



## Lifecare at Lofland Park

### Examination Report Medicaid Cost Report and Nursing Wage Survey

June 30, 2012

Report Issued: September 16, 2014

The report accompanying these financial statements was issued by BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.



# Lifecare at Lofland Park

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## Independent Accountants' Report

State of Delaware  
Office of Auditor of Accounts  
Department of Health & Social Services  
Division of Social Services Medicaid  
Dover, Delaware

We have examined management's assertions that Lifecare at Lofland Park (the "Facility") has complied with federal requirements (42 CFR 447.253 and 483 Subpart B) and state requirements (Title XIX Delaware Medicaid State Plan, Attachment 4.19D), as applicable, relative to the Facility's fiscal records of the Department of Health and Social Services (DHSS), Division of Social Services, Medicaid Long-Term Care Facilities' Statement of Reimbursement Costs for Skilled and Intermediate Care Nursing Facilities - Title XIX and Nursing Wage Survey ("Statement" and "Survey", respectively) for the fiscal year ended June 30, 2012. The Facility's management is responsible for the assertions. Our responsibility is to express an opinion on the assertions based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and United States Government Accountability Office, *Government Auditing Standards* and, accordingly, included examining, on a test basis, evidence supporting management's assertions and performing such other tests as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our qualified opinion.

During the year under examination, the Facility was a wholly owned subsidiary of Nanticoke Memorial Hospital ("NMH"), and as such, any transactions between the Facility and NMH should have been treated as related party transactions. Per Medicaid regulations, related party transactions are adjusted off the cost report and the Facility's pro rata share of the supplying organization's costs are recorded in their place in the appropriate cost center, as the intent is to treat the costs incurred by the supplying organization as if they were incurred by the Facility itself. The Facility paid \$36,000 in management fees to NMH which were not removed from the cost report and replaced by the Facility's pro-rata share of costs incurred by NMH. In addition, NMH functioned as a home office for the Facility; however, no related costs were allocated to the Facility on Line 30, "Home Office Admin", or Line 37, "Home Office Capital" by the Facility. We were unable to obtain sufficient appropriate evidence over costs reported or costs that should have been reported on lines 30 and 37 as management provided neither a schedule of allocated costs from NMH to replace management fees nor a schedule of allocable home office costs. Consequently, we were unable to determine the amount of adjustments to these line items that were necessary other than the removal of the management fees paid from Line 31, "Other Administrative Costs".



In our opinion, except for the items described above and the items listed as adjustments on the accompanying Schedule of Adjustments on pages 4-7, management's assertions referred to above are fairly stated, in all material respects, based on the federal requirements (42 CFR 447.253 and 483 Subpart B) and state requirements (Title XIX Delaware Medicaid State Plan, Attachment 4.19D).

In accordance with *Government Auditing Standards*, we also issued our report dated September 15, 2014 on our consideration of the Facility's internal control over reporting for the Statement 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. That report is an integral part of an examination performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our examination.

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 the Facility, 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 available to the public and its distribution is not limited.

BDO USA, LLP

September 15, 2014

## Lifecare at Lofland Park

### 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, 2012

<u>Description</u>	<u>Page</u>	<u>Line</u>	As Filed	Examination Adjustments		Adjusted	Adjusted	<u>Note</u>
			<u>Amounts</u>	<u>No.</u>	<u>Amount</u>	<u>Amounts</u>	<u>Cost</u> <u>Per Day</u>	
<b><u>PART I - COST REPORT TRIAL BALANCE AND ADJUSTMENTS</u></b>								
<i>Primary Patient Care Costs (lines 1-5)</i>								
Nursing Staff Salaries								
Agency Costs	2	1a	\$ -		\$ -	\$ -		
Staff Nurse	2	1b	4,218,812		-	4,218,812		
			4,218,812		-	4,218,812		
Nursing Staff Benefits	2	2	1,792,501	1	63,557	1,861,433		D-1
				2	5,375			D-3
Nursing Training Salaries	2	3	-	1	61,568	66,346		D-2
				2	4,778			O-1
Other	2	4	346,716	1	(346,716)	-		
<b>Subtotal - Primary Patient Care Costs</b>	<b>2</b>	<b>5</b>	<b>6,358,029</b>		<b>(211,438)</b>	<b>6,146,591</b>	<b>\$ 165.03</b>	
<i>Secondary Patient Care Costs (lines 6-14)</i>								
Clinical Consultants	2	6	-		-	-		
Social Services	2	7	99,892		-	99,892		
Employee Benefits	2	8	40,828	1	2,251	43,079		D-1
Raw Food	2	9	398,487		-	398,487		
Medical Supplies	2	10	2,576	1	251,463	254,039		O-1
Pharmacy	2	11	-		-	-		
Other - Allowable Ancillary	2	12	-		-	-		
<b>Subtotal - Secondary Patient Care Costs</b>	<b>2</b>	<b>14</b>	<b>541,783</b>		<b>253,714</b>	<b>795,497</b>	<b>21.36</b>	
<i>Support Service Costs (lines 15-22)</i>								
Dietary	2	15	282,258		-	282,258		
Operation and Maintenance of Facility	2	16	656,634	1	12,060	668,694		O-1
Housekeeping	2	17	214,924		-	214,924		
Laundry & Linen	2	18	186,123		-	186,123		
Patient Recreation	2	19	162,607		-	162,607		
Employee Benefits	2	20	334,557	1	12,985	347,542		D-1
Other	2	21	-		-	-		
<b>Subtotal - Support Service Costs</b>	<b>2</b>	<b>22</b>	<b>1,837,103</b>		<b>25,045</b>	<b>1,862,148</b>	<b>50.00</b>	

## Lifecare at Lofland Park

### Schedule of Adjustments to the Statement of Reimbursement Cost for Skilled and Intermediate Care Nursing Facilities - Title XIX and the Nursing Wage Survey, continued

Year ended June 30, 2012

<u>Description</u>	<u>Page</u>	<u>Line</u>	<u>As Filed Amounts</u>	<u>Examination Adjustments</u>		<u>Adjusted Amounts</u>	<u>Adjusted Cost Per Day</u>	<u>Note Ref.</u>
				<u>No.</u>	<u>Amount</u>			
<i>Administrative &amp; Routine Costs (lines 23-32)</i>								
Owner/Executive Director Salary	2	23	-		-	-		
Medical and Nursing Director Salary	2	24	440,957		(61,568)	379,389		D-2
Other Administrative Salaries	2	25	346,873		-	346,873		
Employee Benefits	2	26	265,767		(95,416) (5,375)	164,976		D-1 D-3
Medical Records	2	27	-		-	-		
Training	2	28	-		-	-		
Interest - Working Capital	2	29	-		-	-		
Home Office - Admin	3	30	-		-	-		
Other	3	31	562,159		16,623 12,678 (36,000)	555,460		D-1 O-1 O-3
<b>Subtotal - Administrative &amp; Routine Costs</b>	<b>3</b>	<b>32</b>	<b>1,615,756</b>		<b>(169,058)</b>	<b>1,446,698</b>	<b>38.84</b>	
<i>Capital Costs (lines 33-39)</i>								
Lease Costs	3	33	-		65,737	65,737		O-1
Interest - Mortgage	3	34	-		-	-		
Property Taxes	3	35	-		-	-		
Depreciation	3	36	328,278		-	328,278		
Home Office Capital	3	37	-		-	-		
Other	3	38	-		-	-		
<b>Subtotal - Capital Costs</b>	<b>3</b>	<b>39</b>	<b>328,278</b>		<b>65,737</b>	<b>394,015</b>	<b>10.58</b>	
<b>SUBTOTAL (lines 1-39)</b>	<b>3</b>	<b>40</b>	<b>10,680,949</b>		<b>(36,000)</b>	<b>10,644,949</b>	<b>285.79</b>	

## Lifecare at Lofland Park

### Schedule of Adjustments to the Statement of Reimbursement Cost for Skilled and Intermediate Care Nursing Facilities - Title XIX and the Nursing Wage Survey, continued

Year ended June 30, 2012

<u>Description</u>	<u>Page</u>	<u>Line</u>	<u>As Filed Amounts</u>	<u>Examination Adjustments</u>		<u>Adjusted Amounts</u>	<u>Adjusted Cost Per Day</u>	<u>Note Ref.</u>
				<u>No.</u>	<u>Amount</u>			
<i>Ancillary Costs - (lines 41-49)</i>								
Laboratory	3	41	68,734	-		68,734		
X-Rays	3	42	17,219	-		17,219		
Physical Therapy	3	43	401,652	-		401,652		
Occupational Therapy	3	44	367,159	-		367,159		
Speech Therapy	3	45	39,876	-		39,876		
Pharmacy (Rx)	3	46	601,729	-		601,729		
Oxygen	3	47	-	-		-		
Non Allowable Expenses	3	48	32,596	-		32,596		
<b>Subtotal - Ancillary Costs</b>	<b>3</b>	<b>49</b>	<b>1,528,965</b>	<b>-</b>		<b>1,528,965</b>	<b>41.05</b>	
<i>Other Costs - (lines 50-52)</i>								
Gift, Beauty Shop, etc.	3	50	400	-		400		
Util. Review	3	51	4,434,812	(4,434,812)		-		O-2
<b>Subtotal Other Costs</b>	<b>3</b>	<b>52</b>	<b>4,435,212</b>	<b>(4,434,812)</b>		<b>400</b>	<b>0.01</b>	
<b>TOTAL COSTS</b>	<b>3</b>	<b>53</b>	<b>\$ 16,645,126</b>	<b>\$ (4,470,812)</b>		<b>\$ 12,174,314</b>	<b>\$ 326.85</b>	

#### PART II - COST REPORT PATIENT DAYS

Total beds	6	1, 3	110	-		110		
Total bed days available	6	4	40,150	-		40,150		
Medicaid Patient Days	6	5A	22,418	(1)		22,417		K-1
Medicare Patient Days	6	5B	7,788	(1)		7,787		K-1
Private Pay Patient Days	6	5C	6,436	2		6,438		K-1
Total census days	6	5E	37,246	-		<b>37,246</b>		
90% minimum census threshold	6		36,135	-		36,135		

# Lifecare at Lofland Park

## Schedule of Adjustments to the Statement of Reimbursement Cost for Skilled and Intermediate Care Nursing Facilities - Title XIX and the Nursing Wage Survey, continued

Year ended June 30, 2012

<u>Description</u>	<u>Page</u>	<u>Line</u>	<u>As Filed Amounts</u>	<u>Examination Adjustments</u>		<u>Adjusted Amounts</u>	<u>Note Ref.</u>
				<u>No.</u>	<u>Amount</u>		
<b><u>PART III - NURSING WAGE SURVEY</u></b>							
<b><i>II. Staff Nurse Information</i></b>							
Registered Nurses - Total Payroll	9	B	47,626		249	47,875	NWS-1
Registered Nurses - Total Hours	9	B	2,595		9	2,604	
Licensed Practical Nurses - Total Number	9	B	23		(2)	21	NWS-1
Licensed Practical Nurses - Total Hours	9	B	2,542		(1)	2,541	
Nurses Aides - Total Number	9	B	70		(8)	62	NWS-1
Nurses Aides - Total Payroll	9	B	49,327		10,698	60,025	
Nurses Aides - Total Hours	9	B	5,109		1,151	6,260	

### **PART IV - DETAILED EXPLANATION OF ADJUSTMENTS**

- D-1 *To adjust employee benefits to account for administrative benefits not included in original allocation.*
- D-2 *To correct provider adjustment #26, which was recorded to the wrong lines.*
- D-3 *To adjust administrative benefit calculation to the proper percentage based on supporting documentation.*
- O-1 *To reclassify Nursing Staff Training costs, Medical Supplies expenses, Operation and Maintenance expenses, Lease costs, and other Administrative expenses out of Line 4. Per the cost report instructions, Line 4 includes "all other costs associated with nursing staff providing basic medical care for nursing home patients", and these items do not meet this criteria.*
- O-2 *To remove contra-revenue allowances from Line 51. Per the cost report instructions, Line 51 includes "costs incurred by the facility related to the performance of a utilization review period. This would include costs paid to a utilization review committee, PRO, a peer review group or a public agency." Contra-revenue allowances do not meet this criteria. Contra-revenue allowances should be reported with Revenue figures on Page 9 of the Cost Report.*
- O-3 *To remove management fees paid to a related party.*
- K-1 *To adjust census data to agree to supporting documentation.*
- NWS-1 *To adjust Nursing Wage Survey data to agree to supporting documentation.*



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270 Presidential Drive  
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## **Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Examination 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 examined management's assertions that Lifecare at Lofland Park (the "Facility") has complied with federal requirements (42 CRF 447.253 and 483 Subpart B) and state requirements (Title XIX Delaware Medicaid State Plan, Attachment 4.19D), as applicable, relative to the Facility's fiscal records of the Department of Health and Social Services (DHSS), Division of Social Services, Medicaid Long-Term Care Facilities' Statement of Reimbursement Costs for Skilled and Intermediate Care Nursing Facilities - Title XIX and Nursing Wage Survey ("Statement" and "Survey", respectively) for the fiscal year ended June 30, 2012, and have issued our report thereon dated September 15, 2014, which was qualified due to the required adjustments reported in the Schedule of Adjustments accompanying it and the inability to obtain sufficient appropriate evidence over certain Home Office and Related Party Costs, which precluded us from expressing an opinion on Lines 30, 31, and 37. We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to financial examinations 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 examination, we considered the Facility's internal control over financial reporting in order to determine our examination procedures for the purpose of expressing our opinions on management's assertions, 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 was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.



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 Statement and/or Survey will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses (12-01, 12-02, and 12-03).

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Facility's Statement 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 examination, and accordingly, we do not express such an opinion. The results of our tests and those of the other auditors disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying Schedule of Findings and Responses as condition 12-04.

We noted certain matters that we reported to management of the Facility in a separate letter dated September 15, 2014.

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 the Facility, 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 available to the public and its distribution is not limited.

BDO USA, LLP

September 15, 2014

**Lifecare at Lofland Park**  
**Schedule of Findings and Responses**

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*June 30, 2012*

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**CURRENT YEAR CONDITIONS**

**CONDITION 12-01**

**Condition:** The Facility did not list any related parties on the Cost Report nor did they properly record adjustments for related party transactions on the Cost Report.

**Criteria:** Unless otherwise specified, allowable costs are determined in accordance with Title 42 Code of Federal Regulations Chapter IV and the provider reimbursement manual (CMS Publication 15-1). Per Publication 15-1, Chapter 10, related party transactions are adjusted off the cost report and the Facility's pro rata share of the supplying organization's costs are recorded in their place in the appropriate cost center, as the intent is to treat the costs incurred by the supplying organization as if they were incurred by the Facility itself. The Facility was a fully owned subsidiary of Nanticoke Memorial Hospital ("NMH") and entered into certain transactions with them during the year that were neither properly disclosed nor removed from the Cost Report as related party transactions.

**Cause:** Management did not designate NMH as a related party on the Cost Report.

**Effect:** Management fees paid to NMH were overstated by \$36,000, as these should have been adjusted off of the cost report. In addition, an allocation of pro-rata costs was not included in the cost report, resulting in an understatement of other costs.

An adjustment was proposed to remove the management fees. There was no adjustment proposed to record related party costs as there was no related party schedule or allocation prepared by management. The amount of the adjustment is not determinable.

**Suggestion:** Management should carefully review transactions with related parties and make sure they are recording them in accordance with Medicaid guidelines.

\* \* \* \* \*

**CONDITION 12-02**

**Condition:** There were no Home Office costs allocated to the Facility on the Cost Report.

**Criteria:** The Facility was a fully owned subsidiary of NMH, and was managed by their Home Office. As such, they should have been allocated a portion of the costs for the Home Office in the appropriate line item categories in accordance with Medicaid guidelines.

**Lifecare at Lofland Park**  
**Schedule of Findings and Responses**

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*June 30, 2012*

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**CURRENT YEAR CONDITIONS, continued**

**CONDITION 12-02, continued**

- Cause:** Management did not prepare an allocation of costs from the Home Office and make the proper adjustment on the Cost Report.
- Effect:** Home Office Administrative and Home Office Capital line items were potentially understated as there was no allocation made to the Facility.
- An adjustment was not proposed as management did not provide an allocation of Home Office Costs and the amount of the adjustment is not determinable.
- Suggestion:** Management should prepare the allocation of Home Office Costs and properly record them as an adjustment to the Cost Report in accordance with Medicaid guidelines.

\* \* \* \* \*

**CONDITION 12-03**

- Condition:** During the reconciliation of the crosswalk to the Cost Report, BDO noted that Line 51, Utilization Review, included contra-revenue accounts related to provider allowances in the amount of \$4,424,812.
- Criteria:** Auditing standards require that management establish and maintain effective internal controls over financial reporting. Per the Cost Report instructions, Line 51 includes "costs incurred by the facility related to the performance of a utilization review period. These would include costs paid to a utilization review committee, PRO, a peer review group, or a public agency".
- Cause:** The costs recorded on Line 51 included costs that did not meet the criteria in the instructions. This error was not detected by management prior to submitting the Cost Report.
- Effect:** Line 51 "Utilization Review" was overstated by \$4,434,812.
- An adjustment was proposed to the Cost Report and recorded on the Schedule of Adjustments.
- Suggestion:** Management should assess the Facility's internal controls over financial reporting in order to ensure that misstatements are prevented, or detected and corrected, on a timely basis. Management should also follow instructions relating to allowable costs when preparing the Cost Report.

**Lifecare at Lofland Park**  
**Schedule of Findings and Responses**

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*June 30, 2012*

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**CURRENT YEAR CONDITIONS, continued**

**CONDITION 12-04**

**Condition:** During testing of payroll and employee records, five out of forty items selected for testing had both overtime and shift differential hours. For these five items, the overtime rate was not calculated in accordance with the Fair Labor Standards Act ("FLSA").

**Criteria:** Overtime pay for non-exempt employees is to be computed in accordance with the FLSA. Under the FLSA, overtime pay is determined by multiplying the employee's "straight time of pay" by all overtime hours worked PLUS one-half of the employee's "hourly regular rate of pay" times all overtime hours worked (5 CFR part 551).

The "hourly regular rate of pay" is calculated by dividing the total amount of pay earned, including shift differentials, by the total number of hours worked.

**Cause:** The Facility did not use the prescribed method when calculating overtime pay. The Facility calculated overtime pay by adding the shift differential to the employee's "straight time of pay", multiplying by 1.5, and then multiplying by overtime hours worked.

**Effect:** The amount of payroll tested was \$60,211, and overtime paid for the five items was \$1,545. Had the Facility calculated overtime under the FLSA guidelines, overtime pay would have been \$1,512, or a difference of \$33 (less than 0.1% and 2% of payroll tested and overtime tested, respectively). The difference is clearly trivial, and as the amount paid was properly reported on the cost report, no adjustment was proposed.

For the period under examination, the Facility paid an overtime rate greater than what would have been calculated under the FLSA. However, the risk is present that using a calculation other than the prescribed guidance could result in a lower rate of pay and the Facility would not be in compliance with the FLSA.

**Suggestion:** Management should review their payroll processes and procedures and ensure they are in compliance with all federal and state regulations.

\* \* \* \* \*