



U.S. DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT
OFFICE OF INSPECTOR GENERAL

December 16, 2015

MEMORANDUM NO:
2016-AT-1801

Memorandum

TO: Roger Lewis, Director, Office of Residential Care Facilities, OHP

//signed//

FROM: Nikita N. Irons, Regional Inspector General for Audit, 4AGA

SUBJECT: Saltillo Assisted Living, Saltillo, MS, Did Not Maintain Liability and Property Insurance

INTRODUCTION

We are conducting an audit survey of Saltillo Assisted Living (project) based on a referral from the U.S. Department of Housing and Urban Development's (HUD) Departmental Enforcement Center and the activities included in our 2015 annual audit plan. Our survey objective is to determine whether the owners and management agents of Saltillo Assisted Living complied with the executed regulatory agreement and HUD's requirements. Our preliminary results identified significant condition that we want to bring to your attention immediately. Our audit work is ongoing. The project owners or operator did not provide written comments to this report.

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

METHODOLOGY AND SCOPE

Our survey generally covers the period January 1, 2012, through December 31, 2014. Due to the immediate need to issue an interim memorandum to address an issue that put the project's residents and HUD at significant risk, we were unable to comply with generally accepted government auditing standards. We interviewed HUD and project personnel and reviewed HUD's and the project's files and documentation pertaining to the survey.

BACKGROUND

Saltillo Assisted Living (formerly known as Dogwood Homeplace Assisted Living) is an assisted living facility located in Saltillo, MS, and is insured by the Federal Housing Administration (FHA) under Sections 232 and 223(f) of the National Housing Act. The Section 232 program provides mortgage insurance for residential care facilities, such as nursing homes, intermediate care facilities, board and care homes, and assisted living facilities. Section 223(f) FHA mortgage insurance is used to facilitate the purchase or refinance of multifamily rental housing. The project consists of three one-story buildings, consisting of 53 units, and is licensed for 54 beds. Building three also consists of 13 studio units and is closed, according to the operator, due to a water line break that occurred in late 2014.

A member of the project ownership entity, Dogwood Homeplace Assisted Living, LLC, executed the regulatory agreement for the project. Based on information provided by HUD, Dogwood Homeplace Assisted Living, LLC, is composed of a majority owner with 80 percent ownership interest in the project and a minority owner with 20 percent ownership in the project. In August 2013, the majority owner was sentenced to 30 months in Federal prison for failure to pay Federal taxes as a result of an Internal Revenue Service criminal investigation. In January 2013, the minority owner left due to disagreements with the majority owner.

The minority owner held the operating license with the State of Mississippi from August 10, 2012, through September 17, 2015. The onsite management received a provisional license from the State of Mississippi on September 18, 2015, to operate the project as an assisted living facility. The onsite management consists of two nurses that have worked at the project since 2009 and 2011.

The project ownership has not made a mortgage payment since September 14, 2012. As a result, the project was assigned to HUD on August 27, 2013. HUD has since paid a claim totaling more than \$2.3 million, and the project is in the process of foreclosure.

RESULTS OF REVIEW

The owners and operators of the project did not follow HUD's requirements to carry liability and property insurance. We obtained insurance documentation showing that the project's liability insurance was canceled, effective July 31, 2014, and the property insurance was canceled, effective September 1, 2014, due to nonpayment of the insurance premiums. HUD requires¹ each property having a mortgage that is federally insured under the Section 232 program to be covered by property and liability insurance for the life of the mortgage loan. In addition, section 2(f) of the security agreement for the property provides that the debtor (ownership entity) must insure the property for its full replacement value, subject to a deductible of not more than the lesser of \$10,000 or 1 percent of the indebtedness. According to the onsite management, the cancellation of insurance was caused by a lack of available project funds. Because of the lack of property insurance, the project could not file an insurance claim to fix the water line damage to the units in building three. Possible injury to the residents, damage to the property, or lawsuits put the project's residents and HUD at unnecessary risk.

¹ Handbook 4232.1, paragraph 14.1(A)

RECOMMENDATION

We recommend that the Director of the Office of Residential Care Facilities

- 1A. Enforce HUD's requirements for the owners and operator to immediately obtain and maintain liability and property insurance on the project.