

HOOSIER CARE III, INC.

Audit Report Medicaid Cost Report and Nursing Wage Survey

June 30, 2008

Issuance Date: August 17, 2011

HOOSIER CARE III, INC.

Contents

Independent Auditor's Report	1-2
Schedule of Adjustments to the Statement of Reimbursement Cost for Skilled and Intermediate Care Nursing Facilities - Titles XIX and Nursing Wage Survey	3-4
Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on a Financial Audit performed in accordance with <i>Government Auditing Standards</i>	5-6
Schedule of Findings and Responses	7



Tel: 302-656-5500
Fax: 302-656-8024
www.bdo.com

270 Presidential Drive
Wilmington, DE 19807

Independent Auditor's Report

State of Delaware
Office of Auditor of Accounts
Department of Health & Social Services
Division of Social Services Medicaid
Dover, Delaware

We have audited the Statement of Reimbursement Cost for Skilled and Intermediate Care Nursing Facilities - Title XIX, pages 2 through 6 (the Cost Report) and Nursing Wage Survey (the Survey) of Hoosier Care III, Inc. (the Facility) for the year ended June 30, 2008. The Cost Report and Survey, which are not affixed hereto, are the responsibility of the Facility's management. Our responsibility is to express opinions on the Cost Report and Survey based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Cost Report and Survey are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Cost Report and Survey. An audit also includes assessing the accounting principles and Medicaid principles of cost reimbursement used and significant estimates made by management, as well as evaluation of the overall presentation of the Cost Report and Survey. We believe that our audit provides a reasonable basis for our opinion.

The Cost Report and Survey were prepared in conformity with the State of Delaware Medicaid principles of cost reimbursement. Certain adjustments were required to be made to the Survey based on the results of our audit. The detail of the adjustments and their effects can be found on the accompanying Schedule of Adjustments on pages 3 through 4.

In our opinion, except for the accompanying Schedule of Adjustments, the Cost Report and Survey of Hoosier Care III, Inc. referred to above presents fairly, in all material respects, the reimbursement costs of the Facility for the year ended June 30, 2008 in conformity with accounting principles generally accepted in the United States of America and the State of Delaware Medicaid principles of cost reimbursement.

In accordance with *Government Auditing Standards*, we also issued our report dated February 14, 2011, on our consideration of the Facility's internal control over reporting for the Cost Report and Survey and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting and compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

BDO USA, LLP

February 14, 2011

Hoosier Care III, Inc.

Schedule of Adjustments to the Statement of Reimbursement Cost for Skilled and Intermediate Care Nursing Facilities - Title XIX and the Nursing Wage Survey

Year ended June 30, 2008

<u>Description</u>	<u>Page</u>	<u>Line</u>	<u>As Filed Amounts</u>	<u>Audit Adjustments</u>		<u>Adjusted Amounts</u>	<u>Adjusted Cost Per Day</u>	<u>Note Ref.</u>
				<u>No.</u>	<u>Amount</u>			
<u>PART I - COST REPORT TRIAL BALANCE AND ADJUSTMENTS</u>								
<i>Primary Patient Care Costs - unadjusted (lines 1-5)</i>	2	5	\$ 3,637,456	-	-	\$ 3,637,456	105.18	
<i>Secondary Patient Care Costs (lines 6-14)</i>								
Social Services	2	7	129,650	1	12,248	141,898		S-1
Employee Benefits	2	8	45,182	1	(12,248)	32,934		S-1
Unadjusted lines	2		<u>487,608</u>	-	-	<u>487,608</u>		
Subtotal - Secondary Patient Care Costs	2	14	662,440	-	-	662,440	19.15	
<i>Support Service Costs - unadjusted (lines 15-22)</i>	2	22	1,002,370	-	-	1,002,370	28.98	
<i>Administrative & Routine Costs (lines 23-32)</i>								
Home Office - Administration	3	30	-	1	141,458	141,458		RP-1
Other Administrative Costs	3	31	606,274	1 2	(141,458) 31,805	496,621		RP-1 O-1
Unadjusted lines	3	24,25,26	<u>632,104</u>	-	-	<u>632,104</u>		
Subtotal - Administrative & Routine	3	32	1,238,378	31,805	-	1,270,183	36.73	
<i>Capital Costs (lines 33-39)</i>								
Lease Costs	3	33	73,833	1	(2,170)	71,663		O-1
Depreciation	3	36	231,784	1	43,281	275,065		RP-1
Other	3	38	165,820	1	15,645	181,465		O-2
Unadjusted lines	3	34-35, 37	<u>530,246</u>	-	-	<u>530,246</u>		
Subtotal - Capital	3	39	<u>1,001,683</u>	56,756	-	<u>1,058,439</u>	<u>30.60</u>	
SUBTOTAL	3	40	7,542,327	-	88,561	7,630,888	220.65	
<i>Ancillary Costs - unadjusted (lines 41-49)</i>	3	49	998,583	-	-	998,583	28.87	
<i>Other Costs - unadjusted (lines 50-52)</i>	3	52	<u>4,476</u>	-	-	<u>4,476</u>	<u>0.13</u>	
TOTAL COSTS	3	53	<u>\$ 8,545,386</u>	<u>\$ 88,561</u>	<u>\$ 8,633,947</u>	<u>\$ 249.65</u>		

Hoosier Care III, Inc.

Schedule of Adjustments to the Statement of Reimbursement Cost for Skilled and Intermediate Care Nursing Facilities - Title XIX and the Nursing Wage Survey

Year ended June 30, 2008

<u>Description</u>	<u>Page</u>	<u>Line</u>	<u>As Filed Amounts</u>	<u>Audit Adjustments</u>		<u>Adjusted Amounts</u>	<u>Adjusted Cost Per Day</u>	<u>Note Ref.</u>
				<u>No.</u>	<u>Amount</u>			
<u>PART II - COST REPORT PATIENT DAYS</u>								
Total beds	6	1, 3	101		-	101		
Total bed days available	6	4	36,966		-	36,966		
Medicaid Patient Days	6	5A	20,054	1	(161)	19,893		PD-1
90% minimum census threshold	6		33,269		-	33,269		
Total census days	6	5E	34,583		1	34,584		PD-1

PART III - NURSING WAGE SURVEY

II. Staff Nurse Information

Number of Administrative RN's Paid During Pay Period	11	A	7		(1)	6		NWS-1
Total Payroll of Administrative RN's	11	A	13,267		3,682	16,949		NWS-1
Total Hours Paid to Administrative RN's for Pay Period	11	A	392		98	490		NWS-1
Number of RN's Paid During Pay Period	11	B	11		(2)	9		NWS-1
Total Payroll of RN's	11	B	18,866		(2,120)	16,746		NWS-1
Total Hours Paid to RN's for Pay Period	11	B	556		(59)	497		NWS-1
Number of CNA's Paid During Pay Period	11	B	54		(2)	52		NWS-1
Total Payroll of CNA's	11	B	43,901		32	43,933		NWS-1
Total Hours Paid to CNA's for Pay Period	11	B	3,300		11	3,311		NWS-1

PART IV - DETAILED EXPLANATION OF ADJUSTMENTS

Adjustments affecting salaries (S):

S-1 To reclassify misposting of non-productive salary

Adjustments affecting other costs (O):

O-1 To remove other cost invoices that related to prior year but expensed during the current

O-2 To correct allocation of unallowable costs which was miscalculated

Adjustments affecting related party costs (RP):

RP-1 To reclass Home Office Board of Directors Expense and Trustees Fees to Home Office - Admin

Adjustments affecting capital costs (CC):

CC-1 To adjust depreciation based on estimated useful lives per AHA guidelines

Adjustments affecting patient days report (PD):

PD-1 To adjust Medicaid Patient Days and Total Inpatient Days to actual per monthly census totals.

Adjustments affecting Nursing Wage Survey (NWS):

NWS-1 To adjust Nursing Wage Survey to amounts supported by facility records.



Tel: 302-656-5500
Fax: 302-656-8024
www.bdo.com

270 Presidential Drive
Wilmington, DE 19807

Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on a Financial Audit performed in accordance with *Government Auditing Standards*

State of Delaware
Office of Auditor of Accounts
Department of Health & Social Services
Division of Social Services Medicaid
Dover, Delaware

We have audited the Statement of Reimbursement Costs for Skilled and Intermediate Care Nursing Facilities - Title XIX, pages 2 through 6 (the Cost Report) and the Nursing Wage Survey (the Survey) for Hoosier Care III, Inc. (the Facility) for the year ended June 30, 2008, and have issued our report thereon dated December 3, 2010, which was qualified due to the required adjustments reported in the Schedule of Adjustments accompanying it. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Internal Control Over Reporting

In planning and performing our audit, we considered the Facility's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the Cost Report and Survey but not for the purposes of expressing an opinion on the effectiveness of the Facility's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Facility's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Cost Report and/or Survey will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies, or material weaknesses, and therefore, there can be no assurances that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

BDO is the brand name for the BDO network and for each of the BDO Member Firms.

However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses, that we consider to be significant deficiencies in internal control (Condition 08-01). A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Facility's Cost Report and Survey are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of reported amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Facility in a separate letter dated February 14, 2011.

This report is intended solely for the information and use of the Office of Auditor of Accounts of the State of Delaware, the Department of Health and Social Services of the State of Delaware, the Board of Directors and management of Hoosier Care III, Inc. t/a Churchman's Village, Office of the Governor, Office of the Controller General, Office of the Attorney General, Office of Management and Budget, Office of the State Treasurer, and the Department of Finance. However, under 29 Del. C., Section 10002, this report is public record and its distribution is not limited.

BDO USA, LLP

February 14, 2011

HOOSIER CARE III, Inc.
Schedule of Findings and Responses

June 30, 2008

CURRENT YEAR CONDITIONS

- Condition:** During employee payroll testing, we noted that employee personnel file pay rate documentation for two employees did not agree to amounts reported on the related payroll register. Both employees rate of pay on the payroll register was less than the personnel file, one by \$.75 and the other by \$.49.
- Criteria:** Pay rate documentation maintained in employee personnel files should agree to the pay rate found on the payroll register. Payroll is one of the largest costs for facilities, and the proper recording and calculation of payroll, shift differentials, and overtime is crucial to an accurate cost report.
- Cause:** Pay rate documentation in the employee personnel file is not consistent with the payroll company records. Management was not comparing payroll rates on file with the amounts being paid.
- Effect:** The possibility for errors increase with lack of appropriate backup. An employee may not be paid the correct amount. This may cause payroll to be understated or overstated, which could influence the reimbursement rate if it becomes a pervasive problem.
- Suggestion:** The Human Resources department should have a consistent filing method in order to accurately support all pay rates and shift differential. When an employee receives a raise, the HR department should ensure that it is reflected in the employee's paycheck.

**Management
response:**

NONE



Tel: 302-656-5500
Fax: 302-656-8024
www.bdo.com

270 Presidential Drive
Wilmington, DE 19807

Mr. Rick Fink
Genesis Health Ventures, Inc.
515 Fairmount Ave.
Towson, MD 21286

RE: Audit of the Statement of Reimbursement Costs for Skilled and Intermediate Care Nursing Facilities - Title XIX and the Nursing Wage Survey of Hoosier Care III, Inc. t/a Churchman's Village for June 30, 2008.

Dear Mr. Fink:

We have audited the Statement of Reimbursement Costs for Skilled and Intermediate Care Nursing Facilities - Title XIX, pages 2 through 6 (the Cost Report) and the Nursing Wage Survey (the Survey), for Hoosier Care III, Inc. t/a Churchman's Village (the Facility) for the year ended June 30, 2008, and issued our report thereon dated February 14, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

There were no deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, we found one significant deficiency which is included in our Report on Internal Control over Financial Reporting and on Compliance and other matters based on a financial audit performed in accordance with *Government Auditing Standards* dated February 14, 2011.

Condition: During employee payroll testing, we noted that employee personnel file pay rate documentation for two employees did not agree to amounts reported on the related payroll register. Both employees rate of pay on the payroll register was less than the personnel file, one by \$.75 and the other by \$.49.

Criteria: Pay rate documentation maintained in employee personnel files should agree to the pay rate found on the payroll register. Payroll is one of the largest costs for facilities, and the proper recording and calculation of payroll, shift differentials, and overtime is crucial to an accurate cost report.

Cause: Pay rate documentation in the employee personnel file is not consistent with the payroll company records. Management was not comparing payroll rates on file with the amounts being paid.

Effect: The possibility for errors increase with lack of appropriate backup. An employee may not be paid the correct amount. This may cause payroll to be understated or overstated, which could influence the reimbursement rate if it becomes a pervasive problem.

Suggestion: The Human Resources department should have a consistent filing method in order to accurately support all pay rates and shift differential. When an employee receives a raise, the HR department should ensure that it is reflected in the employee's paycheck.

Management response: None provided.

In addition, during our audit, we noted certain matters involving instances of immaterial noncompliance and nonreportable conditions or other matters involving internal control over reporting that came to our attention. The following summarizes our comments and suggestions regarding those matters. We previously reported on the Facility's internal control in our report dated February 14, 2011. This letter does not affect our report dated February 14, 2011 on the Facility's Cost Report and Survey.

CONDITION 08-01

Condition: Twenty-four out of thirty-three assets selected for testing which were acquired during the Fiscal Year ended June 30, 2008 had useful lives that differed from the AHA guidelines. The difference in lives ranged from 3 years to 12 years.

Criteria: The useful lives of assets for Medicare and Medicaid purposes are set as a guideline for facility's capitalization policy.

Cause: Management has not followed AHA guidelines consistently.

Effect: There is the potential for overstating or understating the costs for the year depending on the various lives chosen for the assets. During the current reporting period, depreciation expense was estimated to be overstated by a total of \$43,281. This could result in an impact on Medicaid reimbursement.

Suggestion: Management should assign useful lives consistent with AHA guidelines.

* * * * *

CONDITION 08-02

Condition: Of the assets selected for testing, twenty-four out of thirty-three had costs which were less than \$5,000, the allowable capitalization minimum for Medicare and Medicaid purposes.

Criteria: The allowable capitalization minimum for Medicare and Medicaid purposes is set as a guideline for facility's capitalization policy.

Cause: Management has not followed the capitalization guidelines consistently.

Effect: By capitalizing costs under \$5,000, the facility is understating costs for which they could be reimbursed in the current year's cost report. All assets in the plant ledger must be depreciated over their estimated useful lives, requiring several years before costs can be recovered through Medicare and Medicaid reimbursement. By spreading the depreciation expense over several years, the following years' costs will be overstated. There may be an impact on Medicaid reimbursement. Further, the added volume of assets increases the recordkeeping burden of maintaining the plant ledger. The amount of assets tested which were capitalized but were under the allowable minimum was \$29,377. However, as it is not a mandatory minimum, no adjustment was proposed.

Suggestion: Management should consider increasing its capitalization floor to \$5,000 to allow increased reimbursement in the year of smaller asset purchases and reduce the future burden of maintaining its plant ledger.

* * * * *

CONDITION 08-03

Condition: The Facility incorrectly allocated \$141,458 of Trustees Fees & Board of Directors Fees to the Other Administrative line item instead of to the Home Office Administrative Fees line that the cost applied.

Criteria: All expenses in connection to Home Office expenses should be allocated to the correct line item.

Cause: Related party expenses were allocated to the Other Administrative line item.

Effect: Costs were not being reported on the correct lines. Home Office Administration costs were understated by \$141,458, and Other Administrative Costs were overstated by \$141,458.

Suggestion: The misallocation occurred between two lines within the same cost center and therefore there was no overall effect to the Cost Report. However, the facility should report all Home Office expenses to the applicable line items on the Cost Report as misallocations can happen between cost centers and result in an impact on reimbursement rates.

* * * * *

CONDITION 08-04

Condition: For one employee selected for testing, 63.10 hours were listed as Regular pay. However, 31.56 hours were Regular pay and 31.54 hours were Overtime pay.

Criteria: Overtime pay and regular pay should be submitted with the appropriate payroll code.

Cause: All payroll was recorded as Regular pay, instead of being broken out into Regular and Overtime. The timecards are not being properly reviewed at the end of a pay cycle.

Effect: There was no overall effect on the payroll costs, as the gross payroll was calculated. However, without proper coding, the potential for error increases, which could result in over or understatement of costs on the Cost Report.

Suggestion: Overtime pay and regular pay should be submitted with the appropriate payroll code. Management should review timecards and correctly allocate overtime salary before being coded in the accounting software.

* * * * *

CONDITION 08-05

Condition: Information on supporting documentation was incorrectly reported on the Nursing Wage Survey.

Criteria: The total number of employees, gross payroll, and hours worked are to be reported by classification level on the Nursing Wage Survey.

Cause: Errors were made when compiling data to be used on the Nursing Wage Survey.

Effect: The Nursing Wage Survey had several errors. Administrative nurses were overstated by 1 employee, Administrative gross payroll was understated by \$3,682, and Administrative hours were understated by 98. Other staff RN's were overstated by 2 employees, gross payroll for RN's was overstated by \$2,120, and total RN hours were overstated by 59 hours. Other staff CNA's were overstated by 2 employees, gross payroll for CNA's was understated by \$32, and total CNA hours were understated by 11 hours.

Suggestion: The Facility should carefully review the Nursing Wage Survey supporting documentation before submission.

* * * * *

CONDITION 08-06

Condition: The facility included a high percentage of time for the Director of Nursing (10%) and the Assistant Director of Nursing (15%) as patient centered hours on the Nursing Wage Survey.

Criteria: The State of Delaware Senate bill Number 135 specifically states that time incurred by the Director of Nursing and the Assistant Director of Nursing should only be patient centered under exigent circumstances, which are required to be approved by the Division prior to the occurrence. Typically the Director of Nursing and the Assistant Director of Nursing are not expected to have more than 2% patient centered time.

Cause: Supporting documentation was not received from Management, nor was an explanation given for the higher rate utilized.

Effect: Patient centered time as reported on the Nursing Wage Survey may be inaccurate. However, as no information was obtained as to the correct rate, the amount of the adjustment is indeterminable.

Suggestion: Management should review the basis for determining the percentage of time the Director of Nursing and the Assistant Director of Nursing perform patient centered functions. The most appropriate method for determining this percentage of time would be to maintain the records of when the exigent circumstances occur, resulting in these nurses performing patient centered hours.

* * * * *

CONDITION 08-07

Condition: The Facility incorrectly reported Medicaid Patient Days and Total Census Days on the Cost Report.

Criteria: The number of Medicaid Patient Days and Total Census Days on the Cost Report should be supported by monthly census statements.

Cause: Medicaid Patient Days and Total Census Days per the monthly census reports did not equal the total on the Cost Report. This was most likely due to employee error when preparing the Cost Report.

Effect: Medicaid Patient Days and Total Census Days per Cost Report were incorrect. Medicaid Patient Days were overstated by 161 days, and Total Census Days were understated by 1 day. As Total Census Days are utilized to calculate the rate per day, this caused the cost per day to be overstated for the different cost centers, as the denominator was 1 day short.

Suggestion: The Facility should report Medicaid patient days that are supported by internal records.

* * * * *

This report is intended solely for the information and use of the Office of Auditor of Accounts of the State of Delaware, the Department of Health and Social Services of the State of Delaware, the Board of Directors and management of Hoosier Care III, Inc. t/a Churchman's Village, Office of the Governor, Office of the Controller General, Office of the Attorney General, Office of Management and Budget, Office of the State Treasurer, and the Department of Finance. However, under 29 Del. C., Section 10002, this report is public record and its distribution is not limited.

We would be pleased to discuss these comments and suggestions in further detail at your convenience.

BDO USA, LLP

February 14, 2011