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STATEMENT OF
MORTON E. HENIG, SENIOR ASSOCIATE DIRECTOR
HUMAN RESOURCES DIVISION
BEFORE THE
SELECT COMMITTEE ON AGING
UNITED STATES HOUSE OF REPRESENTATIVES
ON THE
[FINANCIAL AND MANAGEMENT REVIEW
OF
SELECTED BOARDING HOMES]

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Mr. Chairman and Members of the Committee, we are pleased to appear today to report the results of work you requested concerning selected boarding homes. In your request, you stated that questions had been raised during earlier Committee hearings which indicated abuse of boarding home residents and a lack of accountability by boarding home operators for the welfare of the residents.

Although there is no uniform definition of a boarding home, a home is usually a facility that provides room and board to three or more unrelated persons not under institutional care. The official descriptions of boarding homes may vary among States; they are referred to as residential care facilities, domiciliary care facilities, personal care boarding homes, and sheltered care homes.

Although the specific responsibilities of a boarding home operator will vary depending on the State or local licensing requirements, they generally are required to provide room and board, some type of personal care assistance as needed, help with medication, and overall surveillance, supervision, or direction of daily living activities. Some of the State licensing requirements are fairly new and we noted that changes were being made during our review. For example, Pennsylvania's final regulations for Personal Care Boarding Homes were published in the Pennsylvania Register on April 26, 1980, and became effective June 19, 1980.

You asked us to examine records available at the boarding homes and other Federal, State, and local agencies as deemed appropriate, in order to:

- Determine the sources and amounts of Federal and all other funds received by the residents and operators of the boarding homes for a 2-year period, and determine to what extent the funds were used to benefit the residents,
- Compare the information obtained with the boarding homes' tax returns and with any other reports which may be required by Federal or State law,
- Determine the amount of energy assistance funds received by the residents and the funds received by the facility.
- Determine the amount of food stamps received by the residents and whether the stamps were used by the residents or turned over to the boarding home operators, and
- Determine the amount of medical assistance provided to the residents and identify instances of significant uses of medical services, drugs, and so forth, where such information was reasonably accessible.

In order for us to comply with your request, the Committee selected and subpoenaed certain financial and operating records for the years 1978 and 1979 for 10 boarding homes located in the District of Columbia and five States--Illinois, Maryland, Missouri, New Jersey, and Pennsylvania.

The homes are located in a mixture of large and small cities and rural areas. They are in inner-city commercial areas, deteriorating neighborhoods, and neighborhoods undergoing revitalization. The homes are multistory frame and brick row homes, large old single family homes, and former apartment buildings or

hotels. Only one had facilities which were built especially for boarding home purposes.

Five of the homes were owned by corporations, two by partnerships, and three by single proprietorships. Eight of the homes were licensed by State or local agencies, two were never licensed, and one of these is no longer a boarding home.

The selected boarding homes had a licensed capacity of as few as 8 residents to as many as 168 residents. Over the 2-year period of our review, the actual occupancy rate generally ranged from about 80 to close to 100 percent. Of particular significance with respect to the eight licensed homes is that five of them have been continually cited, particularly at the time of license renewal, for sanitation, fire safety, and resident care violations and deficiencies. One has been cited for numerous violations since 1974 but State efforts to revoke its license have been appealed through the State courts and the home remains open.

A total of 1230 persons resided in the 10 boarding homes during the 2 years covered by our review although Social Security data was available for only 1121 of these residents. The data showed that 78 percent of them were receiving benefits for the disabled under either the Supplemental Security Income or the Title II Disability Insurance programs. The remaining 22 percent were receiving benefits from Social Security because of their age. Available records showed that nearly 90 percent of those receiving disability benefits were classified as disabled for mental reasons.

Although you subpoenaed the same types of records for each of the 10 boarding homes, the actual records received varied considerably. In most cases, the financial and operating information was not complete, and much of the supporting documentation was either not maintained or was not furnished by the operators. Consequently, the testimony we are presenting today is based on the information provided by the operators and our analysis of that data.

I would now like to address each of the questions you raised in your request and provide data and our analysis of problems identified during our review. As you know, we also prepared individual summaries which describe in detail our findings at each home examined. These summaries have been provided to the Committee.

ANALYSIS OF RESIDENTS' AND
OPERATORS' INCOME

Concerning income of the residents and home operators, we were unable to determine the total income received by each because not all the necessary financial records were available to us. They were either not maintained or were not furnished. However, from the records that were available, we determined that the residents in the 10 homes received about \$4.7 million in income during the 2 years covered by our study. We also found that 96 percent of the income came from public funds.

Federal benefits amounted to more than \$3 million or about two-thirds of the \$4.7 million in payments made to the boarding home residents. Almost all of the Federal benefits were paid

through Social Security's Supplemental Security Income and Title II disability programs. State benefits amounted to about \$1.5 million or the remaining one-third of the total residents' income and these benefits consisted primarily of SSI supplementation benefits and general welfare.

With regard to your question on whether income is used to benefit residents, we were able to determine from the records available that about 91 percent of the resident income went to the operators to pay for room and board. The residents were able to retain about 9 percent of their total income for personal use.

The personal spending allowance policies and practices varied widely among the 10 homes. Generally, the amount of spending allowance provided to the individual residents was predicated on the amounts of income received. Generally, no spending money allowance was provided to residents if their income was only sufficient to meet their room and board charges. There were exceptions to this policy only in those States where a minimum personal spending allowance was mandated. For the boarding homes we reviewed, the amount of spending money provided to the residents ranged from nothing to a maximum of \$50 per month, but when provided was generally \$25 to \$30 a month.

Only five homes maintained personal spending allowance records, and we did not consider the records of one of those adequate for accounting purposes. However, given the mental

disability and questionable competency of most of the residents, we have reservations as to whether any recordkeeping system, by itself, could ensure that residents actually received a stipulated amount of spending money. This opinion is based on interviews with randomly selected residents who were generally unaware of the amount of income they received. We do not believe that the residents are sufficiently knowledgeable or aware that they are actually receiving the amounts of personal spending money for which they acknowledge receipt.

We identified a total of 349 residents for whom Social Security had designated someone to act as a representative payee, that is, a person designated to receive and disburse Social Security payments on behalf of beneficiaries. The boarding home operators were the designated representative payees for 187 or more than half of the beneficiaries. The designation of operators as representative payees for residents could inhibit the freedom of movement of residents by making them financially dependent upon the boarding home operators. We are currently conducting a more thorough review of Social Security's representative payee programs at the request of your Committee.

COMPARISON OF INCOME REPORTED
ON BOARDING HOME OPERATOR
TAX RETURNS WITH ROOM AND
BOARD CHARGES TO RESIDENTS

As you requested, we compared the income reported on 1978 and 1979 tax returns with the room and board charges paid by the residents. For the 2-year period seven homes made tax returns

available to us. Only two homes provided us returns for both years. We computed income based on resident account cards, resident registers, rates charged to individual residents, and other available records. We believe the amounts we computed are conservative--that is on the low side because we did not always have resident income information or boarding home records for all the persons known to have resided in the homes.

Most of these homes--three in 1978 and four in 1979 reported smaller incomes for tax purposes than we computed. The potential underreported income from operators by these homes ranged from \$170 to \$124,000.

We also looked at expenses claimed by the homes and specifically examined food costs. The following examples illustrate differences between food costs claimed as business expenses by the operators and the costs we calculated using their records.

--One operator claimed food costs of \$95,849 in 1978 and \$117,417 in 1979 that were not supported by receipts or invoices. Cancelled checks in the amount of \$27,315 for 1978 and \$33,525 for 1979 were furnished as evidence of food purchases. The operator claimed the unsupported balances, \$68,534 in 1978 and \$83,892 in 1979, were cash purchases.

The operator's accountant told us that no record was maintained of cash purchases and the amounts claimed on the tax returns were estimated and included the application of an inflation factor. We noted that many checks of low dollar value were written for small food purchases and therefor question that large food purchases would be paid for in cash.

--One operator of a very small home claimed food costs of \$5,344 or \$4.14 per resident per day in the 1979 tax year. This total included \$1,033 in purchases which the supporting receipts show were made (1) prior to the start of the boarding home's operations in 1979; or (2) for non-food items such as sporting goods, cigarettes, paint, and lumber.

It would appear that the food costs claimed by this home may have included personal food costs of the operators which are not deductible on individual returns.

In our opinion, it is probable that the food costs claimed on the tax returns by the operators were overstated. Again, our analysis was limited by the adequacy and extent of the records furnished by the boarding home operators in response to the subpoenas.

SPECIAL ENERGY ASSISTANCE CHECKS

During the early part of 1980, Social Security issued special energy assistance checks to beneficiaries of the Supplemental Security Income program. The amount of the checks to beneficiaries included in our review varied from \$97 to \$185 depending on the State.

Our review disclosed that in six homes, the boarding home operators appropriated the total amounts of the checks received by residents of the homes, presumably, to compensate for increased energy costs. With respect to one of these homes, the State Welfare agency suggested to both the operator and the SSI recipients that because the recipients did not have to pay for energy costs directly, they should turn the checks over to the operators. At a seventh home,

the State welfare agency suggested that only a portion of the amount received by the recipient be turned over to the operator to compensate the home for increased energy costs.

We reviewed the energy costs incurred by the boarding homes, when such information was available, and found that the amount of increased costs was substantially below the total amount of the energy checks received by the operators. As a result, individual operators realized windfall profits ranging from \$471 to \$17,400. We could not determine if the operators reported the windfall profits as income on their tax returns because they would have been filed in a period subsequent to our review.

FOOD STAMPS

You asked us to determine if food stamps were received by the boarding home residents and, if so, whether the stamps were turned over to the boarding home operators. We discussed the food stamp policy with cognizant officials in the five States and the District of Columbia who told us that food stamps are not issued to residents of boarding homes. We subsequently confirmed this information through interviews with residents of the boarding homes and examination of State agency payment records.

MEDICAL ASSISTANCE (MEDICAID) PAYMENTS MADE ON BEHALF OF BOARDING HOME RESIDENTS

We attempted to determine the amount of medical assistance (Medicaid) payments made on behalf of the residents in all 10

boarding homes. However, automated Medicaid management information systems were available in only four of the States where our review was made.

For the 2 years we reviewed, total Medicaid payments on behalf of the residents of the four homes in these four States amounted to about \$827,000. The payments made on behalf of residents of an individual home ranged from \$36,834 (1,422 claims) to \$389,743 (22,900 claims).

We identified the major providers of health services for residents of the four boarding homes and requested State agency officials and/or fiscal intermediaries to provide us with any information they might have regarding the involvement of these major providers in potential or actual Medicaid fraud or abuse. They told us that a number of health services providers involved in the case of two of the four homes either have been, or were being, investigated by State agencies for Medicaid fraud and abuse. In the case of one home, three major providers have been cited for kickbacks, overcharges, and duplicate payments. In the case of the other home, two providers are under investigation for providing unnecessary medical services.

Specific information related to these charges is included in the case studies previously furnished to your Committee.

You recently expressed concern as to whether the States are continuing to discharge mental patients, the aged, the retarded and those with developmental diseases out of State

institutions into boarding homes in order to shift the cost of care for these people to the Federal Government through the Federal Supplementary Security Income Program. As you know, several years ago we issued a report entitled, "Returning the Mentally Disabled to the Community: Government Needs to do More," which concluded, among other things, that many mentally disabled persons have been released from institutions before sufficient community facilities and services were available and without adequate planning and followup. We have just started a follow-on review in this area to determine what progress has been made and what problems still need to be addressed.

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Mr. Chairman, that concludes my statement. My associates and I would be happy to respond to any questions you or other Members of the Committee may have.