) **Giordano interest**
RI Office of Secretary of State records indicate the officers as follows;
Manager: John J. Montecalvo, From 2000 to 2003

7. **Management Reality Services**
(Real estate management agent) **Giordano interest**
RI Office of Secretary of State records indicate the officers as follows;
President: Mary D. Gentili, From 2003 to 2004, (Daughter of Antonio L. Giordano)
President: Mona Renchan, 2002
President: Juliette A. Vaccaro, 2001
Vice President: Mary D. Gentili, 2002, (Daughter of Antonio L. Giordano)
Secretary: Mary D. Gentili, From 2002 to 2004, (Daughter of Antonio L. Giordano)
Secretary: Janice M. Strang, From 2001 to 2004
Treasurer: Antonio A. Giordano, From 2001 to 2004, (Son of Antonio L. Giordano)

8. **Mount Saint Francis Associates.**
(Nursing home owner/operator) **Giordano interest**
RI Office of Secretary of State records indicate the officers as follows;
General Partner: Antonio L. Giordano

9. **My Place, Inc.**
(Employee relations firm) **Giordano interest**
RI Office of Secretary of State records indicate the officers as follows;
President: Mary D. Gentili, From 2001 to 2004, (Daughter of Antonio L. Giordano)
Vice President: Madonna Giordano, From 2001 to 2004, (Daughter of Antonio L. Giordano)
Secretary: Janice M. Strang, From 2001 to 2004
Treasurer: John J. Montecalvo, From 2001 to 2004

10. **Simon and Windsor Interiors**
(Interior design firm) **Giordano interest**
RI Office of Secretary of State records indicate the officers as follows;
President: Mary D. Gentili, From 2001 to 2004, (Daughter of Antonio L. Giordano)
Vice President: Antonio A. Giordano, From 2001 to 2004, (Son of Antonio L. Giordano)
Secretary: Janice M. Strang, From 2001 to 2004
Treasurer: John J. Montecalvo, From 2001 to 2004

11. **Sterling Health Care Management Company, LLC**
(Nursing home management agent) **Giordano interest**
RI Office of Secretary of State records indicate the officers as follows;
Manager: John J. Montecalvo, From 2000 to 2003

12. <u>Suburban Mortgage Associates Inc.</u>

(State of Maryland public records) **Giordano interest**
President: J. Walsh Richards, From 1978 to present
Vice President: Antonio L. Giordano, From 1978 to 2003
Vice President: Edmond Richards, dates of service unavailable,
Vice President: Kimberly Papuchis, dates of service unavailable
Vice President: David N. Eaton, dates of service unavailable
Treasurer: Ngyuet M. Pham, dates of service unavailable