

HILLSIDE CENTER

Audit Report
Medicaid Cost Report and
Nursing Wage Survey

June 30, 2008

Issuance Date: August 17, 2011

HILLSIDE CENTER

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Independent Auditor's Report

State of Delaware
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 Hillside Center (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. 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 used and Medicaid principles of cost reimbursement used and the 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 opinions.

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 page 2.

In our opinion, except for the accompanying Schedule of Adjustments, the Cost Report and Survey of Hillside Center referred to above present fairly, in all material respects, the respective 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 have also issued our report dated February 14, 2011, on our consideration of the Facility's internal control over financial reporting for the Cost Report and Survey and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

BDO USA, LLP

February 14, 2011

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Hillside Center

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 Amount	Audit Adjustments No. Amount	Adjusted Amount	Adjusted Cost Per Day	Note Ref.
<u>PART I - COST REPORT TRIAL BALANCE AND ADJUSTMENTS</u>							
Primary Patient Care Costs - unadjusted (lines 1-5)	2	5	\$ 3,519,564	\$ -	\$ 3,519,564	\$ 97.70	
Secondary Patient Care Costs - unadjusted (lines 6-14)	2	14	589,731	-	589,731	16.37	
Support Service Costs - unadjusted (lines 15-22)	2	22	1,344,846	-	1,344,846	37.33	
Administrative & Routine Costs - unadjusted (lines 23-32)	3	32	1,542,474	-	1,542,474	42.82	
<i>Capital Costs (lines 33-39)</i>							
Depreciation	3	36	336,850	(26,765)	310,085		CC-1
Unadjusted lines	3	33-35,37-38	312,490	-	312,490		
Capital Costs	3	39	649,340	(26,765)	622,575	17.28	
SUBTOTAL	3	40	7,645,955	(26,765)	7,619,190	211.51	
Ancillary Costs - unadjusted (lines 41-49)	3	49	834,345	-	834,345		
Other Costs - unadjusted (lines 50-52)	3	52	-	-	-		
TOTAL COSTS	3	53	<u>\$ 8,480,300</u>	<u>\$ (26,765)</u>	<u>\$ 8,453,535</u>	<u>\$ 211.51</u>	

PART II - COST REPORT PATIENT DAYS

Total beds	6	3	106	-	106		
Total bed days available	6	4	38,796	-	38,796		
Medicaid Patient Days	6	5A	25,495	(18)	25,477		C-1
90% minimum census threshold	6	-	34,916	-	34,916		
Total census days	6	5E	36,019	4	36,023		C-1

PART III - NURSING WAGE SURVEY

None.

PART IV - DETAILED EXPLANATION OF ADJUSTMENTS

Adjustments affecting census data (C)

CC-1 To correct depreciation to agree to calculation using estimated useful lives per AHA guidelines.

Adjustments affecting census data (C)

C-1 Medicaid Patient Days and Total Census Days as reported did not match supporting documentation



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 Cost Report and the Survey) for Hillside Center (the Facility) for the year ended June 30, 2008, and have 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.

Internal Control Over Reporting

In planning and performing our audit, we considered the Facility's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the Cost Report and Survey but not for the purpose 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.

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, and 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 other matters that we reported to management of the Facility in a separate letter dated February 14, 2011.

This communication 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 Hillside Center, 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 and is not intended to be and should not be used by anyone other than these specified parties. However, under 29 Del. C., Section 10002, this report is public record and its distribution is not limited.

BDO USA, LLP

February 14, 2011

HILLSIDE CENTER

Schedule of Findings and Responses

June 30, 2008

Current Year Conditions:

NONE



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270 Presidential Drive
Wilmington, DE 19807

Mr. Rick Fink
Hillside Center
810 South Broom Street
Wilmington, DE 19805

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 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 Hillside Center (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, nor were there any instances of noncompliance or other matters that were required to be reported under *Government Auditing Standards*.

However, 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: Eleven of the fifteen 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 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 \$26,765. 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, ten out of fifteen 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 are 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 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 08-04

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

Criteria: The number of Medicaid Patient Days and the 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 18 days, and Total Census days were understated by 4 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 4 days 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 Hillside Center, 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