

AUDIT RELATED MEMORANDUM
96-CH-212-1802
October 27, 1995

TO: John E. Breuer, Acting Director, Multifamily Housing Division,
Grand Rapids Area Office

FROM: Dale L. Chouteau, District Inspector General for Audit, Midwest

SUBJECT: Harbors Health Facility
Multifamily Mortgagor Operations
Douglas, Michigan

We completed an audit of the books and records of Harbors Health Facility. The audit was part of our program of periodic reviews of multifamily mortgagor operations. Harbors Health Facility is nursing home in Douglas, Michigan. The project has a 35 bed skilled nursing unit and a 63 bed for the aged unit. On February 6, 1985, HUD insured the project for \$2,325,000 under Section 232 of the National Housing Act.

Harbors Health Facility, a non-profit corporation, was organized in the State of Michigan on August 2, 1982 and amended on February 6, 1985. The corporation was organized to construct and operate a nursing home. Harbors Health Care, Inc. is the parent corporation. A five-member Board governs the Corporation. The Board's President is Stanley Ellens. The Operations President/Chief Executive Officer of Harbors Health Facility and the Operations President of Harbors Health Care, Inc. is Leslie C. Baird. Harbors Health Facility keeps its books and records at its administrative offices, 415 Wiley Road, and the project site, 243 Wiley Road, Douglas, Michigan.

Our audit objectives were to determine whether the use of project operating funds was reasonable and in compliance with the Regulatory Agreement and applicable HUD requirements.

We concluded that the use of project operating funds was not reasonable and did not comply with the Regulatory Agreement. Specifically:

- Harbors Health Facility improperly disbursed \$48,157 of project funds to an affiliated company, Harbors Health Care, Inc. The use of funds was not necessary for the project's operations.
- Harbors Health Facility used project funds to pay Harbors Health Care, Inc., an affiliated company, \$7,655 in unnecessary or excessive rent payments.

As a consequence of improper and excessive disbursements, the project had fewer funds to pay its normal operating expenses and has incurred late payment penalties. The disbursements occurred when the project was in a non-surplus cash position.

We provided our draft findings to the Project's Operations President/Chief Executive Officer and HUD's Grand Rapids Office during the audit. We held an exit conference on April 14, 1995. The Project's Operations President/Chief Executive Officer provided written comments to our draft findings and recommendations.

The comments did not adequately present actions to be taken or solutions to the problems identified. Therefore, using procedures developed under Operation Safe Home, we submitted the draft findings and auditee comments to the Assistant U.S. Attorney for civil matters in Grand Rapids. The Assistant U.S. Attorney negotiated a settlement with the principles involved. Under the terms of the agreement, Harbors Health Care will pay Harbors Health Facility \$86,013 through rent offsets and a cash payment for the difference when Harbors Health Care sells its building. The \$86,013 exceeds the amounts in the findings because of adjustments that were made for transactions that occurred after the audit field work was completed. Harbors Health Care also executed a \$150,000 promissory note to Harbors Health Facility to show its intention to repay the debt.

If you or your staff have any questions, please contact me at (312) 353-832.

Appendix A

Settlement Agreement

[Available in official printed copy ONLY.]

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