



U.S. Department of Housing and Urban Development
Wanamaker Building, Suite 1005
100 Penn Square East
Philadelphia, PA 19107-3380

District Inspector General for Audit

August 21, 1997

Audit Related Memorandum
No. 97-PH-212-1811

MEMORANDUM FOR: Thomas Langston, Director, Multifamily Division,
Pennsylvania State Office, 3AHM

FROM: Edward F. Momorella, District Inspector General
for Audit, Mid-Atlantic, 3AGA

SUBJECT: Limited Review - Elmira Jeffries Nursing Home
Mortgagor Operations
Philadelphia, Pennsylvania

BACKGROUND

As requested by the Multifamily Asset Management Branch, we performed a limited review of the operations of Elmira Jeffries Nursing Home (Project). The project is owned by Temple University Hospital (TUH) and currently managed by Greater Philadelphia Health Service Corporation (GPHSC), a subsidiary of TUH. Prior to GPHSC, a court appointed management agent, New Health Management, managed the project. The purpose of our review was to determine if disbursements from project funds were for reasonable and necessary operating expenses.

Elmira Jeffries (project number 034-57001) is a 180 bed, long-term care facility in Philadelphia, Pennsylvania. The project was completed in 1982 and financed through the issuance of Nursing Home Revenue Bonds from the Philadelphia Authority for Industrial Development. This bond issuance was secured by a Mortgage Note, FHA-insured under section 232/223(e) of the National Housing Act. The 1980 bond issuance was for \$5,140,800.

In December 1993, TUH exercised its option to purchase the project from the previous non-profit Mortgagor, Elmira Jeffries Memorial Home, Inc., which was sponsored by Mount Sinai Holy Church of America. This option provided that TUH loan the project funds for physical and financial improvement.

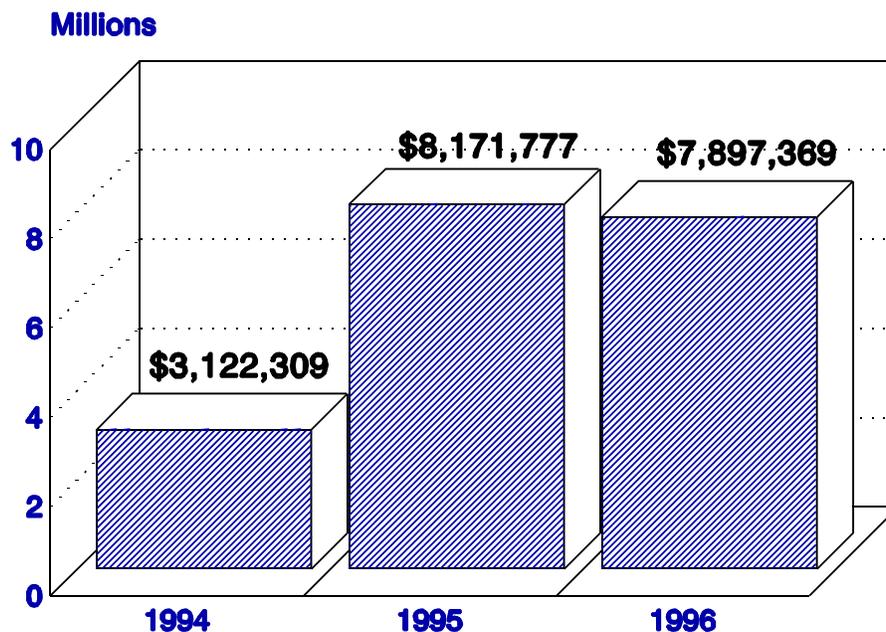
TUH and GPHSC requested a mortgage modification from HUD approximately June, 1996, in order to take advantage of the current low interest rates and to protect the nursing home financially. Since a Transfer Of Physical Assets (TPA) was never conducted and the annual financial statements for the project were not in the correct format, the Multifamily Asset Management Branch requested our office review the disbursements of the project.

Audit work covering the period July 1, 1994 through June 30, 1996 was performed during April and May 1997. We examined HUD Field Office files and project books and records. We also interviewed appropriate HUD and TUH/GPHSC staff.

SUMMARY

Our review disclosed that TUH/GPHSC have greatly improved operations at the project since 1994. TUH/GPHSC assisted in managing the project in 1994 when it realized the managing agent was not adequately operating the project. TUH/GPHSC, however, did not fully take over the management of the project until June 1996, when New Health Management Inc.'s contract expired. Net patient service revenue increased considerably in 1995 and 1996, in comparison to 1994, as illustrated below:

NET PATIENT SERVICE REVENUE



In addition, our review found a large improvement in the condition of the books and records for the project in 1995 and 1996. Prior to 1995, the records were in great disarray and difficult to audit.

The only notable questionable disbursement that resulted from our review was a series of payments totalling approximately \$640,000 to Mount Sinai Holy Church. These payments are considered unsupported by our review. TUH, however, has agreed to credit Elmira Jeffries for all payments, including interest, made from project operating funds to Mount Sinai Holy Church.

Due to the noticeable improvement in the management of the project and the cooperation of TUH and GPHSC, we recommend that the TPA and the refinancing of the bond issuance for the project be approved as quickly as possible to take advantage of the current favorable market rates.

We also noted the required annual financial statements for periods ending in 1995 and 1996 were not submitted timely or in the proper format. We suggest you instruct TUH/GPHSC to correct this matter in the future. In addition, you may wish to consider requiring TUH/GPHSC to submit monthly accounting reports for a one year period to ensure the project's financial condition is improving.

RESULTS OF REVIEW

TUH/GPHSC could not provide sufficient documentation to support various payments to the previous owner, Mt Sinai Holy Church. TUH/GPHSC stated that the payments were made to the previous owner for: (1) money due to the previous owner; (2) consultant services rendered to the project; and, (3) legal fees. However, TUH/GPHSC was unable to produce documentation to evidence these expenditures were for reasonable operating expenses or necessary repairs. As a result, TUH/GPHSC has agreed to credit the project \$671,478.18 for all payments from project funds to repay funds advanced by TUH.

Payments were made to Mt. Sinai Holy Church from TUH during the period from December 1993 through July 1996. TUH/GPHSC recorded these payments on the books of the project as advances. Since January 1994, TUH has been repaying itself the principal on the advances plus 6 per cent interest.

Since it could not provide sufficient evidence to support these expenditures, TUH/GPHSC has promised to make an equity contribution to the project for all the repayments of advances. Total amounts repaid to TUH were \$641,478.18. TUH will be reducing the liability of its other advances by this amount. As a result, TUH's outstanding advances will be reduced to \$275,989.53 as follows:

Outstanding Loans	Balance (June 10, 1997)	Equity Contributions	Net Balance
Mortgage Prepayment	\$213,504.00	(\$213,504.00)	\$0.00
Creditor Loan	\$409,836.00	(\$409,836.00)	\$0.00
Mortgage Loan	\$174,127.71	(\$18,138.18)	\$155,989.53
Health Services Group	\$120,000.00	(\$0.00)	\$120,000.00
Total Outstanding Loan	\$917,467.771	(\$641,478.18)	\$275,989.53

Also, TUH/GPHSC has promised only to repay the remaining balance of \$275,989.53 in accordance with HUD regulations and with the Department's approval.

Copies of the amounts paid to the prior owner and TUH/GPHSC's letter dated June 13, 1997 regarding the equity contributions to the project have been furnished to the Multifamily Asset Management Branch.

RECOMMENDATION

We recommend that you:

- 1A. Require the unsupported amount of \$641,478.18 be returned to project funds by ensuring that the equity contribution is applied as TUH/GPHSC promised in its memorandum dated June 13, 1997.

Within 60 days, please give us, for the recommendation made in the memorandum, a status report on: (1) the corrective action taken; (2) the proposed corrective and the date to be completed; or (3) why action is considered unnecessary.

Should your staff have any questions, please have them contact J. Phillip Griffin, Assistant District Inspector General for Audit, at 656-3401.

Attachment - Distribution

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Mr. Robert H. Lux, Treasurer, Greater Philadelphia Health
Corporation, Broad and Ontario Streets, Philadelphia, PA 19140

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3AGA:GRIFFIN:AMP:08/22/97

Correspondence Code	3AGA			
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Date				



REPORT NAME: Elmira Jeffries Nursing Home
Mortgagor Operations
Philadelphia, Pennsylvania

REPORT NO: 97-PH-212-1811
ISSUE DATE: August 21, 1997

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From:

Edward F. Momorella, DIGA, Mid-Atlantic
Wanamaker Building, Suite 1005
100 Penn Square East
Philadelphia, PA 19107-3380