
AUDIT REPORT



Coventry Health Center
Federal Housing Administration Loan Number 016-43071
Coventry, Rhode Island

2006-BO-1006


March 28, 2006

OFFICE OF AUDIT, REGION I
Boston, Massachusetts



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


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

SUBJECT: Coventry Health Center
Federal Housing Administration Loan Number 016-43071
Coventry, Rhode Island

We reviewed the books and records of Coventry Health Center (project). The objective of our review was to determine whether Coventry Health Center Associates, L.P. (owner), and-or Sterling Health Care Management Company, an identity-of-interest management agent, used the project's funds in compliance with the regulatory agreement and the U.S. Department of Housing and Urban Development's (HUD) requirements. The review was conducted based upon our fiscal year 2004 annual audit plan. The review resulted in one finding.

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 or me at (617) 994-8380.

Executive Summary

We reviewed the books and records of Coventry Health Center (project) to determine whether Coventry Health Center Associates, L.P. (owner), and-or Sterling Health Care Management Company, an identity-of-interest management agent, used the project's funds in compliance with the regulatory agreement and the U.S. Department of Housing and Urban Development's (HUD) requirements. The review was performed based upon our fiscal year 2004 annual audit plan.

We found that the project's owner and/or management agent used project funds for inappropriate and unsupported disbursements. The inappropriate and unsupported disbursements occurred while the project was in a non-surplus-cash position and/or in default of its HUD-insured loan. HUD sold the project's note and lost more than \$6.3 million.

Owner/Management Agent Improperly Used Project's Funds

We identified \$1,858,100 in questionable cash disbursements made by the project's owner and/or management agent between January 1998 and February 2001. The project's owner and/or management agent disbursed these funds and paid for non-project-related expenses, loan repayments, management fees, and unnecessary services while the project was in a non-surplus-cash position and/or in default of its HUD-insured loan.

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

Recommendations

We recommend that the director of HUD's Boston Multifamily Housing Hub,

- 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.

We provided our draft audit report to the auditee for formal comment on November 10, 2005. On November 21, 2005, we received a letter from the owner's counsel dated November 17, 2005 requesting a 60 day extension to provide written comment. On November 23, 2005, we replied, in writing, granting a 15 day extension with a response date of December 14, 2005. We received no response to our offer to hold an exit conference. We received the auditee's written response through its attorneys on December 14, 2005. Appropriate revisions were made to the report where deemed necessary. The complete response is included as [Appendix B](#)

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Introduction

Coventry Health Continuum, Inc., was a 344-bed for-profit nursing home located in Coventry, Rhode Island. The original owner and borrower under the U.S. Department of Housing and Urban Development (HUD)-insured mortgage was Coventry Health Center Associates, L.P. (owner), a Rhode Island limited partnership. The mortgage was financed and serviced through Suburban Mortgage Associates, Incorporated, an identity-of-interest company, through common ownership. The amount of the HUD-insured mortgage was \$15,308,700.

Section 232 of the National Housing Act authorized a mortgage insurance program for residential care facilities. The Housing and Community Development Act of 1987 extended Section 232 eligibility to the refinancing or purchase of currently insured Section 232 facilities. Federal regulations at 24 CFR [*Code of Federal Regulations*] Part 232 contains the program's regulatory guidelines.

The nursing home was first established in the early 1980s under the ownership of Coventry Health Center Associates, L.P. After completion, the nursing home was leased to an operator not related to the owner. In 1986, the original HUD-insured loan of \$8,667,300 was refinanced to \$9,835,000. The owner, through a series of complex company restructurings, had Coventry Health Continuum (operator), an identity-of-interest company, operate the nursing home in 1987. A management agent was also brought in during 1987; however, the agent had no identity-of-interest relationship with the nursing home's owner or operator.

In 1994, the \$9,835,000 HUD-insured loan was again refinanced to \$15,308,700. These funds, in part, were used to add an additional 34 beds to the nursing home. By 1997, the contract with the management agent had expired, creating the opportunity for the owner to establish its own management agent. Sterling Health Care Management Company, an identity-of-interest management agent, took over as the nursing home's agent in 1997. At this point, the owner had full control over the nursing home's ownership, operations, and management. For the next two years, the nursing home's financial condition deteriorated. By August 1999, HUD required monthly financial monitoring due to the nursing home's default on its HUD-insured mortgage and dire financial condition. The note was assigned to HUD on June 28, 2000. By February 19, 2001, the nursing home was placed into receivership.

Before being placed in receivership, the nursing home consisted of three identity-of-interest entities, controlled and operated through common ownership and management as follows:

- Coventry Health Center Associates, L.P. – owner,
- Coventry Health Continuum, Inc. – operator, and
- Sterling Health Care Management Company - management agent.

Coventry Health Continuum, Inc., operated as Coventry Health Center until October 6, 2000, when it was changed to Brookside Villa.

HUD sold the project's non-recourse note for a \$6,292,520 loss in September 2002. A detailed chronological list of key events is outlined in appendix C of this report.

Audit Objectives

The objective of our review was to determine whether the owner and/or Sterling Health Care Management Company, an identity-of-interest management agent, used project funds in compliance with the regulatory agreement and HUD's requirements.

Audit Scope and Methodology

To accomplish the audit objectives, we

- Reviewed federal requirements, including the *Code of Federal Regulations*, HUD handbooks, and the *U.S. Code*.
- Reviewed the project's files maintained by HUD's Providence field office. We reviewed the reserve fund for replacement account, mortgage instruments, management certification/management agreement, regulatory agreement, monthly accounting reports, and independent public accountants' reports for fiscal years ending December 31, 1992, through 2001.
- Performed limited testing of management controls relevant to the audit, through inspection, review, and analysis of documents and records, and evaluated the effects of any exceptions. Our testing was limited because the management controls in place during our audit period were replaced due to the project's bankruptcy.
- Reviewed the project's books and records to determine a) the reliability of information and b) the appropriateness of disbursements for the necessity and reasonableness of costs.
- Tested payroll items, payments to individuals, and unusual transactions from the operating account. Our sample was based on high dollar value and risk. Our results relate only to those items reviewed.
- Reviewed 100 percent of disbursements 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 project's reserve for replacement account.

- Reviewed the project's inspection reports performed by HUD's Real Estate Assessment Center on March 6, 2000, and July 2, 2002.

The audit was conducted between July 2003 and February 2004 and covered the period from May 5, 1995, to August 22, 2003. Our audit fieldwork was conducted on site while the project was under the control of a receiver. When appropriate, the audit was extended to include other periods. We conducted our audit in accordance with generally accepted government auditing standards.

Owner and/or Management Agent Diverted Project Funds

The owner and/or management agent of the project directed the payment of \$1,858,100 in questionable cash distributions between January 1998 and February 2001. Of the \$1,858,100, the owner diverted \$1,421,859 in operating funds to identity-of-interest entities of the project, of which \$865,121 was paid for non-project-related expenses, loan repayments, and ineligible services while the project was in a non-surplus-cash position and/or in default of its HUD-insured loan. The project's owner and/or management agent violated HUD's regulatory agreement by making these questionable cash distributions. The remaining \$556,738 paid to identity-of-interest entities was not supported. In addition, \$436,241 in unsupported distributions was disbursed to non-identity-of-interest entities. The owner and management agent disregarded prudent business practices and exploited weak management controls. As a result, the project ceased being a profitable entity and suffered significant financial problems, including a default on its HUD-insured mortgage in August of 1999. Due to the questionable cash distributions and the resulting cash flow problems encountered, the project was unable to sufficiently meet its operating expenses.

On February 19, 2001, the owner petitioned the Rhode Island Superior Court to appoint a receiver to take over the project's assets and operations. By the time of receivership, the project had accumulated nearly \$4.6 million and \$400,000 in federal and state tax liens, respectively.

Federal Requirements

The project's regulatory agreement, paragraph 6, mandated that the owner may not, without the prior written approval of the Secretary of Housing and Urban Development, assign, transfer, dispose of, or encumber any personal property of the project, including rents, or pay out any funds except from surplus cash, except for reasonable operating expenses and necessary repairs and make, or receive and retain, any distribution of assets or any income of any kind of the project except surplus cash.

Paragraph 13(g) of the regulatory agreement defines distribution as any withdrawal or taking of cash or any assets of the project excluding payment for reasonable expenses incident to the operation and maintenance of the project.

HUD Handbook 4370.2, REV-1, CHG-1, paragraph 2-10, section A, states that if the owner takes distributions when the project is in default or when the project is in a non-

surplus-cash position, the owner is subject to criminal and/or civil penalties.

Federal regulations at 24 CFR [*Code of Federal Regulations*] 24.110 permits HUD to take administrative sanctions against employees or recipients under HUD assistance agreements that violate HUD's requirements. The sanctions include debarment, suspension, or limited denial of participation that are authorized by 24 CFR [*Code of Federal Regulations*] 24.300, 24.400, or 24.700, respectively. HUD may impose administrative sanctions based upon the following conditions:

- Failure to either honor contractual obligations or to proceed in accordance with contract specifications or HUD regulations (limited denial of participation);
- Deficiencies in ongoing construction projects (limited denial of participation);
- Violation of any law, regulation, or procedure relating to the application for financial assistance, insurance, or guarantee or to the performance of obligations incurred pursuant to a grant of financial assistance or pursuant to a conditional or final commitment to insure or guarantee (limited denial of participation);
- Violation of the terms of a public agreement or transaction so serious as to affect the integrity of an agency program such as a history of failure to perform or unsatisfactory performance of one or more public agreements or transactions (debarment);
- Any other cause so serious or compelling in nature that it affects the present responsibility of a person (debarment); or
- Material violation of a statutory or regulatory provision or program requirements applicable to a public agreement or transaction including applications for grants, financial assistance, insurance, or guarantees or to the performance of requirements under a grant, assistance award, or conditional or final commitment to insure or guarantee (debarment).

Title 12, *United States Code*, section 1715z-4a, “Double Damages Remedy for Unauthorized Use of Multifamily Housing Project Assets and Income,” allows the Attorney General to recover double the value of any project assets or income that were used in violation of the regulatory agreement or any applicable regulation, plus all costs relating to the action, including but not limited to reasonable attorney and auditing fees.

Title 12, *United States Code*, section 1735f-15, “Civil Money Penalties Against Multifamily Mortgages,” allows the Secretary of Housing and Urban Development to impose a civil money penalty of up to \$25,000 per violation against a mortgagor with five or more living units and a HUD-insured mortgage. A penalty may be imposed for any knowing and material violation of the regulatory agreement by the borrower, such as paying out any funds for expenses that were not reasonable and necessary project operating expenses or making distributions to owners while the project is in a non-surplus-cash position.

Summary of Cash Disbursements

The Project’s owner and/or management agent made distributions in the form of loan repayments and payments for services that were ineligible, unsupported, and/or unnecessary. The owner and/or management agent also paid themselves fees that were not supported by contractual obligation, nor was there evidence of actual services provided. Of the \$1,858,100 in distributions, we identified \$489,900 in ineligible costs, \$992,979 in unsupported costs, and \$375,221 in unnecessary and/or unreasonable costs as shown in the following table.

<i>Summary of questionable cash distributions</i>					
Payee	Distribution	Questioned costs			Total paid
Identity-of-interest		Ineligible	Unsupported	Unnecessary	
Owner	Loan payment	\$15,000			\$15,000
Construction software	Accounting fees			\$53,880	53,880
Consultants, Inc.	Executive/owners' fees	89,400			89,400
Partnership fees	Executive fees	182,500			182,500
Gregory Building Company.	Landscaping fees		\$5,510	54,300	59,810
Management Reality Service	Loan payments	130,000	120,025		250,025
My Place, Inc.	Employee relations			<u>267,041</u>	267,041
Simon & Windsor Interiors	Loan & building improvements	15,000	7,816		22,816
Sterling Health Care Management Company	Management fees	<u>58,000</u>	406,700		464,700
Mount Saint Francis	Advertising & management fees		<u>16,687</u>		<u>16,687</u>
Sub-Totals		<u>\$489,900</u>	<u>\$556,738</u>	<u>\$375,221</u>	<u>\$1,421,859</u>
Non-Identity-of-Interest					
Various legal firms	Legal fees		\$132,721		\$132,721
Various accounting firms	Accounting fees		147,183		147,183
Unidentified payees	Various individuals		136,145		136,145
Payroll transactions	Operating account		<u>20,192</u>		<u>20,192</u>
Subtotals		<u>\$0</u>	<u>\$436,241</u>	<u>\$0</u>	<u>\$436,241</u>
Grand totals		<u>\$489,900</u>	<u>\$992,979</u>	<u>\$375,221</u>	<u>\$1,858,100</u>

The project was in serious financial decline from 1993 until receivership in February 2001. During this period, the project defaulted on its \$15,308,700 HUD-insured mortgage and ran up substantial debt payable to vendors and federal and state tax authorities. We identified \$1,858,100 in questionable cash distributions between January 1998 and February 2001.

We determined that the project's owner and management agent circumvented their own established policies and procedures to divert project funds to pay for ineligible, unsupported, and unnecessary expenses.

The project's cash flow troubles made it difficult for the project to meet current operating expenses. As a result, both financial and living conditions at the project deteriorated. In January 1998, the Rhode Island Health Department cited the project for several violations under state and federal healthcare care guidelines. In addition, from 1997 to 2001, the project was under the administration of five different interim and permanent administrators.

From July 1, 1997, until the receivership in February 2001, the identity-of-interest relationships between the project's owner, operator, and management agent created an environment giving the owner direct control of all aspects of the project. We believe this ability to override the daily operations of each entity contributed to the questionable expenditures of \$1,858,100.

We identified several identity-of-interest companies having business connections with the project, for example, a payment to the project's owner for \$15,000 while the project was in non-surplus-cash position. The regulatory agreement defines any withdrawal or taking of cash or any assets of the project excluding payment for reasonable expenses incident to the operation and maintenance of the project as a distribution. Distributions to owners while in a non-surplus-cash position are a violation of the regulatory agreement.

Construction Software

The project's owner and/or management agent paid Construction Software, an identity-of-interest company, \$53,880 for services that were not provided. According to the project's administrator, no services were provided for the payments made. The monthly invoices from Construction Software indicate that the following services were allegedly provided to the project:

- 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.

The project's administrator said these tasks were performed in house. The administrator acknowledged that Construction Software employees never worked or came to the project at any time, although the company was paid \$1,720 per month. Again, no evidence of an agreement or contract was provided for these services. Therefore, we consider the \$53,880 as unnecessary.

Consultants, Inc.

We found evidence within the project's general ledger and cash disbursements journal of payments totaling \$89,400 to Consultants, Inc., another identity-of-interest company. The notes detailing the payments showed these payments were for owners' fees, executive service fees, and loans.

Contrary to the project's regulatory agreement, these payments were made while the project was in a non-surplus-cash position and/or after it defaulted on its HUD-insured loan. No agreement between the project and Consultants, Inc., was provided by the project. We determined the total \$89,400 in payments to be ineligible.

Partnership Fees

Payments totaling \$182,500 were made to the owner's partners. These payments were noted in disbursement records as partnership or executive fees. The notes to the project's audited financial statements for 1992 to 1999 indicated these fees were part of an executive fee agreement. However, an agreement could not be provided to support these costs. We determined the \$182,500 costs to be ineligible.

Gregory Building Company

The project's operator had a landscaping contract with Gregory Building Company, another identity-of-interest entity. Based on an interview with the project's maintenance staff, we determined that Gregory Building Company subcontracted the effort with Sure Cuts Landscaping. As a subcontractor, Sure Cuts Landscaping performed landscaping services at the project that were previously performed in house. We did not find evidence of a related party interest with Sure Cuts Landscaping. The project's maintenance staff argued the service was not necessary because they had the equipment and manpower to do the work. In addition, the maintenance staff said Sure Cuts Landscaping spent minimal time performing such tasks as grass cutting, which at times was unnecessary. Because the project had performed the landscaping before contracting with Gregory Building Company for minimal cost, we determined the payments totaling \$54,300 to be unnecessary. In addition, we consider one payment to Gregory Building Company for \$5,510 to be unsupported due to lack of documentation.

Management Realty Services

Our audit disclosed payments totaling \$250,025 to Management Realty Services, another identity-of-interest company. No evidence of a contractual agreement between the project and Management Realty was provided. We determined that \$130,000 was for the repayment of a loan to the owner, an ineligible expense of the project. These loan payments were in direct violation of the regulatory agreement because the project was in a non-surplus-cash position and/or in default of its HUD-insured loan at the time. We were

unable to clearly identify the purpose of the remaining \$120,025 and classified the payment as unsupported.

My Place, Inc.

My Place, Inc., owned and operated by the daughter of the project's owner, had an employee relations contract with the project. The contract, valued at \$9,554 per month, was to provide social services, educational services, administrative consulting services, promotional activities, and a comprehensive child-care program. My Place, Inc., also offered incentive programs for the project's employees to show appreciation for the staff. My Place, Inc., held parties for the staff and their families, conducted raffles, and provided gifts of nominal value.

My Place, Inc., did not provide child-care services. It only provided referrals for child-care needs and for support services on an as-needed basis. It also provided seminars for the project's staff, which were later subcontracted out to Delta Consultants. Our audit did not disclose an identity-of-interest relationship with Delta Consultants. However, one seminar was presented by the wife of the project's owner, who was also the mother of the owner of My Place, Inc.

As a benefit to employees, we determined that the services were not necessary and reasonable operating expense of the project. In addition, the \$9,554 per month costs appeared to be excessive considering that the project was struggling to make payroll and lease payments. The payments occurred while the project was in a non-surplus-cash position and/or defaulted on its HUD-insured loan. For the audit period covered, we identified \$267,041 in payments to My Place, Inc., and consider the costs unnecessary.

Simon & Windsor Interiors

Simon & Windsor Interiors was an identity-of-interest company also owned by the daughter of the project's owner. We determined that disbursements totaling \$22,816 paid to Simon & Windsor were both unsupported and ineligible under the provisions of the regulatory agreement.

An invoice did not support one payment for \$7,816. Another payment for \$15,000 was posted in the project's general ledger account as a due to/due from Sterling Health Care Management Company and later reclassified out. However, because there was a notation listing this payment as a loan payment, we consider the \$15,000 ineligible under the HUD regulatory agreement.

Sterling Health Care Management Company

Sterling Health Care Management Company, an Identity-of-interest company, took over as the project's management agent on July 1, 1997. From that point, the project's owner had complete control of every aspect of the project. The owner controlled ownership, operations, and the management agent. As the management agent, Sterling Health Care Management Company was responsible for keeping the project running smoothly and in conformity with HUD's requirements. The management agreement stated that Sterling Health Care Management Company was entitled to 3 percent of net patient revenue for its services.

The project's administrator said the project's staff carried out the majority of Sterling Health Care Management Company's management agent functions. Those functions included such tasks as analyzing and solving project problems, recruiting, hiring, supervising project personnel, and monitoring project operations by visiting the project or analyzing performance reports.

According to the administrator, the only contacts between the project's business office and the management agent were the periodic weekly telephone calls to see how much money came in. The administrator was then directed to disburse checks, and in most instances, the checks were made to identity-of-interest companies.

Our review disclosed that Sterling Health Care Management Company did not perform the services required by its management agreement. As a result, it failed to earn its management fees. Instead, the project's staff and consultants managed the project by performing the services described in Sterling Health Care Management Company's management agreement.

A total of \$464,700 was paid to Sterling Health Care Management Company. The payments included two disbursements for loan-related activities. One payment for \$23,000 was made payable to Sterling Health Care Management Company for a management loan, and the other payment for \$35,000 was noted in disbursement records as a loan to Hillside Health Center. Hillside Health Center was another identity-of-interest entity. The project was used as a conduit for loan activity at a time when it was in default on its HUD-insured mortgage. Therefore,

we consider the loan activity total of \$58,000 (\$23,000 plus \$35,000) to be ineligible.

We believe the balance of \$406,700 (\$464,700 minus \$58,000) paid to Sterling Health Care Management Company to be unsupported because there was no evidence of or clear distinction of duties of its personnel and the project's staff.

Mount Saint Francis Health Center

Our audit disclosed \$16,687 in payments to Mount Saint Francis Health Center, another identity-of-interest entity. The payments were listed in the cash disbursement journal with various descriptions such as weekly management, weekly payroll, marketing, and management fees. Adequate documentation was not provided to support these payments. Therefore, we considered the payments unsupported.

Disbursements to Non-Identity-of-Interest Vendor and Individuals

Our audit further identified \$436,241 in questionable cash disbursements to a non-identity-of-interest vendor and individuals for services and other costs that were unsupported. These disbursements violated the project's regulatory agreement. The cash disbursements were for various legal, auditing, and accounting services; unidentified payees; and payroll transactions.

Project in Receivership

On February 19, 2001, the project's owner was granted an order by the Rhode Island Superior Court to have a receiver appointed to take over the project's assets and operations. Court records showed the project was unable to obtain the payments from governmental regulatory agencies, which were necessary for it to stay current on its operations. This caused a cash flow crisis that led the project's owner to seek the protection of the court. Court records did not reveal the true nature for the project's failure. We believe that the questionable cash distributions were the root cause for the inadequate cash flow problems.

The receiver took control of the project's operation on February 19, 2001. He kept two key business office personnel on staff to assist him with the day-to-day operations. An April 20, 2001, Providence Journal newspaper article quoted the receiver as saying he cut \$790,000 from the operating budget. The project's administrator said that once payments to the identity-of-interest companies stopped, the financial viability of the

project improved. The receiver remained in control of the project until August 22, 2003, when the project was sold for \$10,375,000.

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 within appendix B of this report, starting on page 60.

Recommendations

We recommend that the director of HUD's Boston Multifamily Housing Hub assure the owner

- 1A. Reimburses HUD \$865,121 for the inappropriate disposition of project assets.
- 1B. Provides documentation to support the \$992,979 in unsupported payments cited in this audit report. If adequate documentation cannot be provided, the owner should reimburse HUD for the appropriate amount.

We recommend that the director of HUD's Boston Multifamily Housing Hub, in conjunction with the HUD Office of Inspector General (OIG),

- 1C. Pursue double damages remedies if the owner does not reimburse HUD for the inappropriate disposition of project assets.

We also recommend that the Director of HUD's Departmental Enforcement Center and/or Associate General Counsel for Program Enforcement

- 1D. Impose civil money penalties against the owner for the inappropriate disposition of project assets cited in this audit report that violated the project's regulatory agreement.

- 1E. Pursue administrative sanctions against the owner for the inappropriate disposition of project assets cited in this audit report.

Management Controls

Management controls include the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Management Controls

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

- Program operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and reliability of data - Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with laws and regulations - Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding resources - Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We performed limited testing of management controls relevant to the audit through inspection, review, and analysis of documents and records and evaluated the effects of any exceptions. Our testing was limited because the management controls in place during the audit period were replaced due to the project's bankruptcy. In addition, the availability of source documents was limited; however, we determined that the limited data obtained were reliable.

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 were significant weaknesses:

- Program Operations

The project was not operated according to program requirements. The project's owner and/or management agent disbursed funds that were for non-project-related expenses, loan repayments, unearned management fees, and unnecessary services while the project was in a non-surplus-cash position.

- Validity and Reliability of Data

The project's owner and/or management agent did not maintain accurate books and records.

- Safeguarding Resources

The project's owner and/or management agent failed to safeguard the project's resources when it disbursed more than \$1.8 million for ineligible, unsupported, and unnecessary expenses.

Summary of Questioned Costs

Recommendation number	Type of questioned costs	
	<u>Ineligible costs 1/</u>	<u>Unsupported costs 2/</u>
1A	865,121	
1B		\$992,979

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

2/ Unsupported costs are 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.

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 1

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December 14, 2005

VIA FACSIMILE AND REGULAR MAIL

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Dear Mr. Dvorak:

This office is counsel to Antonio L. Giordano, the former general partner of Coventry Health Center Associates, L.P. ("Coventry") in connection with the draft Audit Report by the Office of Inspector General, Department of Housing & Urban Development, referenced in your November 10, 2005 correspondence to Mr. Giordano.¹ As requested, we are providing the following written comments.²

As you are aware, Coventry was the HUD insured mortgagor. A copy of the Regulatory Agreement for Multifamily Housing Projects with Coventry is attached at Tab A (the Lessor Regulatory Agreement). As noted in the Audit Report, the Lessor Regulatory Agreement at paragraph 6(b) contains certain restrictions including prior written approval of HUD with respect to the assignment, transfer, disposition of or encumbrance of any personal property of the project including rents, to pay out any funds except from surplus cash, except for reasonable operating expenses and necessary repairs. It is this provision of the Lessor Regulatory Agreement that forms the basis of the Audit's principal conclusion that Coventry violated the agreement and its recommendation for reimbursement. As discussed below, there is no violation of the Lessor Regulatory Agreement and, therefore, no basis for the recommended reimbursement and other relief.

¹ By correspondence dated November 23, 2005 from you to Mr. Edward Maggiasco, 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.

² Coventry was petitioned into receivership in a proceeding brought in the Providence County Superior Court. Final judgment entered on September 22, 2005 and the receivership proceeding has concluded. Allan Shine, counsel to the receiver, is aware of the audit request and the submission of this response.



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Coventry leased the real estate to Coventry Health Continuum, Inc., the lessee/operator of the nursing home ("Continuum"). HUD approved this lease with the signing of the applicable regulatory agreement.³ Moreover, the restrictions cited in the Audit Report and described above, *do not* apply to Continuum. As set forth in the Regulatory Agreement Nursing Homes between Continuum and the Federal Housing Commissioner (the "Continuum Regulatory Agreement"), there is no similar restriction as cited in the Audit Report. A copy of the Continuum Regulatory Agreement is attached at Tab B.

The Audit Report on page 11 provides a summary of claimed questionable cash distributions incurred between January 1998 and February 2001. For each questioned cost, the following table identifies whether the questioned cost was incurred by the lessor or the lessee.

Identity of Interest	Purpose	Amount of Questioned Cost	Lessor Cost	Lessee Cost
Owner	Loan Payment	\$15,000	\$0	\$15,000
Construction Software	Accounting Fees	\$53,880	\$0	\$53,880
Consultants, Inc.	Executive Fee	\$89,400	\$0	\$89,400
Partnership Fees	Executive Fee	\$182,500	\$0	\$182,500
Gregory Building Co.	Landscaping Fee	\$9,810	\$0	\$9,810
Management Realty Service	Loan Payment	\$250,025	\$0	\$250,025
My Place, Inc.	Employee Relations	\$267,041	\$0	\$267,041
Simon & Windsor Interiors	Loan & Building Improvements	\$22,866	\$0	\$22,866
Sterling Health Care	Management Fee	\$464,700	\$0	\$464,700

³ As noted on page 24 of the draft Audit Report, on March 15, 1989, HUD issued an audit report, which Coventry does not recollect receiving. However, the draft Audit Report states that such audit report "recommended that HUD assess the impact on HUD ... including a determination as to whether the lease and management agreement are in the best interest of the project and HUD." Since payments under the lease and management agreement were subsequently approved by HUD for many years, HUD determined that the arrangement was in the best interest of the Project and HUD.

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Mt. St. Francis	Advertising & Management Fee	\$16,687	\$0	\$16,687
Non-Identity of Interest				
Various Legal Firms	Legal Fees	\$132,721	\$0	\$132,721
Various Accounting Firms	Accounting Fees	\$147,183	\$0	\$147,183
Unidentified Payees	Various Individuals	\$136,145	\$0	\$136,145
Payroll Transactions	Operating Account	\$20,192	\$0	\$20,192

Comment 1

A review of the federal income tax returns of Coventry for the years 1998, 1999, 2000, 2001 and 2002 reveals that none of the costs listed as questionable in the Audit Report was incurred or paid by Coventry, the lessor. All of the questioned costs were, in fact, incurred by Continuum, the operator/lessee, as reasonable and necessary costs in order to ensure quality of care to the residents of the nursing home. Since the "questioned costs" were incurred by Continuum, and not Coventry, there is no violation of the Lessor Regulatory Agreement and the Audit Report recommendation for reimbursement is without basis in fact or law.

Although the Continuum Regulatory Agreement does not contain the prohibition listed in the Audit Report, and without waiver of Coventry's rights, a discussion of each of the expenditures is discussed herein.

Loan Repayment – Various Parties: \$287,841**Comment 2**

Affiliates of Coventry made emergency short-term advances to Continuum. None of the funds advanced was required to meet any obligations or demands made on Continuum by the lender, HUD or any other party. The advances were made to allow Continuum to operate the nursing home and fulfill obligations on an emergency basis, *i.e.*, to allow Continuum to meet payroll expenses. The advances were repaid generally when Continuum received the monthly Medicaid payment. The owner would not have made these advances without the expectation of repayment. Moreover, there is no prohibition on the repayment of these advances in the Continuum Regulatory Agreement. Without these advances, Continuum would not have been able to meet its obligations to its employees, which could have compromised the care of the patients.

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Executive Fees and Management Fees: \$736,600

These fees were approved by HUD, as set forth in the Management Agreement Certification entitled "Project Owner's & Management Agent's Certification for Multifamily Housing Projects for Identity of Interests or Independent Management Agreements." A copy of the agreement is at Tab C. As set forth in Section 4 entitled "Special Fees":

The Management Agent is compensated at the rate of 3% of the net patient revenue under Management Agreement dated July 8, 1987 and as amended on November 30, 1988. In addition, the Agent is reimbursed for additional services provided including quality assurance, dietary consulting, and system specialists. The compensation to the Agent is exclusive of compensation to Consultants, Inc., also at the rate of 3% of net operating revenue for services required by the special purpose nature of the facility.

Comment 4

Subsequent to the approvals set forth in the Management Agent Certification Agreement, the Providence office of HUD closely monitored all cash disbursements through the required monthly reporting. The management fees were fully disclosed and the local office never questioned or objected to any of the disbursements for management fees, thereby giving its approval for such expenses.

Non-Identity of Interest: \$436,241

Comment 5

The Audit Report does not provide any detail as to whom these questioned disbursements were made to, but simply states various legal firms, various accounting firms, unidentified payees, and payroll transactions. The report simply states that "These disbursements violated the Project's Regulatory Agreement. The cash disbursements were for various legal, auditing and accounting services, unidentified payees, and payroll transactions." As set forth above, such disbursements do not violate the Continuum Agreement. Moreover, all of Continuum's expenditures were ordinary and necessary for operation of Continuum's business. To the extent HUD can provide further detail, Coventry will respond accordingly.

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Mt. St. Francis Health Center

Comment 6

The Audit Report does not provide sufficient detail to allow a response. Normally, any disbursements to Mt. St. Francis would be for Continuum's share of shared expenses. For example, one employee identification badge system to be used for employee badge making at all managed nursing homes, resulting in cost savings.

Construction Software, Inc.

Comment 5

The Management Agent Certification Agreement approved by HUD expressly lists Construction Software, Inc. ("CSI") in paragraph 14. 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.

Gregory Building Company

Comment 7

The Management Agent Certification Agreement approved by HUD expressly lists Gregory Building Company in paragraph 14. Gregory Building Company was approved by HUD, was fully disclosed to and monitored on a monthly basis by HUD, and the services, including, without limitation, landscaping services, were ordinary and necessary for operation of the nursing home.

My Place, Inc.

Comment 7

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 to and monitored on a monthly basis by HUD. A description of My Place, Inc.'s services is attached at Tab D and confirmed in the draft Audit Report at page 14. The 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, among other things, the provision of such employee services ensured continuity of care, which would keep the costs down. Likewise, the provision of such services was instrumental in fighting union organization and the accompanying increased costs that would occur. My Place, Inc. services were reasonable and necessary for operation of the nursing home.

Simon & Windsor Interiors

Comment 7

The Management Agent Certification Agreement approved by HUD expressly lists Simon & Windsor Interiors in paragraph 14. Simon & Windsor was approved by HUD, was fully

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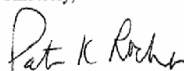
disclosed to and monitored on a monthly basis by HUD. Simon & Windsor services, including, without limitation, interior decorating and design, were reasonable and necessary for operation of the nursing home.

Summary

In conclusion, as set forth above, the underlying predicate of the Audit Report that the "questionable cash distributions violated the underlying Regulatory Agreement" is not correct. Such costs were incurred by Continuum, the lessee/operator of the nursing home, and pursuant to the clear language of the Continuum Regulatory Agreement there is no restriction as identified in the Audit Report. Moreover, all of the costs were disclosed to HUD, approved by HUD, monitored on a monthly basis, and were reasonable and necessary for the operation of the nursing home. For these reasons, Coventry disagrees with each of the findings and asks that they be revised to accurately reflect 1) compliance with the applicable regulatory agreement, 2) that the services rendered to the nursing home were necessary and reasonable, and were disclosed to and approved by HUD, and 3) that the recommendations be rescinded.

Should you have any questions, please contact us.

Sincerely,



PATRICIA K. ROCHA

PKR:dh

Attachments

cc: Antone Giordano
Allan M. Shine, Esq.
Edward L. Maggiacomo, Esq.

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<p>(c) The mortgagor shall not, without the prior written approval of the Secretary:</p> <p>(1) Convey, transfer, or encumber any of the mortgaged property, or permit the conveyance, transfer or encumbrance of such property.</p> <p>(2) Assign, transfer, dispose of, or encumber any personal property of the project, including rents, or pay out any funds except from surplus cash, except for reasonable operating expenses and necessary repairs.</p> <p>(3) Convey, assign, or transfer any beneficial interest in any trust holding title to the property, or the interest of any general partner in a partnership owning the property, or any right to manage or receive the rents and profits from the mortgaged property.</p> <p>(4) Remodel, add to, reconstruct, or demolish any part of the mortgaged property or subtract from any real or personal property of the project.</p>	<p>(d) Make, or receive and retain, any distribution of assets or any income of any kind of the project except surplus cash and except on the following conditions:</p> <p>(1) All distributions shall be made only as of and after the end of a semiannual or annual fiscal period, and only as permitted by the law of the applicable jurisdiction;</p> <p>(2) No distribution shall be made from borrowed funds prior to the completion of the project or when there is any default under this Agreement or under the lease or mortgage;</p> <p>(3) Any distribution of any funds of the project, which the party receiving such funds is not entitled to receive hereunder, shall be held in trust separate and apart from any other funds; and</p> <p>(4) There shall have been compliance with all outstanding notices of requirements for proper maintenance of the project.</p> <p>(f) Engage, except for natural persons, in any other business or activity, including the operation of any other rental project, or incur any liability or obligation not in connection with the project.</p> <p>(g) Require, as a condition of the occupancy by leasing of any unit in the project, any consideration or deposit other than the prepayment of the first month's rent plus a security deposit in an amount not in excess of one month's rent to guarantee the performance of the covenants of the lease. Any funds collected as security deposits shall be kept separate and apart from all other funds of the project in a trust account the amount of which shall at all times equal or exceed the aggregate of all outstanding obligations under the lease.</p> <p>(h) Permit the use of the dwelling accommodations or nursing facilities of the project for any purpose except the use which was originally intended, or permit commercial use greater than that originally approved by the Secretary.</p> <p>7. Owners shall maintain the mortgaged premises, accommodations and the grounds and equipment appurtenant thereto, in good repair and condition. In the event all or any of the buildings covered by the mortgage shall be destroyed or damaged by fire or other casualty, the money derived from any insurance on the property shall be applied in accordance with the terms of the mortgage.</p> <p>8. Owners shall not file any petition in bankruptcy or as a receiver or in insolvency or for reorganization or composition, or make any assignment for the benefit of creditors or to a trustee for creditors, or permit an adjudication in bankruptcy or the taking possession of the mortgaged property or any part thereof by a receiver or the seizure and sale of the mortgaged property or any part thereof under judicial process or pursuant to any power of sale, and fail to have such adverse actions set aside within forty-five (45) days.</p> <p>9. (a) Any management contract entered into by Owners or any of them involving the project shall contain a provision that, in the event of default hereunder, it shall be subject to termination without penalty upon written request by the Secretary. Upon such request Owners shall immediately arrange to terminate the contract within a period of not more than thirty (30) days and shall make arrangements satisfactory to the Secretary for continuing proper management of the project.</p>
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(b) Payment for services, supplies, or materials shall not exceed the amount ordinarily paid for such services, supplies, or materials in the area where the services are rendered or the supplies or materials furnished.

(c) The mortgaged property, equipment, buildings, plans, offices, apparatus, devices, books, cameras, records, documents, and other papers relating thereto shall at all times be maintained in reasonable condition for proper audit and subject to examination and inspection at any reasonable time by the 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.

(d) The books and accounts of the operations of the mortgaged property and of the project shall be kept in accordance with the requirements of the Secretary.

(e) Within sixty (60) days following the end of each fiscal year the Secretary shall be furnished with a complete annual financial report based upon an examination of the books and records of mortgagor prepared in accordance with the requirements of the Secretary, prepared and certified to by an officer or responsible Owner and, when required by the Secretary, prepared and certified by a Certified Public Accountant, or other person acceptable to the Secretary.

(f) At request of the Secretary, his agents, employees, or attorneys, the Owners shall furnish monthly occupancy reports and shall give specific answers to questions upon which information is desired from time to time relative to income, assets, liabilities, contracts, operation, and condition of the property and the status of the insured mortgage.

(g) All rents and other receipts of the project shall be deposited in the name of the project in a financial institution, whose deposits are insured by an agency of the Federal Government. Such funds shall be withdrawn only in accordance with the provisions of this Agreement for expenses of the project or for distributions of surplus cash as permitted by paragraph 6(e) above. Any Owner receiving funds of the project other than by such distribution of surplus cash shall immediately deposit such funds in the project bank account and failing to do so in violation of this Agreement shall hold such funds in trust. Any Owner receiving property of the project in violation of this Agreement shall hold such funds in trust. At such time as the Owners shall have lost control and/or possession of the project, all funds held in trust shall be delivered to the mortgagee to the extent that the mortgage indebtedness has not been satisfied.

(h) If the mortgage is insured under Section 232:

1. The Owners or lessees shall at all times maintain in full force and effect from the state or other licensing authority such license as may be required to operate the project as a nursing home and shall not lease all or part of the project except on terms approved by the Secretary.

2. The Owners shall suitably equip the project for nursing home operations.

3. The Owners shall execute a Security Agreement and Financing Statement (or other form of chattel lien) upon all items of equipment, except as the Secretary may exempt, which are not incorporated as security for the insured mortgage. The Security Agreement and Financing Statement shall constitute a first lien upon such equipment and shall run in favor of the mortgagee as additional security for the insured mortgage.

(i) If the mortgage is insured under Section 231, Owners or lessees shall at all times maintain in full force and effect from the state or other licensing authority such license as may be required to operate the project as housing for the elderly.

10. Owners will comply with the provisions of any Federal, State, or local law prohibiting discrimination in housing on the grounds of race, color, religion or creed, sex, or national origin, including Title VIII of the Civil Rights Act of 1968 (Public Law 90-284, 82 Stat. 73), as amended, Executive Order 11063, and all requirements imposed by or pursuant to the regulations of the Department of Housing and Urban Development implementing these authorities (including 24 CFR Parts 100, 107 and 110, and Subparts I and M of Part 200).

11. Upon a violation of any of the above provisions of this Agreement by Owners, the Secretary may give written notice thereof, to Owners, by registered or certified mail, addressed to the addresses stated in this Agreement, or such other addresses as may subsequently, upon appropriate written notice thereof to the Secretary, be designated by the Owners as their legal business address. If such violation is not corrected to the satisfaction of the Secretary within thirty (30) days after the date such notice is mailed or within such further time as the Secretary determines is necessary to correct the violation, without further notice the Secretary may declare a default under this Agreement effective on the date of such declaration of default and upon such default the Secretary may:

(a) (i) If the Secretary holds the note - declare the whole of said indebtedness immediately due and payable and then proceed with the foreclosure of the mortgage;

(ii) If said note is not held by the Secretary - notify the holder of the note of such default and request holder to declare a default under the note and mortgage, and holder after receiving such notice and request, but not otherwise, at its option, may declare the whole indebtedness due, and thereupon proceed with foreclosure of the mortgage, or assign the note and mortgage to the Secretary as provided in the Regulations;

(b) Collect all rents and charges in connection with the operation of the project and use such collections to pay the Owners' obligations under this Agreement and under the note and mortgage and the necessary expenses of preserving the property and operating the project.

(c) Take possession of the project, bring any action necessary to enforce any rights of the Owners growing out of the project operation, and operate the project in accordance with the terms of this Agreement until such time as the Secretary in his discretion determines that the Owners are again in a position to operate the project in accordance with the terms of this Agreement and in compliance with the requirements of the note and mortgage.

(d) Apply to any court, State or Federal, for specific performance of this Agreement, for an injunction against any violation of the Agreement, for the appointment of a receiver to take over and operate the project in accordance with the terms of the Agreement, or for such other relief as may be appropriate, since the injury to the Secretary arising from a default under any of the terms of this Agreement would be irreparable and the amount of damage would be difficult to ascertain.

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12. As security for the payment due under this Agreement to the reserve fund for replacements, and to secure the Secretary because of his liability under the endorsement of the note for insurance, and as security for the other obligations under this Agreement, the Owners respectively assign, pledge and mortgage to the Secretary their rights to the rents, profits, income and charges of whatsoever sort which they may receive or be entitled to receive from the operation of the mortgaged property, subject, however, to any assignment of rents in the insured mortgage referred to herein. Until a default is declared under this Agreement, however, permission is granted to Owners to collect and retain under the provisions of this Agreement such rents, profits, income, and charges, but upon default this permission is terminated as to all rents due or collected thereafter.

13. As used in this Agreement the term:

(a) "Mortgage" includes "Deed of Trust", "Chattel Mortgage", "Security Instrument", and any other security for the note identified herein, and endorsed for insurance or held by the Secretary;

(b) "Mortgagee" refers to the holder of the mortgage identified herein, its successors and assigns;

(c) "Owners" refers to the persons named in the first paragraph hereof and designated as Owners, their successors, heirs and assigns;

(d) "Mortgaged Property" includes all property, real, personal or mixed, covered by the mortgage or mortgages securing the note endorsed for insurance or held by the Secretary;

(e) "Project" includes the mortgaged property and all its other assets of whatsoever nature or whosoever situate, used in or owned by the business conducted on said mortgaged property, which business is providing housing and other activities as are incidental thereto;

(f) "Surplus Cash" means any cash remaining after:

(1) the payment of:

(i) All sums due or currently required to be paid under the terms of any mortgage or note insured or held by the Secretary;

(ii) All amounts required to be deposited in the reserve fund for replacements;

(iii) All obligations of the project other than the insured mortgage unless funds for payment are set aside or deferment of payment has been approved by the Secretary; and

(2) the segregation of:

(i) An amount equal to the aggregate of all special funds required to be maintained by the project; and

(ii) All tenant security deposits held.

(g) "Distribution" means any withdrawal or taking of cash or any assets of the project, including the segregation of cash or assets for subsequent withdrawal within the limitations of Paragraph (f)(c) hereof, and excluding payment for reasonable expenses incident to the operation and maintenance of the project.

(h) "Default" means a default declared by the Secretary

when a violation of this Agreement is not corrected to the satisfaction within the time allowed by this Agreement or such further time as may be allowed by the Secretary after written notice;

(i) "Section" refers to a Section of the National Housing Act, as amended.

(j) "Displaced persons or families" shall mean a family or families, or a person, displaced from an urban renewal area, or as the result of government action, or as a result of a major disaster as determined by the President pursuant to the Disaster Relief Act of 1970.

(k) "Elderly person" means any person, married or single, who is sixty-two years of age or over.

14. This instrument shall bind, and the benefits shall inure to, the respective Owners, their heirs, legal representatives, executors, administrators, successors in office or interest, and assigns, and to the Secretary and his successors so long as the contract of mortgage insurance continues in effect, and during such further time as the Secretary shall be the owner, holder, or reinsurer of the mortgage, or obligated to reinsure the mortgage.

15. Owners warrant that they have not, and will not, execute any other agreement with provisions contradictory of, or in opposition to, the provisions hereof, and that; in any event, the requirements of this Agreement are paramount and controlling as to the rights and obligations set forth and supersede any other requirements in conflict therewith.

16. The invalidity of any clause, part or provision of this Agreement shall not affect the validity of the remaining portions thereof.

17. The following Owners: Coventry Health Center Associates, and any of its partners, together with their respective successors, executors, administrators, heirs or assigns, do not assume personal liability for payments due under the note and mortgage, or for the payments to the reserve for replacements, or for matters not under their control, provided that said Owners shall remain liable under this Agreement only with respect to the matters hereinafter stated; namely:

(a) for funds or property of the project coming into their hands which, by the provisions hereof, they are not entitled to retain; and

(b) for their own acts and deeds or acts and deeds of others which they have authorized in violation of the provisions hereof.

(To be executed with formalities for recording a deed to real estate)

Ref to OIG Evaluation

Auditee Comments

B. 03

IN WITNESS WHEREOF, the parties have set their hands and seals on the date first hereinabove written.

ATTEST:

Coventry Health Center Associates,
a Rhode Island Limited Partnership

Eugene A. Liberati By: Robert A. Rocchio
Robert A. Rocchio, General Partner

SECRETARY OF HOUSING AND URBAN
DEVELOPMENT acting by and through
THE FEDERAL HOUSING COMMISSIONER

By: Anthony F. Banto
ANTHONY F. BANTO
ACTING DIRECTOR, HSA DEVELOP

STATE OF RHODE ISLAND
COUNTY OF PROVIDENCE

In Providence, in said County, on the 24th day of May, 1994, before me personally appeared Robert A. Rocchio to me known and known by me to be the General Partner of Coventry Health Center Associates, a Rhode Island Limited Partnership, who executed the foregoing instrument in his said capacity, and he acknowledged the foregoing Regulatory Agreement so executed to be his free act and deed in his said capacity and the free act and deed of said partnership.

Eugene A. Liberati
Notary Public
Eugene A. Liberati

My Commission Expires: January 7, 1998

STATE OF RHODE ISLAND
COUNTY OF PROVIDENCE

In Providence, in said County, on the 24th day of May, 1994, before me personally appeared ANTHONY F. BANTO, to me known and known by me to be the duly authorized agent of the Federal Housing Commissioner and the person described herein, who executed the foregoing Regulatory Agreement by virtue of the authority vested in him as such authorized agent, and he acknowledged said instrument so executed to be his free act and deed on behalf of the Federal Housing Commissioner as such authorized agent.

Eugene A. Liberati
Notary Public
Eugene A. Liberati

My Commission Expires: January 7, 1998

See Schedule A attached hereto for a description of the real property covered by this Agreement.

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Auditee Comments

Schedule A

LEGAL DESCRIPTION

COVENTRY HEALTH CENTER

That certain tract or parcel of land with all buildings and improvements thereon, located in the Town of Coventry, County of Kent, State of Rhode Island, being bounded and described as follows:

Beginning at a point in the southerly line of Nooseneck Hill Road (State Route 3), said point being the northwest corner of the herein described parcel, said point also being the intersection of the westerly line of Woodland Drive and the southerly line of Nooseneck Hill Road, said point also being located in the arc of a curve to the right having a central angle of $0^{\circ} 23' 22''$, and a radius of 5885.25 feet, and arc distance of forty feet easterly of a Rhode Island State Highway bound at Station 206+76.60 on Nooseneck Hill Road as shown on RI Highway Plat No. 563, said bound being at the point of curvature of a curve; said point also being the northeasterly corner of land now or formerly of V.S.H. Realty, Inc.

thence running a course of South $41^{\circ} 15' 06''$ East, a distance of three hundred and 01/100 (300.01) feet to a point; the first 149.86 feet of said first course is bounded westerly by land now or formerly of V.H.S. Realty, Inc. and the remainder of said first course is bounded westerly by land now or formerly of Boston Neck Realty Corp.;

thence turning and running South $48^{\circ} 44' 54''$ West, a distance of six hundred twenty-six and 64/100 (626.64) feet to a point of curvature, said last course being bounded northerly in part by land now or formerly of Boston Neck Realty Corp., in part by Route 3 Investments and in part by Stanton Associates;

thence turning and running along an arc of a curve to the left having a radius of 2812.54 feet and a central angle of $3^{\circ} 37' 20''$, a distance of 177.81 feet to a point of tangency;

thence turning and running South $45^{\circ} 07' 34''$ West, a distance of twenty-five and 99/100 (25.99) feet to a point at land now or formerly of Bonnie Lee Assalone, said last two courses being bounded northerly by land now or formerly of Stanton Associates;

thence turning and running South $80^{\circ} 57' 01''$ East, a distance of one hundred fifty eight and 20/100 (158.20) feet to a point; said last course being bounded southerly by land now or formerly of aforementioned Assalone;

thence turning and running South $42^{\circ} 40' 25''$ East, a distance of four hundred eighty-nine and 92/100 (489.92) feet to a point; said last course being bounded westerly by land now or formerly of Leisure Village, Inc.,

GD GEISSER

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thence turning and running North 52° 31' 24" East, a distance of four hundred ninety-nine and 99/100 (499.99) feet to a point;

thence turning and running North 11° 12' 47" East, a distance of seventy-two and 43/100 (72.43) feet to a point;

thence turning and running North 75° 14' 48" East a distance of one hundred twenty-five and 00/100 (125.00) feet to a point;

thence turning and running North 14° 45' 22" West, a distance of thirty-five and 58/100 (35.58) feet to a point; said last four courses being bounded generally southerly and easterly by land now or formerly of Mapleroot Development, WM Associates IP, and GRA Associates with the exception of the last 4.54 feet of said last described course being bounded easterly by land now or formerly of Woodland Manor II Assoc.;

thence proceeding along the arc of a curve to the right having a central angle of 19° 28' 50" and a radius of one hundred thirty (130.00) feet, a distance of forty-four and 20/100 (44.20) feet to a point;

thence turning and running along a radial line having a bearing of North 4° 43' 38" East, a distance of twenty (20.00) feet to a point;

thence turning and running North 79° 52' 36" West, a distance of twenty-one and 96/100 (21.96) feet to a point;

thence turning and running along a radial line having a bearing of South 16° 11' 11" West, a distance of twenty (20.00) feet to a point;

thence proceeding along the arc of a curve to the right having a central angle of 51° 31' 20" and a radius of one hundred thirty (130.00) feet, a distance of one hundred sixteen and 90/100 (116.90) feet to a point of tangency; said last five courses being along the easterly line of Woodland Drive;

thence turning and running North 22° 17' 26" West, a distance of one hundred and fifteen (115.00) feet to a point;

thence turning and running North 67° 42' 34" East, a distance of eleven (11.00) feet to a point;

thence turning and running North 22° 17' 26" West, a distance of sixty (60.00) feet to a point;

thence turning and running North 67° 42' 34" West, a distance of eleven (11.00) feet to a point;

thence turning and running North 22° 17' 26" West, a distance of two hundred sixty-one and 28/100 (261.28) feet to a point;

GG GEISSER

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thence turning and running North 48° 44' 54" East, a distance of eighteen and 07/100 (18.07) feet to a point;

thence turning and running North 41° 15' 06" West, a distance of sixty (60.00) feet to a point; the last said seven courses being bounded generally easterly by land now or formerly of Woodland Manor II Associates;

thence turning and running North 41° 33' 14" West, a distance of three hundred and 29/100 (300.29) feet to a point along the southerly line of Nooseneck Hill Road; the last described course being bounded easterly in part by land now or formerly of Woodland Manor II Associates and in part by land now or formerly of Coventry Credit Union;

thence proceeding along an arc of a curve to the left in the southerly line of Nooseneck Hill Road, having a central angle of 00° 35' 03" and a radius of 5,885.25 feet, a distance of sixty (60.00) feet to the point and place of beginning.

Said parcel containing 10.62 acres more or less.

Said above described parcel is shown on that plan entitled: "Plan of As-Built Survey, Coventry Health Center Associates, Coventry Health Center, Coventry, Rhode Island, by George J. Geisser Jr., Co., Consulting Engineers, 227 Wampanoag Trail, Riverside, RI 02915, Dated: 5/30/86, Revised: 5/19/94, Scale: 1"=40', Project No. F-592".

 GEISSER

Ref to OIG EvaluationAuditee CommentsSchedule A ContinuedLegal Description (Continued)
Coventry Health Center

The above-described parcel is conveyed together with RIGHTS OF WAY and EASEMENT RIGHTS as set forth in that deed from Mapleroot Development Corporation to Coventry Health Center Associates recorded in the Land Evidence Records of the Town of Coventry, Rhode Island, on October 16, 1981, at 1:43 p.m. in Book 138 at page 1088.


The above described parcel is conveyed together with EASEMENT RIGHTS as set forth in that certain deed from Woodland Manor Improvement Association to Coventry Health Center Associates recorded in the Land Evidence Records of the Town of Coventry, Rhode Island, on October 16, 1981, at 1:44 p.m. in Book 138 at page 1098.

Subject to and together with covenants, agreements, easements and restrictions of record.

Ref to OIG Evaluation

Auditee Comments

Tab B

Regulatory Agreement Nursing Homes		BK599P60242 U.S. Department of Housing and Urban Development Office of Housing Federal Housing Commissioner		
Project Number 016-43071		Mortgagee Suburban Mortgage Associates Incorporated		
Amount of Mortgage Note \$15,308,700.00		Date May 24, 1994		
Mortgage Recorded (State) Rhode Island	County Kent	Date 5/31/94		
Book 461	Page 0071			

This Agreement entered into this/as of **24** day of **May**, 19 **94**
 between **Coventry Health Continuum, Inc.**
 whose address is **10 Woodland Drive, Coventry, Rhode Island 02816**

(jointly and severally, hereinafter referred to as Lessee) and the undersigned Federal Housing Commissioner, (hereinafter called Commissioner)

In consideration of the consent of the Commissioner to the leasing of the aforesaid project by **Coventry Health Center Associates, l.p.**, Mortgagee and in order to comply with the requirements of the National Housing Act and the Regulations adopted by the Commissioner pursuant thereto Lessees agree for themselves, their successors, heirs and assigns, that in connection with the mortgaged property and the project operated thereon and so long as the Contract of Mortgage Insurance continues in effect, and during such further period of time as the Commissioner shall be the owner, holder or reinsurer of the mortgage, or during any time the Commissioner is obligated to insure a mortgage on the mortgaged property

- (1) The lease shall be subject and subordinate to the mortgage securing the note or other obligation endorsed for insurance by the commissioner;
- (6) Lessee shall maintain in good repair and condition any parts of the project for the maintenance of which lessee is responsible under the terms of the lease;
- (2) Lessee shall make payments under lease when due;
- (7) Lessee shall not remodel, reconstruct, add to, or demolish any part of the mortgaged property or subtract from any real or personal property of the project;
- (3) Payments by the lessee to the lessor shall be sufficient to pay all mortgage payments including payments to reserves for taxes, insurance, etc., payments to the Reserve for Replacements, and to take care of necessary maintenance. If at the end of any calendar year, or any fiscal year if the project operates on the basis of a fiscal year, payments under the lease have not been sufficient to take care of the above items, the lessor and lessee upon request in writing from the Commissioner shall renegotiate the amounts due under the lease so that such amounts shall be sufficient to take care of such items; the Commissioner shall be furnished by the lessee, within thirty days after being called upon to do so, with a financial report in form satisfactory to the Commissioner covering the operations of the mortgaged property and of the project;
- (8) Lessee shall not use the project for any purpose except the operation of a nursing home;
- (4) The lessee shall not sublease the project or any part thereof without the consent of the Commissioner;
- (9) If a default is declared by the Commissioner under the provisions of Paragraph 10 of the Regulatory Agreement entered into by the lessor-mortgagor and the Commissioner on the **24** day of **May**, 19 **94**, a copy of notice of default having been given to the lessee, the lessee will thereafter make all future payments under the lease to the Commissioner;
- (5) The lessee shall at all times maintain in full force and effect a license from the State or other licensing authority to operate the project as a nursing home, but the owner shall not be required to maintain such a license;
- (10) The lease may be cancelled upon thirty days written notice by the Commissioner given to the lessor and the lessee for a violation of any of the above provisions unless the violation is corrected to the satisfaction of the Commissioner within said thirty day period.
- (11) The Commissioner must approve any change in or transfer of ownership of the lessee entity, and any change in or transfer of the management operation, or control of the project.

Previous Editions Are Obsolete
Page 1 of 2
form HUD-92466-NHIL (1/92)

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BK599PG0243

ATTACHMENT "A"

IN WITNESS WHEREOF, Coventry Health Continuum, Inc., a Rhode Island Corporation, has caused this instrument to be executed by its duly authorized officer and the Secretary of Housing and Urban Development, acting by and through his authorized agent, has executed this Regulatory agreement, on the date first above written.

ATTEST:

Coventry Health Continuum Inc.

James M. Strong

John Assalone
John Assalone, Vice President

SECRETARY OF HOUSING AND URBAN
DEVELOPMENT acting by and through
THE FEDERAL HOUSING COMMISSIONER

Luisa G. Osborne

Luisa G. Osborne
Director, MultiFamily
Division

STATE OF RHODE ISLAND
COUNTY OF PROVIDENCE

In Providence, in said County, on the 24th day of May, 1994, before me personally appeared John Assalone to me known and known by me to be the Vice-President of Coventry Health Continuum Inc., a Rhode Island Corporation, who executed the foregoing instrument in his said capacity, and he acknowledged the foregoing Regulatory Agreement so executed to be his free act and deed in his said capacity and the free act and deed of said corporation.

John J. Montecalvo
Notary Public

My Commission Expires: 7-9-97

STATE OF RHODE ISLAND
COUNTY OF PROVIDENCE

In Providence, in said County, on the 24th day of May, 1994, before me personally appeared Luisa Osborne to me known and known by me to be the duly authorized agent of the Federal Housing Commissioner and the person described herein, who executed the foregoing Regulatory Agreement by virtue of the authority vested in him as such authorized agent, and he acknowledged said instrument so executed to be his free act and deed on behalf of the Federal Commissioner as such authorized agent.

James M. Lepullo
Notary Public

My Commission Expires: 6/11/97

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BK599PG0244

07661
MAB 03/24/91FIRST AMENDED
LEASE AGREEMENT

THIS AMENDED LEASE AGREEMENT ("Lease") is made & entered into on the date, between the parties and upon the terms and conditions hereinafter set forth.

- a. Date of Lease: July 8, 1987
Date of Amendment: March 24, 1991
- b. Lessor: Coventry Health Center Associates, .
- c. Lessee: Coventry Health Continuum, Inc.
- d. Term of Lease:
 - (1) From: July 8, 1987.
 - (2) To and including: December 31, 1997
- e. Description of Premises: The real property located off Nooseneck Hill Road in Coventry, Rhode Island known as Coventry Health Center and all personal property located at that facility. A description of the real property is more fully described on Exhibit A attached hereto and made a part hereof.
- f. Rental: From commencement of term to expiration date of original term:
 - Annual: \$18,000 plus an amount equal to all mortgage and other debt service payments, including escrows, paid by Lessor with respect to indebtedness of Lessor during the applicable year, including payments to reserves for taxes and insurance, etc., payments to the Reserve for Replacements, payments to the Lessee by the Rhode Island Department of Human Services (Medicaid) & Federal Medicare System via its intermediary, Blue Cross, for depreciation expense reimbursement ("Depreciation

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Reimbursement") and payments to take care of necessary maintenance and other necessary property - related expenses including legal, auditing and accounting expenses, less an amount equal to all principal and interest paid by Lessee to Lessor during the applicable year pursuant to that certain Promissory Note executed by Lessee in favor of Lessor in the original principal amount of \$400,000 (the "Note"). If at the end of any calendar year, or any fiscal year if the project operates on the basis of a fiscal year, payments under the Lease have not been sufficient to take care of the above items, the Lessor and Lessee, upon request in writing from the Federal Housing Commissioner ("Commissioner"), shall renegotiate the amounts due under the Lease so that such amounts shall be sufficient to take care of such items; the Commissioner shall be furnished by the Lessee, within thirty (30) days after being called upon to do so, with a financial report in a form satisfactory to the Commissioner covering the operations of the mortgaged property and of the project.

Monthly: \$1,500 plus an amount equal to all debt service, including escrows, paid by Lessor with respect to indebtedness of Lessor during the applicable month, & Depreciation Reimbursement paid to Lessee during the applicable month, less an amount equal to all principal and interest paid by Lessee to Lessor during the applicable month pursuant to the Note.

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g. Option to Renew:

- (1) Additional years: Five (5)
- (2) Notice prior to end of original term:
three (3) months.
- (3) Rent:
 - (a) Annual: See paragraph 24 hereof.
 - (b) Monthly: See paragraph 24 hereof.

TERMS AND CONDITIONS1. PREMISES

Lessor, in consideration of the rents, covenants and agreements to be paid, kept and performed by Lessee as herein provided, hereby demises and leases unto Lessee the premises described above.

2. PURPOSE

Said premises may be used only for the operation of a nursing home. Any use of said premises in violation of this provision may be enjoined by Lessor without prejudice to any other remedy therefor.

3. RENTAL

Lessee shall pay the rental set forth above in consecutive monthly installments, in arrears, at the office of Lessor, on the last business day of each month during said term. The rent for the calendar month during which rent shall begin to accrue and for the last calendar month of the term, if either is not a full month, shall be apportioned.

4. USE OF PREMISES

Lessee shall comply with and observe all statutes, ordinances, regulations, orders and/or decrees of the federal, state and city governments, or any departments, bureaus or agencies thereof, or of any Insurance Inspection or Rating Bureau in any way affecting the use and maintenance of said premises, including obtaining a license from the state or other licensing authority to operate the project as a nursing home, but the Lessor shall not be required to maintain such a license. Lessee shall forever hold and keep Lessor harmless and indemnified on account of any loss, cost, damage or liability resulting from the violation by Lessee of any such statute, ordinance, regulation, order or decree or

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based or in any way arising out of the use and occupancy of said premises by Lessee. At the expiration or other termination of this Lease, Lessee shall remove from said premises all goods and effects, and peaceably and quietly surrender to Lessor possession of the premises and of all erections and additions made to the same, whether made in replacement, substitution of, or addition to, existing facilities, including, without limitation, piping, electrical installations, switch boxes, transformers, lighting fixtures, all wiring both for light and power up to the point that the same may be attached to any machines, and partitions and constructions of all kinds, broom clean and in good repair, order and condition in all respects, reasonable use and wear and damage by fire or other casualty only excepted.

5. UTILITIES

Lessee shall provide and pay for all heat, water for drinking and other purposes, electricity, gas and any other utilities consumed on the demised premises and sewer charges connected therewith.

6. MAINTENANCE, REPAIRS AND REPLACEMENTS

During the term of the Lease, Lessee shall be responsible for all interior and exterior maintenance and repairs to the premises, fixtures and parking areas and driveways, and shall make all structural repairs and replacements of integral and component parts of the structure, premises and fixtures, toward the end that Lessor shall not be responsible for any maintenance, repairs or replacements of the premises, structure and/or fixtures.

7. TAXES, ASSESSMENTS AND CHARGES

During the term of the Lease, Lessee shall pay to the Lessor, as Rental payments provided for in paragraph f. herein, all taxes upon the premises. Such taxes shall include: all taxes and special assessments of every kind and nature assessed and levied against the building (as a completed taxable entity), land and fixtures including, but not limited to, any taxes upon the building, land or fixtures levied or imposed by any governmental tax authority in addition to, in lieu of or as a substitute for real estate or personal property taxes, installments and interest on assessments for public betterments or public improvements (such assessments to be paid over the longest period permitted by law), all personal property taxes upon air conditioning equipment or similar building appurtenances and expenses, including but not limited to reasonable legal expenses, of any proceedings for abatement of taxes and assessments with respect to the first or any subsequent calendar year or fraction of a calendar year.

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8. SERVICE CONTRACTS

Lessee shall not enter into any service, maintenance or other contracts relating to the premises which shall terminate after the expiration of the term hereof, without Lessor's written consent. Each service, maintenance or other contract entered into by Lessee shall provide that it shall be assigned to Lessor, effective only upon termination of this Lease (pursuant to paragraph 20 hereof or otherwise) and only if Lessor accepts such assignment by notice in writing to the contractor.

9. FIRE AND CASUALTY

In case the premises shall be destroyed or damaged by fire or other casualty, this Lease may be terminated at the election of Lessor but if not so terminated and said premises shall be rendered unfit for occupation on account of said fire or casualty, the Rental hereinbefore reserved, or a just and proportionate part thereof according to the nature and extent of the injury sustained, shall be abated until said premises shall have been put in proper condition by Lessor. Otherwise, this Lease shall continue in full force and effect under its terms.

10. CONDEMNATION

In the event the whole or any part of the premises or any interest therein shall be taken or condemned by any competent authority for any public or quasi-public use or purpose, the term of this Lease shall cease and terminate on the date when the possession of the part or interest so taken shall be required for such use or purpose or on the date of such taking or condemnation (at Lessor's option) and without apportionment of the award, it being agreed that Lessor shall be entitled to the entire amount of the award for the premises; provided, however, if only a part of the premises is so taken, and if Lessee can without necessity of any substantial repairing or alteration, carry on its business in the part of the premises not so taken or condemned, this Lease shall continue in full force and effect as to the part not so taken or condemned but there shall be a proportionate adjustment of the Rental to be paid hereunder.

11. PROPERTY LOSS OR DAMAGE

All merchandise, furniture and property of any kind, nature and description, belonging to Lessee or any person claiming by, through or under it, which may be in, on or about said premises during the continuance of this Lease, or any extension or renewal thereof, is to be at the sole risk and hazard of Lessee; and if the whole or any part

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thereof shall be destroyed or damaged by fire, water, steam, smoke, by the leakage or bursting of water pipes, or in any other way or manner, no part of said loss or damage is to be charged to or to be borne by Lessor in any case whatsoever.

12. INDEMNITY

Lessee agrees to save Lessor harmless from, and indemnify Lessor against any and all injury, loss or damage of whatever nature, to persons or property arising out of the use or occupancy of the premises, or out of any act, omission or negligence of Lessee or anyone claiming under Lessee.

13. SUBORDINATION

This Lease is subject and subordinate to the mortgage securing the note and/or any other obligations endorsed for insurance by the Commissioner, and to all renewals, modifications, consolidations, replacements and extensions thereof. This clause shall be self-operative and no further instrument of subordination shall be required by any mortgagee.

14. QUIET ENJOYMENT

Lessee, paying the rent and performing all the covenants, terms and conditions in this Lease contained to be performed on the part of Lessee, may peacefully hold and enjoy said premises during the term hereof without any lawful let or hindrance by Lessor or any person claiming by, through or under her.

15. NO REPRESENTATIONS BY LESSOR

No representations or promises with respect to the premises, except as herein expressly set forth, have been made by Lessor, and Lessee agrees that it takes the same in their present condition and state of repair. The taking of possession by Lessee shall be conclusive evidence as against Lessee that the real estate and personal property were in satisfactory condition at the time such possession was so taken.

16. LESSOR'S RIGHT TO PAY MONEY TO EFFECT PERFORMANCE

If Lessee at any time, or from time to time, shall fail to perform any of the covenants, terms and conditions in this Lease contained to be performed on the part of Lessee, Lessor may immediately, or at any time thereafter without notice, perform the same for the account of Lessee, and in any such event, any monies paid by Lessor for such purpose shall be deemed to be additional rent due hereunder and shall be payable forthwith to Lessor upon rendition of an invoice therefor.

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17. NO WAIVER

The failure of Lessor to seek redress for violation of, or to insist upon the strict performance of, any covenant, term or condition of this Lease shall not prevent a subsequent act, which would have originally constituted a violation, from having all the force and effect of an original violation. The receipt by Lessor of rent, with knowledge of the breach of any such covenant, term or condition shall not be deemed a waiver of such breach and no provision of this Lease shall be deemed to have been waived by Lessor unless such waiver be in writing signed by Lessor. No act or thing done by Lessor, Lessor's servants and agents, during the term of this Lease shall constitute an eviction by Lessor, nor shall it be deemed an acceptance of a surrender of said premises, and no agreement to accept such surrender shall be valid unless in writing, signed by Lessor. The various rights, powers and remedies of Lessor herein contained shall not be considered as exclusive of, but shall be considered cumulative to any of the rights, powers and remedies now or hereafter existing at law, in equity, by statute or by contract between said parties.

18. ASSIGNMENT

Lessee shall not assign, mortgage, pledge or otherwise encumber this Lease or its interest therein or sublet the whole or any part of the premises without obtaining on each occasion the consent in writing of the Lessor and the Secretary of the Department of Housing and Urban Development ("Secretary") and/or Commissioner; provided however, that the Lessor and Secretary and/or Commissioner shall not unreasonably withhold their consent to any assignment of this Lease or subletting of the demised premises. In case of any such assignment, the Assignee shall assume in writing to Lessor the performance and observance of all the covenants, terms and conditions in this Lease contained, to be kept and performed on the part of Lessee, and such writing of assumption shall be delivered to Lessor simultaneously with said assignment. In the event of any such assignment or subletting, notwithstanding any assumption hereof by the Assignee or sublessee, Lessee shall remain primarily liable for the performance of all of the covenants, terms and conditions hereof. Lessee further agrees not to sublease the Premises or any part thereof without the consent of the Commissioner.

19. PAYMENTS

All sums due Lessor or any other party under the provisions hereof shall be deemed to be rent due hereunder and Lessor shall have all the rights and remedies relative to the nonpayment thereof as Lessor has for the nonpayment of rent.

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20. DEFAULTS OF LESSEE AND REMEDIES OF LESSOR

In case of failure on the part of Lessee to pay the rent and all other charges herein provided within fifteen (15) days subsequent to the time when the same shall become due and payable (and it shall not be required that any demand shall be made for the same); or in case Lessee shall neglect or fail to perform or observe any of the other covenants, terms or conditions imposed upon Lessee by this Lease and fail to remedy and/or remove said breach, within fifteen (15) days of the receipt of notice thereof from Lessor the term of this Lease shall terminate, provided that Lessor shall not be deemed to have accepted a surrender thereof. In any such event Lessee shall indemnify and hold harmless Lessor against all loss of rent or other payments due hereunder or which Lessor may suffer by reason of such termination, including damages for anticipatory breach.

21. ACCESS TO PREMISES

Lessor, Lessor's servants and agents, shall have the right to enter upon the premises or any part thereof, without charge, at all reasonable times to inspect the same, to show the demised premises to prospective purchasers or tenants, or to make or facilitate any repairs or alterations to the premises.

22. NO BROKER

Lessee represents that the premises, or any portion of the premises, were not presented to it or to any person representing it by any broker or other person and that no broker or other person was involved in the leasing of the premises, and warrants that no claim for commission for said leasing shall be presented to Lessor.

23. NOTICE

All notices and other communications authorized or required hereunder shall be in writing and shall be given by mailing the same by certified or registered mail, return receipt requested, postage prepaid, to the parties at their addresses set forth above, or in the case of Lessee, to the demised premises, or in either case, to such other person or at such other address as either party may hereafter designate by notice to the other party.

24. OPTION TO RENEW

If this Lease is then in full force and effect as to Lessee and Lessee is not in default under any of the terms hereof, Lessee shall have the option to renew the term of

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this Lease for the period set forth above, by giving notice in writing to Lessor no later than the number of months prior to the end of the original term hereof set forth above. The terms and conditions applicable to the original term hereof shall also apply to the renewal term hereof.

25. PARTIES AND DEFINITIONS

The terms Lessor and Lessee wherever used in this Lease shall include the heirs, executors, administrators, successors and assigns of said parties, wherever the context requires or permits of such construction, and all of the covenants, terms and conditions herein contained shall be binding upon and inure to the benefit of the heirs, executors, administrators, successors and assigns of said parties in the same manner as if they were expressly mentioned. The term Lessor as used in this Lease means only the owner for the time being of the premises, so that in the event of any sale, Lessor shall be and Lessor hereby is entirely freed and relieved of all covenants and obligations of Lessor hereunder, it being understood and agreed that the purchaser has assumed and agreed to carry out any and all obligations of Lessor hereunder.

26. DEFAULT DECLARED BY HUD COMMISSIONER

If a default is declared by the Commissioner under the provisions of Paragraph 11 of the Regulatory Agreement entered into by the Lessor (mortgagor) and the Commissioner on June 2, 1986, a copy of notice of default having been given to the Lessee, the Lessee will thereafter make all future payments under the Lease to the Commissioner.

27. TERMINATION

The Lease may be cancelled upon thirty (30) day written notice by the Commissioner given to the Lessor and the Lessee for a violation of any of the provisions contained herein unless the violation is corrected to the satisfaction of the Commissioner within said thirty (30) day period.

28. LESSEE MANAGEMENT AGREEMENTS

The Lessee shall not enter into any management contract involving the project, unless such contract shall contain a provision that in the event of default under the Regulatory Agreement as recited in paragraph 26 of this Agreement, the management contract shall be subject to termination without penalty upon written request of the Commissioner. Upon such request, the Lessee shall immediately arrange to terminate the contract within a period of not more than thirty (30) days and shall make arrangements satisfactory to the Commissioner for proper management of the project.

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29. NOTICE OF LEASE

At any time following the execution hereof, the parties shall at the request of Lessee also execute a Notice of Lease in form reasonably satisfactory to both parties, which Lessee may record.

30. AMENDMENTS, ADDITIONS AND DELETIONS TO ABOVE LEASE

Any alterations or deletions herein were made in the Lease before execution, and any additional provisions to which the parties have agreed and which are added herein or in any addendum attached hereto shall be considered a part hereof.

31. LESSEE REGULATORY AGREEMENT

The parties hereto acknowledge that the Lessee and Commissioner have entered into a Regulatory Agreement (FHA Form 2466-NHL) dated March 24, 1991, provided further, that the parties agree that in the event of a conflict between the aforesaid Regulatory Agreement and the provisions of this Lease, the provisions of the Regulatory Agreement will control.

IN WITNESS WHEREOF, the parties have executed this Lease on the date set forth above.

WITNESSES:

COVENTRY HEALTH CENTER ASSOCIATES, l.p.

By: [Signature]
General Partner

COVENTRY HEALTH CONTINUUM, INC.

By: [Signature]
President

- 10 -

Robert A. Foley, Jr.
 TOWN CLERK


TOWN OF COVENTRY
 97 JAN 24 AM 10:50

97-00341

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Auditee Comments

Tab C

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	
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.		OMB Approval No. 2502-0305 (exp. 7/31/92)	
Project name: Coventry Health Center	FHA project no.: 016-43050-PM	Date: 05/28/93	
City, State: Coventry, Rhode Island		Section 8 no:	
<p>Acting on behalf of <u>Coventry Health Continuum, Inc.</u>, the Project Owner (Owner), and <u>Health Management Services, Co.</u>, 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.</p> <p>1. We certify that:</p> <ul style="list-style-type: none"> 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. <ul style="list-style-type: none"> (1) Term of Agreement: <u>07/01/87 - 06/30/96</u> (2) Fees: <ul style="list-style-type: none"> (a) _____ % of residential income collected; (b) _____ % of commercial income collected; (c) _____ % of miscellaneous income collected (This percentage must not exceed the percentage in (2)(a) above). (d) Special Fees No <input type="checkbox"/> Yes <input checked="" type="checkbox"/> 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: <ul style="list-style-type: none"> (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: <ul style="list-style-type: none"> (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, <ul style="list-style-type: none"> (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. <p>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.</p> <p>3. We agree to:</p> <ul style="list-style-type: none"> 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. <p>4. The Agent agrees to:</p> <ul style="list-style-type: none"> 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. <p>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.</p> <ul style="list-style-type: none"> a. <input checked="" type="checkbox"/> Fidelity bond or employee dishonesty coverage for \$300,000. <ul style="list-style-type: none"> (1) all principals of the Agent and See Attached Letter 10/23. (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. <input checked="" type="checkbox"/> Hazard insurance coverage in an amount required by the project's Mortgage. c. <input checked="" type="checkbox"/> Public liability coverage with the Agent designated as one of the insured. <p>6. The Agent agrees to:</p> <ul style="list-style-type: none"> 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: <ul style="list-style-type: none"> (1) HUD's administrative requirements; (2) generally accepted accounting principles; and (3) in a condition that will facilitate audit. <p>7. We agree that:</p> <ul style="list-style-type: none"> 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: <ul style="list-style-type: none"> (1) any records which relate to the project's purchase of goods or services, 			

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Auditee Comments

(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.

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

c. ☒ 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 10/23/91, 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:

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

☐ New Management Entity Profile

☒ Updated Management Entity Profile

☒ Other (Specify) Owner Identity of Interest
Companies - Gregory Building Co., My Place, Inc.,
Construction Software, Inc. &
Consultants, Inc.

Warnings:

There are fines and imprisonment—\$10,000/years—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/years—for anyone who misuses rents & proceeds in violation of HUD regulations relative to this project. This applies when the mortgage 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 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 occurrence (12 U.S.C. 1735f-15).

By Project Owner: Name, title, signature, date: 6/28/93
Health Management Services Co., Inc.

By Management Agent: Name, title, signature, date: 6-29-93
as Manager

Ref to OIG Evaluation

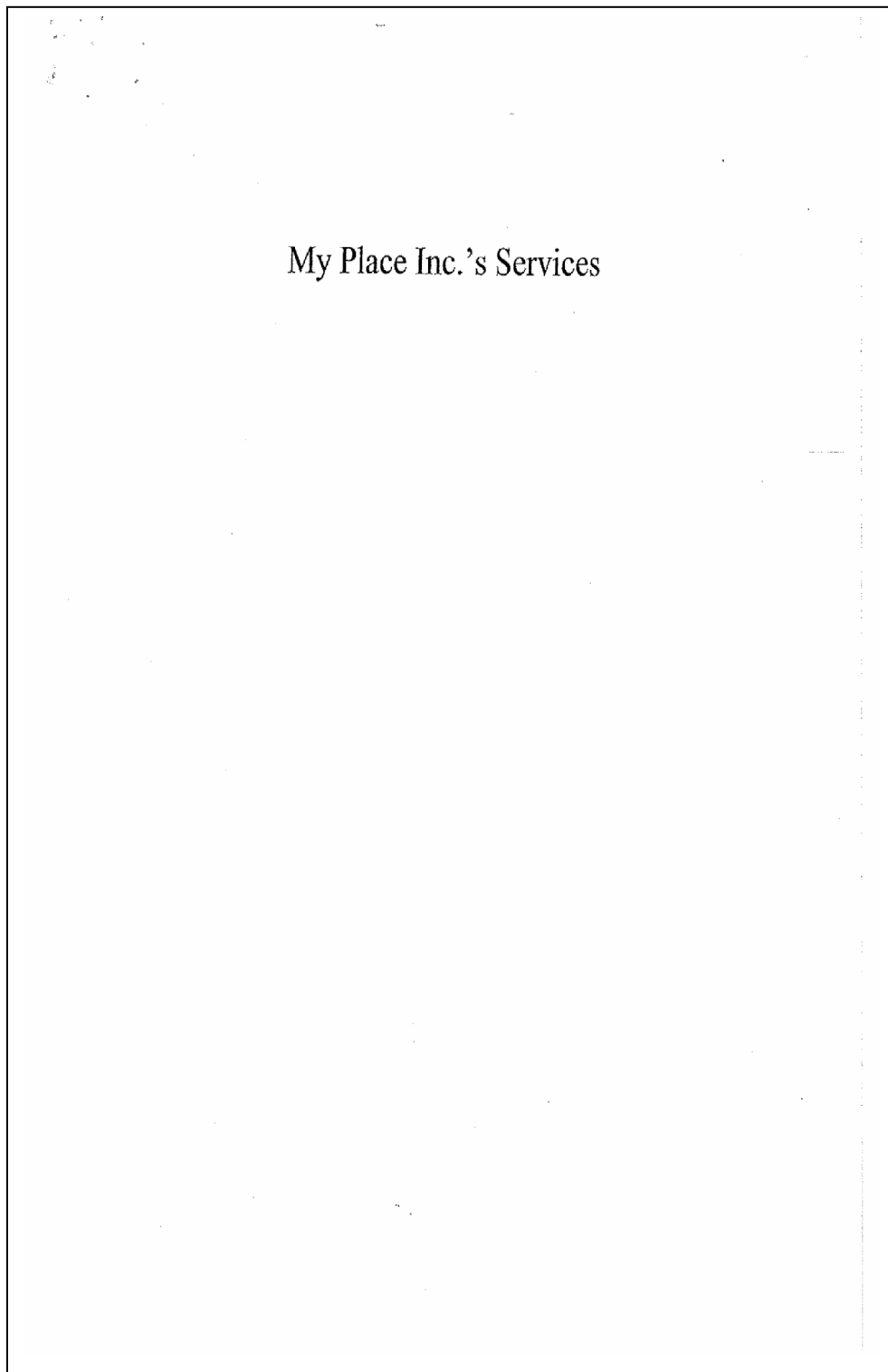
Auditee Comments

*Attachment 1—Calculation of Estimated Yields from Proposed Management Fees			
Project Name: Coventry Health Center		FHA Project No.: 016-43050-PM	Date: 05/28/93
1. Residential Fee		2. Commercial Fee (Describe commercial space, how it is used and what services management provides.)	
a. Monthly residential rent potential (from Part A of the most recent HUD-approved Rent Schedule)	\$ N/A	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.		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.)			
<p>The Management Agent is compensated at the rate of 3% of the Net Patient Revenue under Management Agreement dated July 8, 1987 and as amended on November 30, 1988. In addition, the agent is reimbursed for additional Services provided including Quality Assurance, Dietary Consulting, and Systems Specialist. The compensation to the Agent is exclusive of compensation to Consultants, Inc., also at the rate of 3% of Net Operating Revenue for services required by the special-purpose nature of the facility.</p>			
*Note: 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.			

Ref to OIG Evaluation

Auditee Comments

Tab D



Ref to OIG EvaluationAuditee 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.

Ref to OIG EvaluationAuditee 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.

Ref to OIG EvaluationAuditee 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 beginning 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.

Ref to OIG EvaluationAuditee Comments

- 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

Ref to OIG EvaluationAuditee Comments

- (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 Oversight 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

Ref to OIG EvaluationAuditee Comments

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).

OIG Evaluation of Auditee Comments

Comment 1 We disagree that Coventry Health Continuum, Inc., the operator/lessee, was not subject to the restrictions outlined in paragraph 6(b) of the Regulatory Agreement for Multifamily Housing Projects. Although the auditee is correct in the wording of the regulatory agreement, based on our interviews and audit work, the same parties controlled the owning entity, operator, and management company. For example, John Montecalvo held various positions within these entities and ran the day-to-day activities of Coventry Health Continuum, Sterling Health Care Management and Construction Software Inc.

Also, based on interviews, the officers for Coventry Health Continuum did not have an active role in the operations of the nursing home, yet the entity signed as the owner on HUD documents that brought Sterling Health Care Management into the organization. Overall direction came from Antonio L. Giordano, a general partner. Based on the day-to-day activities performed by this owner, we often could not determine for which entity he was making decisions. For this reason, we are treating all the entities as one and holding the acts of each commonly owned entity to the requirements of the owner's regulatory agreement. Any separation of these entities' responsibilities was only for the clear circumvention of regulations by the owner.

We have added attachment H to show the relationship between the owner, operator, management company, and related companies.

Comment 2 Coventry Health Continuum repaid various loan amounts to identity-of-interest companies while the project was in a non-surplus position and-or in default of its HUD insured loan, without HUD approval. HUD Handbook 4370.2, chapter 2, clearly outlines an owner's responsibility regarding repayments advanced by owner's, or affiliates of owner's, as required by the HUD regulatory agreement. These advances cannot be repaid unless they are scheduled and approved in advance by HUD.

Comment 3 As stated in comment 1, the Management Agent's Certification Agreement supplied in the auditee's response expired on June 30, 1996, and was superseded by a subsequent Management Agreement signed and dated April 1, 1997 (see attachment A). Section 4 of the revised agreement entitled "Special Fees" does not provide for compensation to Consultants, Inc., or Giordano, Assalone, and Confreda (Partnership Fees). Therefore, \$89,400 in fees paid to Consultants, Inc., and \$182,500 paid to Giordano, Assalone and Confreda (Partnership Fees) were clearly ineligible.

Comment 4 HUD's receipt of monthly accounting reports did not constitute approval of the project's actions. The auditee's response suggests that HUD conducted long term ongoing monthly monitoring of project disbursements. This was not the case. The local HUD office officially requested monthly accounting reports on August 19,

1999, one month after the owner defaulted on its HUD insured loan. Although cash disbursement data was submitted, detailed supporting documentation was not required. Therefore, HUD had limited understanding or visibility of project activity.

Comment 5 We identified \$132,721 (see attachment C) in various legal and \$147,183 (see attachment D) in accounting firm payments for the period January 1998 through December 2000. During our audit we were not provided nor could we locate supporting documentation for the numerous payments. The substantial legal and accounting fees paid by the project do not appear to be necessary and/or reasonable given the size of the operation. Also, some of these services were to be provided by the management agent.

Furthermore, \$53,880 was paid to Construction Software, Inc., an identity-of-interest company. 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, the services were described as either consulting, management fees, service contract, or purchased services. Construction Software, Inc., invoices billed to the project described the services as accounting related. The invoices further detailed the services 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., duplicated those that were to be provided by the management agent that was receiving a management fee. The management agreement, signed and dated July 1, 1997, between Coventry Health Continuum, as the "Owner," and Sterling Health Care Management Company, LLC, as the "Manager" (see attachment B), stated that the management agent was responsible for providing all financial aspects of the operation of the facility including operating and management statements showing all income, expense and cash flow and management review.

Details of expenditures of \$136,145 to unidentified payees (see attachment E), and payroll transactions totaling \$20,192 (see attachment F) are provided at the end of our response.

Comment 6 The auditee's response indicated that these disbursements would normally be for the continuum's share of shared expenses. We could not determine the reasonableness or necessity of these costs based on available documentation. Details of expenditures to Mt. St. Francis Health Center are provided at the end of our response (see attachment G).

Comment 7 The auditee's response implied that HUD performed lengthy ongoing monitoring through monthly accounting reports of Gregory Building, My Place, Inc, and Simon and Windsor Interiors. This was not the case. HUD began monitoring the project only after it defaulted on its HUD insured loan. As stated in comment 4, the submission of monthly accounting reports to HUD did not constitute approval of the project's actions.

Based on information outlined in the audit report we consider the payments of \$54,300 to Gregory Building as unnecessary, and \$5,510 to be unsupported. In addition, the monthly fees of \$9,554 paid to My Place, Inc., were excessive and unnecessary for the project. Also, we consider the payments of \$7,816 and \$15,000 to Simon and Windsor to be unsupported and ineligible, respectively. Finally, repayment of loans to affiliates during a period when the HUD loan was in default or the project was in a non-surplus cash position was a violation of the HUD regulatory agreement, and therefore, ineligible.

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
Federal Housing Commissioner

COPY

OMB Approval No. 2502-0305 (exp. 10/31/97)

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 Plans, 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. Do not send this completed form to either of the above addressees.

Project name: Coventry Health Center	FHA project no: 016-43071	Date: 4/1/97
City, State: Coventry, Rhode Island 02816	Section B no: N/A	

Acting on behalf of Coventry Health Continum, Inc., the Project Owner (Owner), and Sterling Health Care Management, Inc. (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:

- 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.
- 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,
(2) Fees: to expire when Partnership Agreement expires.

- N/A % of residential income collected;
- N/A % of commercial income collected;
- N/A % of miscellaneous income collected (This percentage must not exceed the percentage in (2)(a) above).
- Special Fees No ☐ Yes ☒ 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:

- We have submitted this Certification to HUD;
- HUD has approved the Agent to manage this project; and
- 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, the Agent, will, within 30 days of HUD's notice either:

- Reduce the compensation to an amount HUD determines to be reasonable and
- Require the administrator to refund to the project all excessive fees collected, or
- 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,

- We understand that HUD will adjust the management fee percentage each time HUD approves a rent increase.
- 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:

- Comply with this project's Regulatory Agreement, Mortgage & Mortgage Note, and any Subsidy Contract or Workout / Modification Agreement.
- Comply with HUD handbooks, notices or other policy directives that relate to the management of the project.
- 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 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:

- Assure that all expenses of the project are reasonable and necessary.
- Exert reasonable effort to maximize project income and to take advantage of discounts, rebates and similar money-saving techniques.
- Obtain contracts, materials, supplies and services, including the preparation of the annual audit, on terms most advantageous to the project.
- Credit the project with all discounts, rebates or commissions (including any sales or property tax relief granted by the State or local government received).
- Obtain the necessary verbal or written cost estimates and document the reasons for accepting other than the lowest bid.
- Maintain copies of such documentation and make such documentation available for your inspection during normal business hours.
- 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 payee in the event of loss. Note: For any box not checked, attach an explanation as to why you cannot obtain the type of insurance. Such situations should be extremely rare.

a. ☒ Fidelity bond or employee dishonesty coverage for:

- all principals of the Agent and;
- 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 project Mortgage.

c. ☒ Public liability coverage with the Agent designated as one of the insured.

6. The Agent agrees to:

- 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.
- Establish and maintain the project's accounts, books and records in accordance with:
 - HUD's administrative requirements;
 - generally accepted accounting principles; and
 - in a condition that will facilitate audit.

7. We agree that:

- All records related to the operation of the project, regardless of where they are housed, shall be considered the property of the project.
- HUD, the General Accounting Office (GAO), and those agencies' representatives may inspect:
 - any records which relate to the project's purchase of goods or services;
 - the records of the Owner and the Agent; and
 - the records of companies having an identity-of-interest with the owner and the agent.

Form HUD-9839-R (03/25/94)

Comment 1

The following clause will be included in any contract entered into with an entity-of-interest individual or business for the provision of goods or services 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 its and services charged to the project. Records and information will be made available 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, 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.

I hereby certify that any Management Agreement does not contain the type of "hold over" clause prohibited by HUD.

I agree to include the following provisions in the Management Agreement and bound by them:

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.

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.

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

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

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.

The Owner, agree to submit a new Management Certification to HUD before any of the following actions:

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

Changing the expiration date of the Management Agreement.

Changing the Management Agreement.

Permitting a new Agent to operate the project.

Permitting a new Agent to collect a fee.

Undertaking self-management of the project.

We agree to:

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.

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

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

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).

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

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

If a project receives any form of direct Federal financial assistance, comply with Section 3 of the Housing and Urban Development Act of 1968 and is 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.

Previous editions are obsolete

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. ☒ Only individuals and companies listed in Section 11a of the Management Entity Profile have an identity-of-interest with the Agent.
- c. ☒ 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.)

See Attached.

13. I, the Agent, certify & agree:

a. that the Management Entity Profile, dated 4/1/97, 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:

- ☒ Attachment 1—Calculation of Est. Yields from Proposed Mgt Fees
- ☒ New Management Entity Profile
- ☐ Updated Management Entity Profile
- ☐ Other (Specify) _____

Warnings:

There are fines and imprisonment—\$10,000/5 years—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—\$250,000/5 years—for anyone who misuses rents and proceeds in violation of HUD regulations relative to this project. This applies when the mortgage note is in default or when the project is in a non-surplus 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 mortgagee through personal funds for:

(1) Violation of an agreement with HUD 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 occurrence (12 U.S.C. 1735f-15).

By Project Owner: Name, title, signature, date:
Coventry Health Continuum, Inc.
John J. Montecalvo, President

By Management Agent: Name, title, signature, date:
Juliette A. Vaccaro, General Manager
Sterling Health Care Management Company, LLC.
Juliette A. Vaccaro 4/1/97

Form HUD-9839-B (03/25/95)
U.S. GPO: 1997-4

Project Name: Coventry Health Center	FHA Project Number: 016-43071	Date: 4/1/97
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HUD Field Office Use Only (Check all boxes that apply)

☐ In-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 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.

Loan Servicer		By Supervisory Loan Servicer/Loan Management Branch Chief	
Signature	Date	Signature	Date
<i>Christine Keshura</i>	<i>4/1/97</i>	<i>[Signature]</i>	<i>4/1/97</i>
Name		Name	
<i>Christine Keshura</i>		<i>MICHAEL G. WATSON</i>	
Title		Title	
<i>Asset Manager</i>		<i>CHIEF, ASSET MANAGEMENT BRANCH</i>	

Previous editions are obsolete Page 3 of 4 Form HUD-9839-B (03/25/96)

Attachment 1—Calculation of Estimated Yields from Proposed Management Fees		
Project Name: Coventry Health Center		FHA Project No.: 016-43071
		Date: 4/1/97
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 0.95 * \$ 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		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) \$
* 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.		
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 Management Agent is compensated at the rate of 3% of Net Patient Revenue under Management Agreement dated 7/1/97. In addition, the agent is reimbursed for additional services provided including Quality Assurance, Dietary Consulting, Systems Specialist, and other services not contemplated in the Management Agreement.		
Previous editions are obsolete. Page 4 of 4 Form HUD-9639-B (03/25/96)		

Comment 3

MANAGEMENT AGREEMENT

This agreement made and entered into as of July 1, 1997 by and between Coventry HealthContinuum, Inc., Rhode Island Corporation (hereinafter 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 Coventry Health Center, a 344 bed nursing facility located in Coventry, Rhode Island, (hereinafter 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 facilities 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 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;

- and procedures;
- d. Establish standardized personnel and operational policies
- 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;
- 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;
- 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.

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, and 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 MANAGER. 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 July 1, 1997, three percent(3%) of net patient revenue reduced by any costs that are directly reimbursed to the operating management company for services provided by its employees and designees. Compensation shall be due and payable by the 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 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 OBLIGATION 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:

a. 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

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.

11. INDEMNIFICATION

OWNER agrees to indemnify and hold harmless the MANAGER in any situation arising out of or from this agreement, where the MANAGER 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 Federal, State or local notice or where the OWNER instructs the MANAGER 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 of 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 judgment 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 thereunder 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: Coventry Health Continuum, Inc.
190 Broad Street
Providence, RI 02903

If to MANAGER: Sterling Health Care Management Company, LLC.
190 Broad Street
Providence, RI 02903

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

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 thereunder.

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 performed therein in conformity with the 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, as 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.

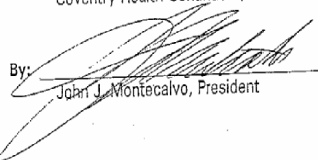
In Witness Whereof, OWNER, by its duly authorized general partner, and
MANAGER, by its duly authorized officer, have executed the Agreement in multiple
originals as of

WITNESS:

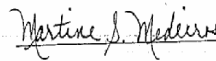
Coventry Health Continuum, Inc.



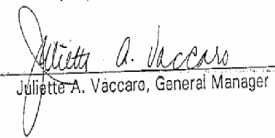
By:


John J. Montecalvo, President

Sterling Health Care Management
Company, LLC.



By:


Juliette A. Vaccaro, General Manager

Comment 5

FY 1998 - 2000 QUESTIONABLE LEGAL PAYMENTS		
CHECK NUMBER	CHECK DATE	AMOUNT
12392	1/19/1998	2,827.40
15403	11/19/1999	5,000.00
14303	3/12/1999	645.95
15586	12/20/1999	5,000.00
15089	9/3/1999	10,000.00
15321	11/1/1999	15,000.00
15486	11/30/1999	17,000.00
15492	11/30/1999	100.00
14819	6/23/1999	7.50
15433	11/22/1999	2,000.00
16854	9/14/2000	10,000.00
16855	9/14/2000	5,000.00
17184	12/15/2000	5,000.00
17197	12/15/2000	15,000.00
15822	2/4/2000	2,500.00
15894	2/18/2000	2,500.00
16028	3/17/2000	2,500.00
16186	4/20/2000	2,500.00
16164	4/21/2000	15,000.00
16343	5/19/2000	5,000.00
16256	5/1/2000	799.62
15942	2/28/2000	823.54
16491	6/13/2000	805.50
16125	4/6/2000	1,000.00
17434	11/20/2000	500.00
17518	12/18/2000	500.00
17224	8/21/2000	1,211.25
15756	1/24/2000	1,000.00
16013	3/17/2000	3,500.00
Total		<u>\$ 132,720.76</u>

Comment 5

FY 1998 - 2000 QUESTIONABLE ACCOUNTING PAYMENTS		
CHECK NUMBER	CHECK DATE	AMOUNT
12317	1/2/1998	1,000.00
12343	1/9/1998	1,000.00
12381	1/16/1998	1,000.00
12426	1/23/1998	1,000.00
12452	1/30/1998	1,000.00
12483	2/6/1998	1,000.00
12512	2/13/1998	1,000.00
12532	2/20/1998	1,000.00
12572	2/27/1998	1,000.00
12606	3/6/1998	1,000.00
12637	3/12/1998	1,000.00
12692	3/20/1998	1,000.00
12723	3/27/1998	1,000.00
12743	4/3/1998	1,000.00
12795	4/17/1998	1,000.00
12837	4/24/1998	1,000.00
12859	5/1/1998	1,000.00
12883	5/8/1998	1,000.00
12912	5/15/1998	1,000.00
12945	5/21/1998	1,000.00
12969	5/29/1998	1,000.00
12992	6/5/1998	1,000.00
13042	6/19/1998	2,000.00
13067	6/26/1998	1,000.00
13111	7/2/1998	1,000.00
13139	7/10/1998	1,000.00
13160	7/17/1998	1,000.00
13192	7/24/1998	1,000.00
13215	7/31/1998	1,000.00
13253	8/7/1998	1,000.00
13279	8/14/1998	1,000.00
13295	8/21/1998	1,000.00
13334	8/28/1998	1,000.00
13374	9/4/1998	1,000.00
13396	9/11/1998	1,000.00
13417	9/18/1998	1,000.00
13453	9/25/1998	1,000.00
12765	4/13/2000	1,000.00
13525	10/16/1998	1,000.00
13693	11/20/1998	195.00
15276	10/20/1999	5,800.00
14424	4/2/1999	586.00
14632	5/7/1999	2,500.00
15553	12/16/1999	1,102.00
16760	12/17/1999	3,372.50
15588	12/21/1999	1,000.00
16230	4/27/2000	5,000.00
16293	5/5/2000	492.00
16293	5/5/2000	4,508.00
16318	5/12/2000	5,000.00
16344	5/19/2000	5,000.00
16427	6/1/2000	5,000.00
16479	6/9/2000	5,000.00
16511	6/16/2000	5,000.00
16556	6/23/2000	5,000.00
16630	7/20/2000	10,000.00
16690	8/4/2000	5,000.00
16724	8/17/2000	5,000.00
16767	8/25/2000	5,000.00
16814	9/1/2000	5,877.00
17183	12/15/2000	5,000.00
15952	3/2/2000	750.00
15994	3/10/2000	1,000.00
16027	3/17/2000	1,000.00
16079	3/24/2000	1,000.00
16106	3/31/2000	1,000.00
16286	5/5/2000	1,000.00
16341	5/19/2000	2,000.00
17130	7/20/2000	5,000.00
		4,000.00
Total		<u>\$ 147,182.50</u>

Comment 5

FY 1998 - 2000 QUESTIONABLE PAYMENTS TO INDIVIDUALS					
CHECK NUMBER	CHECK DATE	AMOUNT	CHECK NUMBER	CHECK DATE	AMOUNT
12316	1/2/1998	80.54	13501	10/9/1998	600.00
12319	1/2/1998	1,438.07	13511	10/15/1998	924.86
12341	1/9/1998	65.95	13530	10/16/1998	600.00
12353	1/9/1998	118.00	13531	10/16/1998	400.00
12364	1/14/1998	340.00	13532	10/16/1998	260.00
12368	1/15/1998	200.00	13533	10/16/1998	76.00
12390	1/16/1998	65.98	13534	10/16/1998	77.92
12383	1/16/1998	133.00	13563	10/23/1998	240.00
12396	1/19/1998	319.42	13564	10/23/1998	600.00
12398	1/19/1998	45.00	13568	10/23/1998	40.00
12399	1/19/1998	45.00	13569	10/23/1998	90.00
12400	1/19/1998	280.00	13573	10/27/1998	193.13
12412	1/22/1998	330.00	13577	10/28/1998	45.00
12425	1/23/1998	51.01	13592	10/30/1998	60.00
12428	1/26/1998	217.00	13593	10/30/1998	42.67
12437	1/29/1998	35.87	13597	10/30/1998	600.00
12438	1/29/1998	82.00	13623	11/5/1998	45.80
12439	1/29/1998	110.00	13635	11/6/1998	173.55
12440	1/30/1998	165.00	13636	11/6/1998	600.00
12451	1/30/1998	65.98	13660	11/13/1998	600.00
12460	2/3/1998	212.56	13661	11/13/1998	82.54
12463	2/3/1998	21.36	13662	11/13/1998	158.80
12469	2/5/1998	1,200.00	13664	11/16/1998	22.41
12470	2/5/1998	500.00	13674	11/20/1998	171.75
12482	2/6/1998	62.31	13686	11/20/1998	332.19
12488	2/6/1998	95.81	13689	11/20/1998	148.64
12511	2/13/1998	50.01	13690	11/20/1998	195.30
12531	2/20/1998	62.33	13691	11/20/1998	181.44
12535	2/20/1998	70.59	13701	11/23/1998	239.20
12536	2/20/1998	45.00	13702	11/23/1998	247.13
12542	2/23/1998	398.74	13709	11/24/1998	100.38
12547	2/23/1998	130.00	13716	11/24/1998	52.13
12548	2/23/1998	89.00	13725	11/25/1998	1,909.63
12549	2/23/1998	327.00	13749	11/27/1998	1,200.00
12555	2/24/1998	196.29	13779	12/4/1998	102.10
12557	2/24/1998	520.00	13780	12/4/1998	3,375.00
12571	2/27/1998	62.33	13781	12/4/1998	600.00
12573	2/27/1998	138.00	13801	12/10/1998	85.66
12592	3/5/1998	83.00	13803	12/10/1998	125.00
12603	3/6/1998	62.31	13816	12/11/1998	600.00
12609	3/6/1998	60.00	13819	12/12/1998	350.00
12639	3/12/1998	3,547.50	13821	12/14/1998	681.00
12641	3/12/1998	17.00	13837	12/16/1998	110.00
12650	3/16/1998	42.00	13846	12/18/1998	100.00
12654	3/16/1998	52.92	13847	12/18/1998	50.00
12658	3/18/1998	73.38	13849	12/18/1998	119.63
12675	3/20/1998	889.00	13850	12/18/1998	600.00
12676	3/20/1998	115.46	13889	12/24/1998	84.03
12691	3/20/1998	39.38	13893	12/29/1998	25.00
12704	3/25/1998	2,520.00	13895	12/29/1998	2,970.00
12708	3/26/1998	250.00	13914	12/31/1998	72.68
12709	3/26/1998	90.76	13915	12/31/1998	1,200.00
12710	3/26/1998	66.25	13917	12/31/1998	200.00
12722	3/27/1998	68.40	13918	12/31/1998	320.00
12742	4/3/1998	62.31	13984	1/15/1999	1,711.24
12764	4/13/1998	49.34	14012	1/18/1999	93.21
12769	4/13/1998	12.46	14028	1/21/1999	63.56
12772	4/13/1998	13.31	14049	1/25/1999	231.35
12775	4/14/1998	222.60	14058	1/29/1999	520.35
12797	4/17/1998	49.00	14069	1/29/1999	126.01
12812	4/21/1998	229.34	14071	1/29/1999	40.00
12817	4/22/1998	109.35	14074	1/29/1999	633.50
12839	4/28/1998	60.00	14075	1/29/1999	34.36
12848	12/18/1998	49.79	14079	2/2/1999	60.00
12861	5/4/1998	7,234.79	14098	2/5/1999	25.42
12862	5/4/1998	33.83	14100	2/6/1999	130.85
12885	5/8/1998	45.00	14106	2/9/1999	2,700.00
12886	5/8/1998	60.00	14133	2/12/1999	174.50
12893	5/11/1998	60.00	14134	2/12/1999	60.00
12915	5/15/1998	60.00	14160	2/19/1999	209.34
12916	5/15/1998	203.00	14163	2/19/1999	93.95
12926	5/18/1998	500.00	14166	2/19/1999	94.08
12927	5/18/1998	500.00	14337	3/19/1999	255.52
12948	5/21/1998	45.00	14340	3/19/1999	48.00
12958	5/28/1998	125.00	14341	3/19/1999	58.82
12974	5/29/1998	86.71	14343	3/22/1999	106.63
12975	5/29/1998	120.20	14347	3/23/1999	17.57
12982	6/4/1998	102.52	14353	3/24/1999	40.00
12997	6/5/1998	369.20	14354	3/24/1999	58.57
13001	6/11/1998	139.81	14373	3/25/1999	108.52
13044	6/19/1998	60.00	14421	4/2/1999	144.93
13046	6/22/1998	118.35	14444	4/8/1999	129.60
13047	6/22/1998	118.13	14489	4/15/1999	500.00
13055	6/25/1998	57.70	14490	4/15/1999	500.00
13056	6/25/1998	159.49	14525	4/19/1999	33.83

Continued	CHECK NUMBER	CHECK DATE	AMOUNT	CHECK NUMBER	CHECK DATE	AMOUNT
	13057	8/25/1998	100.00	14558	4/22/1999	500.00
	13074	8/26/1998	1,563.53	14578	4/23/1999	62.20
	13077	8/30/1998	235.80	14579	4/23/1999	146.52
	13080	7/1/1998	25.00	14613	5/5/1999	1,500.00
	13081	7/1/1998	25.00	14620	5/6/1999	83.52
	13082	7/1/1998	25.00	14637	5/10/1999	50.03
	13083	7/1/1998	25.00	14662	5/20/1999	1,103.50
	13084	7/1/1998	25.00	14663	5/20/1999	3,805.00
	13085	7/1/1998	25.00	14685	5/21/1999	3,422.58
	13086	7/1/1998	25.00	14695	5/24/1999	524.31
	13087	7/1/1998	25.00	14719	6/1/1999	300.00
	13088	7/1/1998	25.00	14738	6/4/1999	40.21
	13089	7/1/1998	25.00	14743	6/18/1999	10,380.00
	13090	7/1/1998	25.00	14750	6/10/1999	150.00
	13091	7/1/1998	25.00	14753	6/11/1999	150.00
	13093	7/1/1998	25.00	14782	6/18/1999	33.93
	13094	7/1/1998	25.00	14820	6/23/1999	7.50
	13095	7/1/1998	25.00	14822	6/23/1999	7.50
	13096	7/1/1998	25.00	14828	6/23/1999	66.64
	13097	7/1/1998	25.00	14850	7/2/1999	444.56
	13098	7/1/1998	25.00	14860	7/9/1999	567.79
	13099	7/1/1998	25.00	14871	7/13/1999	14.58
	13100	7/1/1998	25.00	14890	7/16/1999	144.95
	13116	7/6/1998	118.00	14891	7/16/1999	139.09
	13119	7/8/1998	650.00	14892	7/16/1999	45.00
	13126	7/9/1998	90.69	14897	7/16/1999	237.77
	13127	7/9/1998	234.43	14946	7/30/1999	261.86
	13128	7/9/1998	265.00	14947	7/30/1999	94.30
	13144	7/10/1998	80.44	14965	8/6/1999	109.26
	13148	7/16/1998	372.03	14971	8/11/1999	998.40
	13166	7/17/1998	135.00	15100	9/10/1999	269.96
	13170	7/21/1998	265.00	15101	9/10/1999	58.85
	13195	7/24/1998	235.00	15133	9/17/1999	74.75
	13203	7/29/1998	5,239.16	15166	9/24/1999	69.36
	13204	7/29/1998	3,241.80	15176	9/28/1999	318.69
	13207	7/30/1998	77.56	15197	10/1/1999	29.02
	13210	7/30/1998	325.00	15235	10/9/1999	53.13
	13228	8/3/1998	65.38	15241	10/9/1999	2,976.00
	13229	8/3/1998	169.91	15276	9/17/1999	62.76
	13231	8/3/1998	35.36	15310	10/28/1999	76.47
	13233	8/3/1998	40.00	15333	11/4/1999	109.85
	13237	8/4/1998	51.92	15373	11/17/1999	100.00
	13238	8/4/1998	251.70	15379	11/18/1999	259.42
	13243	8/6/1998	82.00	15414	11/22/1999	1,780.31
	13254	8/7/1998	15.40	15466	11/26/1999	176.60
	13256	8/7/1998	60.00	15487	11/30/1999	538.65
	13261	8/12/1998	25.00	15510	12/3/1999	200.00
	13267	8/13/1998	50.00	15511	12/3/1999	100.00
	13268	8/13/1998	120.00	15512	12/3/1999	50.00
	13269	8/13/1998	215.00	15546	12/15/1999	100.00
	13296	8/21/1998	25.00	15549	12/17/1999	837.00
	13297	8/21/1998	25.00	15550	12/17/1999	492.24
	13302	8/21/1998	220.14	15554	12/16/1999	30.00
	13305	8/21/1998	53.00	15565	12/17/1999	500.00
	13313	8/25/1998	189.16	15568	12/17/1999	500.00
	13316	8/26/1998	260.17	15633	12/30/1999	55.00
	13320	8/27/1998	25.00	15642	1/5/2000	100.00
	13321	8/27/1998	441.80	15790	1/28/2000	400.00
	13323	8/27/1998	39.00	15832	2/8/2000	500.00
	13336	8/28/1998	50.00	15867	2/19/2000	15.47
	13339	8/28/1998	50.00	16054	3/20/2000	62.64
	13340	8/28/1998	50.00	16119	4/6/2000	72.44
	13341	8/28/1998	50.00	16133	4/7/2000	158.92
	13342	8/28/1998	50.00	16152	4/10/2000	48.15
	13343	8/28/1998	25.00	16266	5/3/2000	110.89
	13344	8/28/1998	25.00	16270	5/4/2000	142.27
	13345	8/28/1998	25.00	16370	5/19/2000	58.46
	13346	8/28/1998	25.00	16459	6/6/2000	39.90
	13347	8/28/1998	25.00	16460	6/6/2000	2,668.56
	13348	8/28/1998	25.00	16478	6/9/2000	352.36
	13352	8/31/1998	176.55	16567	6/30/2000	4,185.00
	13359	9/3/1998	3,785.04	16659	7/27/2000	468.39
	13366	9/10/1998	73.38	16696	8/7/2000	40.46
	13398	9/11/1998	802.50	16749	8/21/2000	19.95
	13437	9/23/1998	46.18	16810	9/1/2000	74.89
	13442	9/24/1998	540.00	16873	9/19/2000	2,553.27
	13455	9/25/1998	50.00	16874	9/19/2000	717.07
	13457	9/25/1998	60.00	16904	9/22/2000	231.56
	13458	9/25/1998	467.90	16946	11/6/2000	151.90
	13461	9/29/1998	60.00	16983	10/20/2000	16.92
	13462	9/29/1998	1,100.00	16984	10/20/2000	17.47
	13488	10/8/1998	63.50	17065	11/7/2000	2,134.79
	13489	10/8/1998	250.00	17076	11/10/2000	1,845.69
	13490	10/8/1998	124.00	17187	12/15/2000	279.62
			<u>\$ 51,584.17</u>			<u>\$ 84,560.28</u>
					Total	<u>\$ 136,144.45</u>

Comment 5

FY 1999 - 2000 QUESTIONABLE PAYMENTS PAYROLL		
CHECK NUMBER	CHECK DATE	AMOUNT
14897	7/16/1999	237.77
15527	12/7/1999	18.16
15541	12/10/1999	162.10
15575	12/17/1999	42.35
15579	12/17/1999	50.00
14097	2/5/1999	105.27
15520	12/3/1999	176.60
15613	12/23/1999	173.75
15577	12/17/1999	38.06
17225	12/20/2000	70.00
16099	3/31/2000	449.98
16892	9/22/2000	218.78
16893	9/22/2000	263.79
15662	1/7/2000	122.89
15974	3/3/2000	512.62
17078	11/10/2000	60.00
16979	10/20/2000	92.69
16058	3/22/2000	98.00
16957	10/12/2000	86.45
17175	12/13/2000	35.00
16209	4/21/2000	144.91
16980	10/20/2000	48.10
16921	9/28/2000	329.70
16922	9/28/2000	329.70
17248	12/29/2000	40.00
17237	12/21/2000	50.00
17137	11/27/2000	150.00
16048	3/17/2000	702.89
15154	4/14/2000	327.30
16521	6/16/2000	259.64
16956	10/12/2000	286.06
15683	1/14/2000	181.41
16710	8/11/2000	66.56
17077	11/10/2000	182.68
16208	4/21/2000	30.70
16405	5/25/2000	309.38
17215	12/18/2000	50.00
16772	8/25/2000	450.72
16409	5/26/2000	204.31
16410	5/26/2000	204.31
16622	7/14/2000	18.42
16813	9/1/2000	224.05
15661	1/7/2000	62.83
16981	10/20/2000	33.83
16561	6/23/2000	50.00
16146	4/10/2000	300.00
17163	12/4/2000	200.00
17238	12/21/2000	551.65
16262	5/2/2000	476.07
16218	4/21/2000	265.99
17032	10/27/2000	228.85
16947	10/6/2000	189.15
15888	2/18/2000	6,552.25
15660	1/7/2000	109.64
16603	7/7/2000	107.41
17035	10/30/2000	30.81
16773	8/25/2000	245.14
17250	12/29/2000	148.77
17251	12/29/2000	148.77
16269	5/4/2000	556.61
16273	5/4/2000	699.77
16219	4/21/2000	274.24
16373	5/19/2000	118.87
15967	3/3/2000	167.50
15970	3/3/2000	72.19
16169	4/18/2000	373.97
16200	4/21/2000	86.75
15889	2/18/2000	250.00
15972	3/3/2000	285.59
Total		<u>\$20,191.75</u>

Comment 6

FY 1998 - 2000 QUESTIONABLE PAYMENTS TO MSF		
CHECK NUMBER	CHECK DATE	AMOUNT
12393	1/19/1998	248.00
15274	10/20/1999	745.00
15303	10/26/1999	745.00
15331	11/4/1999	745.00
15371	11/19/1999	745.00
15372	11/19/1999	745.00
15551	12/17/1999	1,745.02
15644	1/6/2000	666.68
15672	1/12/2000	333.34
15697	1/20/2000	333.34
15755	1/24/2000	333.34
15796	2/1/2000	333.34
15825	2/7/2000	333.34
15856	2/14/2000	333.34
15904	2/21/2000	333.34
15948	2/29/2000	333.34
15976	3/7/2000	333.34
15999	3/13/2000	333.34
16052	3/20/2000	333.34
16085	3/28/2000	333.34
16108	4/3/2000	333.34
16149	4/10/2000	333.34
16181	4/20/2000	333.34
16251	4/28/2000	334.00
16289	5/5/2000	334.00
16302	5/9/2000	334.00
16335	5/19/2000	334.00
16691	8/4/2000	964.00
16481	6/9/2000	1,002.00
16531	6/19/2000	333.34
16636	7/20/2000	1,666.70
Total		<u>\$16,686.84</u>

Antonio L. Giordano Related Entities**1. Antonio L. Giordano, Inc.**

(Real estate business)

Giordano interest

RI Office of Secretary of State records indicate the officers as follows;

President: Antonio L. Giordano

Vice President: Antonio L. Giordano

Secretary: Janice M. Strang, dates of service unavailable

Treasurer: John J. Montecalvo, dates of service unavailable

2. 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)

3. 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 Office)

Secretary: Janice M. Strang, From 2004

4. 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

5. Coventry Health Associates

(Nursing home owner)

Giordano interest

General Partner: John Assalone, Sr. dates of service unavailable

General Partner: Pasquale Confreda, dates of service unavailable

General Partner: Domenick Delvecchio, dates of service unavailable
General Partner: Antonio L. Giordano, dates of service unavailable
General Partner: Robert Rocchio, dates of service unavailable

6. Coventry Health Continuum, Inc.

(Nursing home operator)

Giordano interest

President: John J. Montecalvo, dates of service unavailable

President: John Assalone, Sr., 2001

Vice President: Pasquale Confreda, 2001

Secretary: Pasquale Confreda, 2001

Treasurer: Pasquale Confreda, 2001

7. Coventry Sewage Associates

(Private sewer line in which serviced Coventry Health Center)

Giordano interest

RI Office of Secretary of State records indicate the officers as follows;

General Partner: Antonio L. Giordano

8. 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)

9. 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)

10. 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

11. 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)

12. 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

13. 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

14. 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

15. 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

16. Suburban Mortgage Associates Inc.

(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

17. Woodland Manor Improvement Association

(Operates private sewer which serviced Coventry Health Center)

Giordano interest

RI Office of Secretary of State records indicate the officers as follows;

Director: Antonio L. Giordano, From 2002 to 2003

Director: Pasquale Confreda, From 2002 to 2003,

Director: Domenic DelVecchio, From 2002 to 2003,

President: Pasquale Confreda, From 2002 to 2003

Secretary: Pasquale Confreda, From 2002 to 2003

Treasurer: Antonio L. Giordano, From 2002 to 2003

Key Events

The following is a chronological list of significant events that have taken place since the inception of the project:

October 15, 1981, initial construction of the nursing home was financed by a mortgage insured under Section 232 (Federal Housing Administration No. 016-43038), which was given final endorsement by HUD in March 1984 for \$8,667,300. At the same time, the owner obtained a Section 223(d)-insured operating loss loan (working capital) for \$1,167,700.

October 1981, a syndication of associates was effected through First Winthrop Corporation. The general partners of the associates were Antonio L. Giordano and several individuals (the Giordano Group). The Giordano Group also was the original limited partner. The Giordano Group remained general partners, and the owner, a District of Columbia limited partnership, was admitted as limited partner.

March 1984, after final endorsement, another amendment to the partnership agreement was filed, under which the members of the Giordano Group withdrew as general partners and became special limited partners. Winthrop Financial Co., Inc., an affiliate of First Winthrop Corporation, became sole general partner.

June 1, 1984, the nursing home was leased to Coventry Nursing Care, Inc., an operator that was not affiliated with the owner or related businesses.

June 1986, the original Section 232-insured first mortgage and the operating loss loan were refinanced, pursuant to Section 223(a)(7), by a new Section 232-insured first mortgage in the amount of \$9,835,000 (Federal Housing Administration No. 016-43050).

April 1987, Winthrop Financial Co., Inc., withdrew as general partner due to disputes, including litigation, between the Giordano Group and First Winthrop Corporation. An agreement was reached along with the termination of the operating lease with Coventry Nursing Care, Inc.

May 5, 1987, HUD suspended processing of an April 30, 1987, transfer of physical assets for failure to provide required audited financial data regarding the operating loss loan. Later that month, the owner was suspended from participation in HUD housing programs pending completion of an investigation relating to alleged activities of an entity under his control as general contractor regarding several Rhode Island nursing homes.

July 8, 1987, the owner effected a transfer of physical assets without HUD approval. This had the effect of restructuring ownership interests of the partnership by moving the Giordano Group from limited partners to general partner. The transfer removed Winthrop Financial Co., Inc., as general partner and special limited partner to limited partner. Consideration for the transfer and resulting restructure was \$1.00. A transfer in itself is not improper; however, the fact that HUD was not aware of the transaction is. There was potential risk to the government because HUD was not given the opportunity to review the action, especially in light of HUD defining the project as financially troubled.

July 8, 1987, the owner entered into a 10-year lease agreement regarding the nursing home with Coventry Health Continuum, Inc., d/b/a Coventry Health Center, an identity-of-interest operator, which expired on December 31, 1997. The nursing home was now owned and operated by related parties.

July 8, 1987, the owner entered into a management agreement with Health Management Services Company for a term that expired on July 1, 1997. Health Management Services Company was a Rhode Island-based management company not affiliated with the owner.

December 1988, the owner's suspension was terminated due to expiration of the maximum 18-month duration under 24 CFR [*Code of Federal Regulations*] 24.415(b) without initiation of further proceedings. In October 1989, the United States Attorney confirmed to HUD that it had declined prosecution.

March 15, 1989, we issued an audit report on the project (Audit No. 89 BO-212-1015). The report found that an unauthorized transfer of physical assets occurred and recommended that HUD assess the impact on HUD and risk associated with the various financing arrangements resulting from the transfer, including a determination as to whether the lease and management agreement are in the best interest of the project and HUD.

Due to the lapse of time and lack of records, we were unable to determine the final disposition of that audit.

May 24, 1994, initial endorsement was signed to refinance the June 1986 HUD-insured loan. The new HUD loan was insured for \$15,308,700 under Section 232 of the National Housing Act (Federal Housing Administration Project Number 016-43071). The new loan, in part, financed a 34-bed addition to the nursing home. In addition, on May 24, 1994, a regulatory agreement for nursing homes (HUD Form 92466-NHL) was entered into between the owner and the operator. In May 1995, the loan was given final endorsement.

July 1, 1997, the operator contracted management services through Sterling Health Care Management Company, an identity-of-interest management agent through common ownership. The July 8, 1987, management agreement with Health Management Services Company was not renewed. The nursing home was now completely controlled (owned, operated, and managed) by related parties.

August 1999, the owner defaulted on its loan payment to Suburban Mortgage Associates, Incorporated. A few months later, HUD requested that the operator start submitting monthly accounting reports (HUD Form 93479).

June 28, 2000, Suburban Mortgage Associates, Incorporated, assigned the mortgage to HUD.

February 19, 2001, the Rhode Island Superior Court entered an order appointing a receiver to control the assets and business of the operator.

September 6, 2002, the \$15,308,700 note was sold to Allied Capital, along with six other nursing homes, for \$34,777,000. The loss to HUD was \$6,292,520.

August 25, 2003, Haven Eldercare of New England, LLC, purchased the project for \$10,375,000 and took control of the assets and operations from the receiver.