

CADBURY AT LEWES

Audit Report Medicaid Cost Report and Nursing Wage Survey

June 30, 2009

Issuance Date: October 10, 2012

CADBURY AT LEWES

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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 Cadbury at Lewes (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.

Except as discussed in the following paragraph, 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 Facility'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.

Because of the lack of documentation relating to fixed assets, we were unable to form an opinion regarding the amounts included in the Cost Report related to these fixed assets, including depreciation expense.

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 4.

In our opinion, except the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves about the fixed assets and depreciation, and for the accompanying Schedule of Adjustments, the Cost Report and Survey 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 September 18, 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 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 public record and its distribution is not limited.

BDO USA, LLP

September 18, 2012

Cadbury at Lewes

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 Benefits	2	2	356,839	1	16,168	373,007		S-1
Nursing Staff Training	2	3	72,016	1 2	(16,168) 2,449	58,297		S-1 O-1
Other Primary Patient Care Costs	2	4	54,901	2	(54,751)	150		O-1
Unadjusted lines	2	1a, 1b	<u>1,187,534</u>		-	<u>1,187,534</u>		
Subtotal - Primary Patient Care	2	5	1,671,290		(52,302)	1,618,988	\$ 133.62	
<i>Secondary Patient Care Costs (lines 6-14)</i>								
Raw Food	2	9	147,022	2	582	147,604		O-1
Medical Supplies	2	10	62,369	2	6,048	68,417		O-1
Pharmacy (Non RX)	2	11	5,272	2	(3,599)	1,673		O-1
Unadjusted lines	2	7,8	<u>31,886</u>		-	<u>31,886</u>		
Subtotal - Secondary Patient Care Costs	2	14	246,549		3,031	249,580	20.60	
<i>Support Service Costs - unadjusted (lines 15-22)</i>			594,456		-	594,456	49.06	
<i>Administrative & Routine Costs (lines 23-32)</i>								
Medical and Nursing Director	2	24	110,934	1 2	(24,905) 39,874	125,903		S-1 O-1
Other Administrative Salaries	2	25	345,912	1	(36,726)	309,186		S-1
Employee Benefits	2	26	52,881	1	61,631	114,512		S-1
Other Administrative Costs	2	31	<u>138,102</u>	<u>2</u>	<u>9,397</u>	<u>147,499</u>		O-1
Subtotal - Administrative & Routine	3	32	647,829		49,271	697,100	57.54	
<i>Capital Costs - unadjusted (lines 33-39)</i>			<u>640,101</u>		-	<u>640,101</u>	<u>52.83</u>	
SUBTOTAL	3	40	<u>3,800,225</u>		-	<u>3,800,225</u>	<u>313.65</u>	

Cadbury at Lewes

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>	As Filed	Audit Adjustments		Adjusted	Adjusted Cost	Note
			<u>Amounts</u>	<u>No.</u>	<u>Amount</u>	<u>Amounts</u>	<u>Per Day</u>	
Ancillary Costs - unadjusted (lines 41-49)	3	49	966,021	-		966,021	79.73	
Other Costs (line 50)	3	50	<u>7,302,800</u>	<u>3</u>	<u>(7,295,398)</u>	<u>7,402</u>	<u>0.61</u>	O-2
TOTAL COSTS	3	53	<u>\$ 12,069,046</u>		<u>\$ (7,295,398)</u>	<u>\$ 4,773,648</u>	<u>\$ 394.00</u>	

PART II - COST REPORT PATIENT DAYS

Total beds	6	1, 3	40	-		40		
Total bed days available	6	4	14,600	-		14,600		
Medicaid Patient Days	6	5A	2,967	(15)		2,952		PD-1
90% minimum census threshold	6		13,140	-		13,140		
Total census days	6	5E	12,048	68		12,116		PD-2

PART IV - DETAILED EXPLANATION OF ADJUSTMENTS

Adjustments affecting salaries (S):

S-1 To adjust the salary reclassification for improper allocation of salaries and benefits.

Adjustments affecting other costs (O):

O-1 To adjust Other Primary Patient Care Costs to reflect actual primary care costs.

O-2 To remove unallowable costs associated with Assisted Living.

Adjustments affecting Patient Days (PD):

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

PD-2 To adjust total Total Census 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 Cadbury at Lewes (the Facility) for the year ended June 30, 2009, and have issued our report thereon dated September 18, 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

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. As described in the accompanying schedule of findings and responses, we believe that the following deficiency described as Condition 09-01 constitutes a material weakness, and the deficiency described as Condition 09-02 to be a significant deficiency.

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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 September 18, 2012.

The Facility did not provide a response to the significant deficiencies and material weaknesses identified in 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 Cadbury at Lewes, 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

September 18, 2012

CADBURY AT LEWES

Schedule of Findings and Responses

June 30, 2009

CURRENT YEAR CONDITIONS

CONDITION 09-01

Condition: The Facility was unable to document the estimated useful lives of their fixed assets.

Criteria: The useful lives of assets for Medicare and Medicaid purposes are set as a guideline for the Facility's capitalization policy.

Cause: The Company does not keep a schedule with this information.

Effect: BDO could not test whether the Facility is assigning useful lives to fixed assets in accordance with the American Hospital Association (AHA).

Suggestion: Management should keep a fixed asset register which lists useful lives that are assigned when the fixed asset is acquired.

Management response: Management has not responded to this comment.

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CONDITION 09-02

Condition: The Facility was unable to produce system reports for the time period under audit relating to census data. Manual records provided did not agree to the Cost Report.

Criteria: The Statement of Reimbursement Cost for Skilled and Intermediate Care Nursing Facilities should be supported by a trial balance and necessary schedules. The trial balance and schedules have to be submitted to the Medicaid Agency, and they must be available for audit within the State of Delaware by the Medicaid Agency or its designated representative for the period of five years after the date of filing the Statement of Reimbursement Cost with the Medicaid Agency.

Cause: Employee turnover and a change in software resulted in the inability to provide support for census data.

Effect: The patient days listed on the Cost Report did not agree to supporting documentation. BDO proposed an adjustment on the Cost Report to adjust to the supporting documentation.

Suggestion: Management should maintain their records in accordance with Medicaid guidelines as detailed in the Cost Report Instructions.

Management response: Management has not responded to this comment.