

PENINSULA HEALTHCARE SERVICES

Audit Report Medicaid Cost Report and Nursing Wage Survey

June 30, 2009

Issuance Date: October 10, 2012

PENINSULA HEALTHCARE SERVICES

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Independent Auditors' 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 Peninsula Healthcare Services (the Facility) for the year ended June 30, 2009. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the Cost Report and Survey, assessing the accounting principles and the State of Delaware Medicaid principles of cost reimbursement used and significant estimates made by management, as well as evaluating 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 5.

In our opinion, except for the accompanying Schedule of Adjustments, the Cost Report and Survey of the Facility referred to above presents fairly, in all material respects, the reimbursement costs of the Facility for the year ended June 30, 2009 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 July 6, 2012, 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.

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 Peninsula Healthcare Services, 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

July 6, 2012

Peninsula Healthcare Services

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, 2009

<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 (lines 1-5)</i>								
Nursing Staff Salaries - Staff Nurse	2	1b	\$ 3,293,910	1	\$ (258,328)	\$ 3,293,990		B-1
				2	258,408			S-1
Nursing Staff Benefits	2	2	786,866	1	(116)	786,750		B-1
Nursing Training Salaries	2	3	151,401	2	12,888	164,289		S-1
Nursing Staff Training	2	4	163,864	5	(138,276)	25,588		O-2
Unadjusted lines	2	1a, 3	<u>52,970</u>		<u>-</u>	<u>52,970</u>		
Subtotal - Primary Patient Care	2	5	4,449,011		(125,424)	4,323,587	\$ 105.03	
<i>Secondary Patient Care Costs (lines 6-14)</i>								
Clinical Consultants	2	6	27,418	5	104,975	132,393		O-2
Social Services	2	7	37,938	2	3,230	41,168		S-1
Employee Benefits	2	8	12,595	1	(3,229)	9,366		B-1
Medical Supplies	2	10	245,745	5	11,823	257,568		O-2
Unadjusted lines	2	9,10,11	<u>403,983</u>		<u>-</u>	<u>403,983</u>		
Subtotal - Secondary Patient Care Costs	2	14	727,679		116,799	844,478	20.51	
<i>Support Service Costs (lines 15-22)</i>								
Dietary	2	15	377,369	2	27,877	405,246		S-1
Operation and Maintenance of Facility	2	16	447,627	2	8,535	456,162		S-1
Patient Recreation	2	19	131,485	2	8,920	140,405		S-1
Employee Benefits	2	20	176,803	2	(45,339)	131,464		B-1
Unadjusted lines	2	17,18	<u>392,351</u>		<u>-</u>	<u>392,351</u>		
Subtotal - Support Service Costs	2	22	1,525,635		(7)	1,525,628	37.06	

Peninsula Healthcare Services

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, 2009

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				<u>No.</u>	<u>Amount</u>			
<i>Administrative & Routine Costs (lines 23-32)</i>								
Owner/Executive Director Salary	2	23	82,481	2	7,021	89,502		S-1
Medical and Nursing Director Salary	2	24	394,781	2	28,288	423,069		S-1
Other Administrative Salaries	2	25	334,258	2	28,454	362,712		S-1
Employee Benefits	2	26	261,522	1	(76,610)	184,912		B-1
Other	3	31	622,406	1	383,622	643,883		B-1
				2	(383,622)			S-1
				5	21,477			O-2
Unadjusted lines	2	30	<u>507,528</u>		-	<u>507,528</u>		
Subtotal - Administrative & Routine	3	32	2,202,976		8,630	2,211,606	53.73	
<i>Capital Costs (lines 33-39)</i>								
Depreciation	3	36	885,662	3	22,153	907,815		CC-1
Other Capital Costs	3	38	64,196	4	(18,882)	45,314		O-1
Unadjusted lines	3	33,34,35,37	<u>868,213</u>		-	<u>868,213</u>		
Subtotal - Capital	3	39	<u>1,818,071</u>		<u>3,271</u>	<u>1,821,342</u>	<u>44.25</u>	
SUBTOTAL	3	40	10,723,372		3,269	10,726,641	260.58	
<i>Ancillary Costs - unadjusted (lines 41-49)</i>	3	49	1,872,499		-	1,872,499	<u>45.49</u>	
<i>Other Costs - unadjusted (lines 50-52)</i>	3	52	<u>14,368</u>		-	<u>14,368</u>	<u>0.35</u>	
TOTAL COSTS	3	53	<u>\$ 12,610,239</u>		<u>\$ 3,269</u>	<u>\$ 12,613,508</u>	<u>\$ 306.42</u>	

Peninsula Healthcare Services

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, 2009

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<u>PART II - COST REPORT PATIENT DAYS</u>								
Total beds	6	1, 3	130	-		130		
Total bed days available	6	4	46,530	-		46,530		
Medicaid Patient Days	6	5A	22,484	(1)		22,483		PD-1
90% minimum census threshold	6		41,877	-		41,877		
Total census days	6	5E	41,164	-		41,164		

PART III - NURSING WAGE SURVEY

II. Staff Nurse Information

Registered Nurses - Total Number	9	B	20	(1)		19		NWS-1
Licensed Practical Nurses - Total Number	9	B	27	(2)		25		NWS-1
Nurses Aides - Total Number	9	B	69	(4)		65		NWS-1

PART IV - DETAILED EXPLANATION OF ADJUSTMENTS

Adjustments affecting benefits (B):

B-1 To adjust benefits allocation to exclude benefits that were previously included in the allocation (holiday/vacation).

Adjustments affecting salaries (S):

S-1 To properly adjust all salary line items to include holiday/vacation allocation previously included in benefits.

Adjustments affecting capital costs (CC):

CC-1 To adjust depreciation for projected error due to differences in lives when compared with AHA guidelines.

Adjustments affecting other costs (O):

O-1 To adjust cable television expenses out of capital costs

O-2 To adjust non-primary care costs to the their appropriate line item.

Adjustments affecting Nursing Wage Survey (NWS):

NWS-1 To adjust the number of nurses reported under the Nursing Wage Survey.

Adjustments affecting Patient Days (PD):

PD-1 To adjust total Medicaid days reported on the Medicaid Cost Report.



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Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements 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 Peninsula Healthcare Services (the Facility) for the year ended June 30, 2009, and have issued our report thereon dated July 6, 2012, 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

Management of the Facility is responsible for establishing and maintaining effective internal control over financial 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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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 July 6, 2012.

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 Peninsula Healthcare Services, 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

July 6, 2012

PENINSULA HEALTHCARE SERVICES

Schedule of Findings and Responses

June 30, 2009

CURRENT YEAR CONDITIONS

NONE