

FOULK MANOR NORTH

Audit Report Medicaid Cost Report and Nursing Wage Survey

June 30, 2008

Issuance Date: August 17, 2011

FOULK MANOR NORTH

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Independent Auditor's Report

Office of Auditor of Accounts
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 Foulk Manor North (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 the Foulk Manor North 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 or on 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

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Foulk Manor North

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

Description	Page	Line	As Filed Amounts	Audit Adjustments		Adjusted Amounts	Adjusted Cost Per Day	Note Ref.
				No.	Amount			
<u>PART I - COST REPORT TRIAL BALANCE AND ADJUSTMENTS</u>								
<i>Primary Patient Care Costs (lines 1-5)</i>								
Nursing Staff Benefits	2	2	186,656	1	30,653	217,309		B-1
Other Primary Care Costs	2	4	49	1	(49)	-		O-2
Unadjusted lines	2	1b,3	<u>1,416,909</u>		<u>-</u>	<u>1,416,909</u>		
Subtotal - Primary Patient Care	2	5	1,603,614		30,604	1,634,218	\$ 102.39	
<i>Secondary Patient Care Costs (lines 6-14)</i>								
Employee Benefits	2	8	5,335	1	876	6,211		B-1
Unadjusted lines	2	7, 9,10,11	<u>251,303</u>		<u>-</u>	<u>251,303</u>		
Subtotal - Secondary Patient Care Costs	2	14	256,638		876	257,514	16.13	
<i>Support Service Costs (lines 15-22)</i>								
Operation of Maintenance of Facility	2	16	180,159	1	(11,730)	168,429		SSC-1
Support Service Employee Benefits	2	20	59,106	1	9,707	68,813		B-1
Unadjusted lines	2	15,17,18,19	<u>468,510</u>		<u>-</u>	<u>468,510</u>		
Subtotal - Support Service Costs	2	22	707,775		(2,023)	705,752	44.22	
<i>Administrative & Routine Costs (lines 23-32)</i>								
Employee Benefits	2	26	43,964	1	7,220	51,184		B-1
Other Administrative & Routine Costs	3	31	143,648	1 2	6,512 49	150,209		B-2 O-2
Unadjusted lines	3	23,24,25,27,28, 30	<u>503,140</u>		<u>-</u>	<u>503,140</u>		
Subtotal - Administrative & Routine	3	32	690,752		13,781	704,533	44.14	

Fouk Manor North

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>			
<i>Capital Costs (lines 33-39)</i>								
Depreciation	3	36	113,754	1	506	114,260		CC-1
Unadjusted lines	3	35,37	<u>42,798</u>		-	<u>42,798</u>		
Subtotal - Capital	3	39	<u>156,552</u>		<u>506</u>	<u>157,058</u>	<u>9.84</u>	
SUBTOTAL	3	40	3,415,331		43,744	3,459,075	216.72	
<i>Ancillary Costs - unadjusted (lines 41-49)</i>	3	49	8,212		-	8,212	0.51	
<i>Other Costs - Gift & Beauty Shop</i>	3	51	<u>3,952,836</u>	<u>1</u>	<u>(3,952,836)</u>	-	-	O-1
TOTAL COSTS	3	53	<u>\$ 7,376,379</u>		<u>\$ (3,909,092)</u>	<u>\$ 3,467,287</u>	<u>\$ 217.23</u>	

PART II - COST REPORT PATIENT DAYS

Total beds	6	1, 3	46		-	46		
Total bed days available	6	4	16,836		-	16,836		
Medicaid Patient Days	6	5A	1,509		-	1,509		
90% minimum census threshold	6		15,152		-	15,152		
Total census days	6	5E	15,873	1	88	15,961		PD-1

PART III - NURSING WAGE SURVEY - unadjusted

PART IV - DETAILED EXPLANATION OF ADJUSTMENTS

Adjustments affecting benefits (B):

- B-1 To correct allocation of employee benefits.
- B-2 To correct misclassification of non-employee benefit line items.

Adjustments affecting other costs (O):

- O-1 To remove unallowable costs associated with Assisted Living.
- O-2 To correct misclassification of recruiting expense out of Primary Patient Care Costs and into Administrative Costs.

Adjustments affecting related party costs (SSC):

- SSC-1 To capitalize expenses that should be depreciated over their estimated useful lives

Adjustments affecting capital costs (CC):

- CC-1 To adjust depreciation per AHA guidelines, and to include depreciation effects of the capitalized expenses in SSC-1.

Adjustments affecting patient days report (PD):

- PD-1 To adjust Total Census Days to actual per monthly census totals.



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 Foulk Manor North (the Facility) for the year ended June 30, 2008, and have issued our report thereon dated February 14, 2011, 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses, which we consider to be material weaknesses in 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. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses (Condition 08-01).

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 Foulk Manor North, 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

FOULK MANOR NORTH
Schedule of Findings and Responses

June 30, 2008

Current Year Condition:

CONDITION 08-01

Condition: The facility was unable to document \$3,463,138 in Debt Payable to Related Parties.

Criteria: Medicaid Cost Report Instructions state that a schedule of Debt Payable to Related Parties should accompany the Cost Report. The schedule should include related party names, amount of payables owed to each party, interest rates, and due dates.

Cause: The Company does not keep a schedule with this information.

Effect: Interest expense is not being charged and it is not clear to whom the debt is owed.

Suggestion: Management should keep a detailed schedule that lists related party names, amount of payables owed to each party, interest rates, and due dates. Further, management should document each debt arrangements with loan agreements that highlight the terms listed above.

Management
response:

NONE



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Wilmington, DE 19807

Ms. Laura Johnson
Foulk Manor North
1212 Foulk Road
Wilmington, DE 19803

RE: Audit of the Statement of Reimbursement Costs for Skilled and Intermediate Care Nursing Facilities - Title XIX and the Nursing Wage Survey for June 30, 2008

Dear Ms. Johnson:

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 Foulk Manor North (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.

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. We consider the deficiency described below to be material weaknesses, and included this 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: The facility was unable to document \$3,463,138 in Debt Payable to Related Parties.
- Criteria: Medicaid Cost Report Instructions state that a schedule of Debt Payable to Related Parties should accompany the Cost Report. The schedule should include related party names, amount of payables owed to each party, interest rates, and due dates.
- Cause: The Company does not keep a schedule with this information.
- Effect: Interest expense is not being charged and it is not clear to whom the debt is owed.
- Suggestion: Management should keep a detailed schedule that lists related party names, amount of payables owed to each party, interest rates, and due dates. Further, management should document each debt arrangements with loan agreements that highlight the terms listed above.

Additionally, 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: Seven of the twenty 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 2 to 13 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 overstated by a total of \$471. There may be 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, several assets cost less than \$5,000, the allowable capitalization minimum for Medicare and Medicaid purposes. The amount of assets capitalized in the period under audit which were under the allowable minimum was \$98,021. However, as it is not a mandatory minimum, no adjustment was proposed.

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.

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 included \$11,730 of capital expenses as deductions in repairs and maintenance.

Criteria: Capital expenditures should be included as depreciable assets and depreciated of the estimated useful life of the asset.

Cause: Management incorrectly included capital expenses as deductions under repairs and maintenance.

Effect: Repairs and maintenance were overstated by \$11,730 and depreciation expense was understated by \$977.

Suggestion: Management should thoroughly review all capital expenditure invoices and assess the useful life of the asset before expensing purposes.

* * * * *

CONDITION 08-04

Condition: The Facility incorrectly included Uniforms and Parties/Gifts to Staff in Employee Benefits on the Medicaid Cost Report when calculating the benefit allocation.

Criteria: Employee benefits consists of payroll taxes, medical and group life insurance, workers compensation insurance premiums, and deferred benefit plans. Total benefits must be allocated based on a weighted average of salary per cost center when the direct method is not utilized.

Cause: The facility included Uniforms and Parties/Gifts to Staff costs of \$6,512 as employee benefits when calculating the allocation.

Effect: Allocated benefits were overstated by \$6,512 and other costs were understated by \$6,512 on the Cost Report. There may be an impact on Medicaid reimbursement.

Suggestion: Management should correct its allocation calculation to classify as benefits only those expenses which are actually employee benefits. Further, Management should review and correct its line item assignments on the Cost Report.

* * * * *

CONDITION 08-05

Condition: The facility included a high percentage of time for the Director of Nursing (50%) and the Assistant Director of Nursing (50%) 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 08-06

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

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

Cause: Private Pay Days and Total Census Days per the monthly census reports did not equal the total on the Cost Report.

Effect: Private Pay Days and Total Census Days per Cost Report were each understated by 88 days. 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 88 days short.

Suggestion: The Facility should report Total Census 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 Foulk Manor, 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