

PINNACLE REHABILITATION AND CARE CENTER

Audit Report Medicaid Cost Report and Nursing Wage Survey

June 30, 2009

Issuance Date: October 10, 2012

PINNACLE REHABILITATION AND CARE CENTER

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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 Pinnacle Rehabilitation and Care Center (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 Cost Report and 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 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 Pinnacle Rehabilitation and Care 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

July 6, 2012

Pinnacle Rehabilitation and Care 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, 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	\$ 3,744,824	1	\$ (272,826)	\$ 3,744,794		B-1
				3	272,796			S-2
Nursing Staff Benefits	2	2	885,546	1	(19,589)	865,957		B-1
Nursing Staff Training	2	3	59,623	2	(59,623)	-		S-1
Unadjusted lines	2	1a, 4	<u>317,951</u>		<u>-</u>	<u>317,951</u>		
Subtotal - Primary Patient Care	2	5	5,007,944		(79,242)	4,928,702	\$ 93.47	
<i>Secondary Patient Care Costs (lines 6-14)</i>								
Social Services	2	7	136,292	3	10,763	147,055		S-2
Employee Benefits	2	8	48,964	1	(11,794)	37,170		B-1
Medical Supplies	2	10	148,607	3	1,029	149,636		S-2
Unadjusted lines	2	6,9,11	<u>386,522</u>		<u>-</u>	<u>386,522</u>		
Subtotal - Secondary Patient Care Costs	2	14	720,385		(2)	720,383	13.66	
<i>Support Service Costs (lines 15-22)</i>								
Dietary	2	15	589,949	3	38,364	628,313		S-2
Operation and Maintenance of Facility	2	16	500,423	3	10,734	511,157		S-2
Patient Recreation	2	19	166,136	3	10,108	176,244		S-2
Employee Benefits	2	20	245,845	1	(59,219)	186,626		B-1
Unadjusted lines	2	17,18	<u>517,637</u>		<u>-</u>	<u>517,637</u>		
Subtotal - Support Service Costs	2	22	2,019,990		(13)	2,019,977	38.31	

Pinnacle Rehabilitation and Care 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, 2009

Description	Page	Line	As Filed Amounts	Audit Adjustments		Adjusted Amounts	Adjusted Cost Per Day	Note Ref.
				No.	Amount			
<i>Administrative & Routine Costs (lines 23-32)</i>								
Owner/Executive Director Salary	2	23	151,166	3	11,941	163,107		S-2
Medical and Nursing Director Salary	2	24	166,095	3	9,328	175,423		S-2
Other Administrative Salaries	2	25	295,714	2 3	59,623 30,009	385,346		S-1 S-2
Employee Benefits	2	26	250,865	1	(45,583)	205,282		B-1
Medical Records	2	27	177,863	3	13,846	191,709		S-2
Other	3	31	1,443,339	1 3	454,451 (454,451)	1,443,339		B-1 S-2
Unadjusted lines	2/3	29	<u>39,284</u>		<u>-</u>	<u>39,284</u>		
Subtotal - Administrative & Routine	3	32	2,524,327		79,164	2,603,490	49.37	
<i>Capital Costs (lines 33-39)</i>								
Depreciation	3	36	34,061	4	(13,860)	20,201		CC-1
Unadjusted lines	3	33,34,35,38	<u>1,382,509</u>		<u>-</u>	<u>1,382,509</u>		
Subtotal - Capital	3	39	<u>1,416,571</u>		<u>(13,860)</u>	<u>1,402,711</u>	<u>26.60</u>	
SUBTOTAL	3	40	11,689,216		(13,953)	11,675,262	221.41	
<i>Ancillary Costs (lines 41-49)</i>								
Physical Therapy	3	43	574,531	1 3	(105,999) 26,320	494,852		B-1 S-2
Occupational Therapy	3	44	140,394	1 3	33,159 10,519	184,072		B-1 S-2
Speech Therapy	3	45	114,695	1 3	27,400 8,693	150,788		B-1 S-2
Unadjusted lines	3	41,42,46,47,48	<u>442,411</u>		<u>-</u>	<u>442,411</u>		
Subtotal - Ancillary	3	49	1,272,031		92	1,272,123	24.12	
<i>Other Costs - unadjusted (lines 50-52)</i>	3	52	<u>4,804</u>		<u>-</u>	<u>4,804</u>	<u>0.09</u>	
TOTAL COSTS	3	53	<u>\$ 12,966,051</u>		<u>\$ (13,861)</u>	<u>\$ 12,952,189</u>	<u>\$ 245.63</u>	

Pinnacle Rehabilitation and Care 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, 2009

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<u>PART II - COST REPORT PATIENT DAYS</u>								
Total beds	6	1, 3	151		-	151		
Total bed days available	6	4	55,115		-	55,115		
Medicaid Patient Days	6	5A	36,486		-	36,486		
90% minimum census threshold	6		49,604		-	49,604		
Total census days	6	5E	52,731		-	52,731		

PART III - NURSING WAGE SURVEY

II. Staff Nurse Information

Registered Nurses - Total Payroll	9	B	13,391	2,986	16,377	NWS-1
Registered Nurses - Total Hours	9	B	441	80	521	NWS-1
Licensed Practical Nurses - Total Number	9	B	32	(1)	31	NWS-2
Licensed Practical Nurses - Total Payroll	9	B	57,624	(2,227)	55,397	NWS-2
Licensed Practical Nurses - Total Hours	9	B	2,065	(81)	1,984	NWS-2

PART IV - DETAILED EXPLANATION OF ADJUSTMENTS

Adjustments affecting salaries (S):

- S-1 To adjust Quality Assurance payroll out of Nurse Staff Training.
- S-2 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 benefits (B):

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

Adjustments affecting Nursing Wage Survey (NWS):

- NWS-1 To adjust NWS to account for total gross wages and hours for those Registered Nurses identified on the NWS.
- NWS-2 To adjust NWS for actual non-administrative Licensed Practical Nurses detail.



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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 Pinnacle Rehabilitation and Care Center (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.

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 as a basis for designing our auditing procedures for the purpose of expressing our opinion 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 Pinnacle Rehabilitation and Care Center'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.

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 report 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 Pinnacle Rehabilitation and Care 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

July 6, 2012

PINNACLE REHABILITATION AND CARE CENTER
Schedule of Findings and Responses

June 30, 2009

CURRENT YEAR CONDITIONS

NONE