

REGENCY HEALTHCARE AND REHABILITATION CENTER

Audit Report Medicaid Cost Report and Nursing Wage Survey

June 30, 2008

Issuance Date: August 17, 2011

REGENCY HEALTHCARE AND REHABILITATION 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 Regency Healthcare and Rehabilitation 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 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 5.

In our opinion, except for the accompanying Schedule of Adjustments, the Cost Report and Survey of the Regency Healthcare and Rehabilitation Center 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

Regency Healthcare and Rehabilitation 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

<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	2	1b	\$ 2,928,837	1	\$ 2,583	\$ 2,931,420		S-1
Nursing Staff Benefits	2	2	617,001	2 3	(23,057) (2,487)	591,457		B-1 S-1
Unadjusted lines	2	3,4	<u>43,822</u>		-	<u>43,822</u>		
Subtotal - Primary Patient Care	2	5	3,589,660		(22,961)	3,566,699	\$ 102.05	
<i>Secondary Patient Care Costs (lines 6-14)</i>								
Employee Benefits	2	8	9,831	1	(368)	9,463		B-1
Medical Supplies	2	10	180,071	2	(22,039)	158,032		CC-1
Unadjusted lines	2	6,7,9,11	<u>313,338</u>		-	<u>313,338</u>		
Subtotal - Secondary Patient Care Costs	2	14	503,241		(22,407)	480,834	13.76	
<i>Support Service Costs (lines 15-22)</i>								
Patient Recreation	2	20	49,976	1	(1,868)	48,108		B-1
Unadjusted lines	2	15,16,17,18,19	<u>1,249,861</u>		-	<u>1,249,861</u>		
Subtotal - Support Service Costs	2	22	1,299,836		(1,868)	1,297,968	37.14	
<i>Administrative & Routine Costs (lines 23-32)</i>								
Other Administrative Salaries	2	25	587,894	1	(2,583)	585,311		S-1
Employee Benefits	2	26	131,352	2 3	(4,908) 2,487	128,931		B-1 S-1
Other	3	31	233,994	5	30,201	264,195		B-1
Unadjusted lines	2/3	23,24,27,29,30	<u>495,329</u>		-	<u>495,329</u>		
Subtotal - Administrative & Routine	3	32	1,448,568		25,197	1,473,765	42.17	

Regency Healthcare and Rehabilitation 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

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				<u>No.</u>	<u>Amount</u>			
<i>Capital Costs (lines 33-39)</i>								
Lease Costs	3	33	501,336		22,039	523,375		CC-1
Interest - Mortgage	3	34	-		3,707	3,707		CC-3
Depreciation	3	36	30,361		(1,878)	28,483		CC-2
Other Costs	3	38	46,721		(3,707)	43,014		CC-3
Unadjusted lines	3	35,37	<u>53,833</u>		-	<u>53,833</u>		
Subtotal - Capital	3	39	<u>632,251</u>		<u>20,161</u>	<u>652,412</u>	<u>18.67</u>	
SUBTOTAL	3	40	7,473,554		(1,878)	7,471,676	213.78	
<i>Ancillary Costs - unadjusted (lines 41-49)</i>	3	49	811,848		-	811,848	23.23	
<i>Other Costs - unadjusted (lines 50-52)</i>	3	52	<u>8,661</u>		-	<u>8,661</u>	<u>0.25</u>	
TOTAL COSTS	3	53	<u>\$ 8,294,063</u>		<u>\$ (1,878)</u>	<u>\$8,292,185</u>	<u>\$ 237.26</u>	

PART II - COST REPORT PATIENT DAYS

Total beds	6	1, 3	100		-	100		
Total bed days available	6	4	36,600		-	36,600		
Medicaid Patient Days	6	5A	26,670	1	242	26,912		PD-1
90% minimum census threshold	6		32,940		-	32,940		
Total census days	6	5E	34,950		-	34,950		

PART III - NURSING WAGE SURVEY

II. Staff Nurse Information

Registered Nurses - Total Number	11	B	17		(1)	16		NWS-1
Registered Nurses - Total Payroll	11	B	27,306		(3,528)	23,778		NWS-1
Registered Nurses - Total Hours	11	B	822		(108)	714		NWS-1

Regency Healthcare and Rehabilitation 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

PART IV - DETAILED EXPLANATION OF ADJUSTMENTS

Adjustments affecting salaries (S):

S-1 To correct misclassification of administrative salaries and related benefits as nursing salaries and benefits.

Adjustments affecting capital costs (CC):

CC-1 To correct misclassification of equipment rental costs as medical supplies.

CC-2 To correct depreciation to agree to calculation using estimated useful lives per AHA guidelines, and to remove incorrect depreciation allowed on items acquired during the Fiscal Year ended June 30, 2008.

CC-3 To correct misclassification of interest expense related to leased equipment as capital interest.

Adjustments affecting benefits (B):

B-1 To adjust benefits allocation to include benefits that were previously left out of allocation.

Adjustments affecting patient days report (PD):

PD-1 To adjust Medicaid Patient 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.



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 Regency Healthcare and Rehabilitation Center (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.

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.

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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 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 Regency Healthcare and Rehab 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.

BDO USA, LLP

February 14, 2011

REGENCY HEALTHCARE AND REHABILITATION CENTER
Schedule of Findings and Responses

June 30, 2008

Current Year Conditions:

NONE



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270 Presidential Drive
Wilmington, DE 19807

Mr. Michael Sayre
Regency Healthcare and Rehabilitation Center
801 North 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. Sayre

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 Regency Healthcare and Rehabilitation 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.

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: Three of the sixteen assets selected for testing which were acquired during the Fiscal Year ended June 30, 2008 had useful lives that differed from the AHA guidelines. For the three assets, the facility calculated depreciation based on a useful life of 10 years, while the AHA guidelines listed the useful lives as ranging between 15 and 20 years. In addition, depreciation did not appear to be consistently calculated on a straight-line basis.

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 \$1,878. This could result in an impact on Medicaid reimbursement.

Suggestion: Management should assign useful lives consistent with AHA guidelines. Management has since informed us that they have implemented this policy.

* * * * *

CONDITION 08-02

Condition: In its plant ledger, the facility included one asset which cost \$4,197, which is 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.

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: Allocated employee benefits were overstated by \$30,201.

Criteria: Employee benefits consists of payroll taxes, medical and group life insurance, workers compensation insurance premiums, and deferred benefit plans. All 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 Recruiting costs of \$30,201 as employee benefits when calculating the allocation.

Effect: Allocated benefits were overstated by \$30,201 and other costs were understated by \$30,201 on the Cost Report. There may be an impact on Medicaid reimbursement.

Suggestion: The Facility should include only employee benefits in the benefits allocation when completing the Cost Report.

* * * * *

CONDITION 08-04

Condition: The Facility incorrectly included several administrative registered nurses in both the administrative and all remaining nursing staff registered nurses section of the Survey.

Criteria: The total number of registered nurses paid, payroll costs, and hours worked are to be reported by classification level on the Survey, but the same nurses may not be counted as both administrative and non-administrative nurses.

Cause: The Facility included all of the registered nurses paid, administrative and patient centered costs, and hours worked in both the administrative section and the non-administrative section of the Survey.

Effect: The number of registered nurses paid, payroll costs, and hours worked were overstated by 1, \$3,528 and 108 hours, respectively, on the Survey. There may be an impact on Medicaid reimbursement.

Suggestion: The Facility should ensure the same nurses are not counted twice when completing the Survey.

* * * * *

CONDITION 08-05

Condition: The facility included a high percentage of time for the Assistant Director of Nursing (25%) 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 or whether approval was obtained, 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 included a percentage of time for the Assistant Director of Nursing (25%) and administrative nurses (50%) as patient centered hours on the Nursing Wage Survey, but the related salary and benefits expense were not allocated out of Administrative Salaries on the Cost Report.

Criteria: The Medicaid Cost Report instructions state that the portion of salaries and wages paid to Administrative Nurses for that proportion of their time spent in direct care or the supervision of direct care nursing staff should be included in Line 1b. In addition, their benefits associated with these amounts should be reported on Line 2.

Cause: The patient centered time as reported on the Nursing Wage Survey was not adjusted out of Lines 24 and 25 on the Medicaid Cost Report.

Effect: This resulted in an overstatement of costs in the Administrative Cost center, and an understatement of costs in the Primary Patient Cost center. However, as there was no documentation supporting the percentage of patient centered hours, 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 Administrative Nurses perform patient centered functions. Provided the percentage of time is properly documented, management should allocate the related salary and benefits expense to the appropriate cost centers.

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 Regency Healthcare and Rehabilitation 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