

# **FORWOOD MANOR**

## **Audit Report Medicaid Cost Report and Nursing Wage Survey**

June 30, 2009

Issuance Date: October 10, 2012

# FORWOOD MANOR

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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 Forwood Manor (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 Debt Payable to Related Parties, we were unable to form an opinion regarding the amounts included in the Cost Report related to Debt Payable, including interest and related party transactions.

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.

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In our opinion, except for the effects any adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves relating to the Debt Payable to Related Party and for the accompanying Schedule of Adjustments, the Cost Report and Survey of 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 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 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**

July 6, 2012

## Forwood Manor

### 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>			
<b><u>PART I - COST REPORT TRIAL BALANCE AND ADJUSTMENTS</u></b>								
<i>Primary Patient Care Costs (lines 1-5)</i>								
Nursing Staff Benefits	2	2	448,147	1	(14,608)	433,539		B-1
Unadjusted lines	2	1b, 3	<u>2,161,233</u>		-	<u>2,161,233</u>		
<b>Subtotal - Primary Patient Care</b>	<b>2</b>	<b>5</b>	<b>2,609,380</b>		<b>(14,608)</b>	<b>2,594,772</b>	<b>\$ 106.51</b>	
<i>Secondary Patient Care Costs (lines 6-14)</i>								
Employee Benefits	2	8	8,546	1	(279)	8,267		B-1
Raw Food	2	9	278,243	4	(4,033)	274,210		O-2
Medical Supplies	2	10	129,355	4	(4,617)	124,738		O-2
Pharmacy (non Rx)	2	11	10,229	4	8	10,237		O-2
Unadjusted lines	2	7	<u>41,195</u>		-	<u>41,195</u>		
<b>Subtotal - Secondary Patient Care Costs</b>	<b>2</b>	<b>14</b>	<b>467,568</b>		<b>(8,921)</b>	<b>458,647</b>	<b>18.83</b>	
<i>Support Service Costs (lines 15-22)</i>								
Dietary	2	15	471,559	4	(1,155)	470,404		O-2
Oper. & Maint. of Facility	2	16	147,215	4	(7,252)	139,963		O-2
Housekeeping	2	17	190,859	4	(146)	190,713		O-2
Laundry and Linen	2	18	43,788	4	(1,000)	42,788		O-2
Patient Recreation	2	19	169,318	4	(894)	168,424		O-2
Employee Benefits	2	20	<u>164,989</u>	1	<u>(5,378)</u>	<u>159,611</u>		B-1
<b>Subtotal - Support Service Costs</b>	<b>2</b>	<b>22</b>	<b>1,187,728</b>		<b>(15,825)</b>	<b>1,171,903</b>	<b>48.11</b>	
<i>Administrative &amp; Routine Costs (lines 23-32)</i>								
Other Administrative Salaries	2	25	156,113	4	(4,988)	151,125		O-2
Employee Benefits	2	26	76,146	1	(2,482)	73,664		B-1
Training	2	28	2,668	4	(858)	1,810		O-2
Other Administrative Costs	3	31	182,955	4	(16,327)	166,628		O-2
Unadjusted lines	2/3	23,24,25,27,28,30,31	<u>507,574</u>		-	<u>507,574</u>		
<b>Subtotal - Administrative &amp; Routine</b>	<b>3</b>	<b>32</b>	<b>925,456</b>		<b>(24,655)</b>	<b>900,801</b>	<b>36.98</b>	

## Forwood Manor

### 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>
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<i>Capital Costs (lines 33-39)</i>								
Lease Costs	3	33	110	4	(53)	57		O-2
Depreciation	3	36	89,533	2	(29,562)	59,971		CC-1
Unadjusted lines	3	33,35,37,38	<u>58,340</u>		-	<u>58,340</u>		
Subtotal - Capital	3	39	<u>147,983</u>		<u>(29,615)</u>	<u>118,368</u>	<u>4.86</u>	
<b>SUBTOTAL</b>	<b>3</b>	<b>40</b>	<u><b>5,338,115</b></u>		<u><b>(93,624)</b></u>	<u><b>5,244,491</b></u>	<u><b>215.28</b></u>	
<i>Ancillary Costs (lines 41-49)</i>								
X-Ray	3	42	16,685	4	(557)	16,128		O-2
Occupational Therapy	3	44	313,849	4	(85)	313,764		O-2
Pharmacy (Rx)	3	46	324,679	4	2,818	327,497		O-2
Oxygen	3	47	56,674	4	(11,342)	45,332		O-2
Other Ancillary Costs	3	48	4,151	2	(214)	3,937		O-2
Unadjusted lines	3	41,43,45	<u>493,181</u>		-	<u>493,181</u>		
Subtotal - Ancillary	3	39	<u>1,209,219</u>		<u>(9,380)</u>	<u>1,199,839</u>	<u>49.25</u>	
<i>Other Costs (line 50)</i>					(2,008)			O-2
	3	50	<u>7,927,339</u>	<u>3</u>	<u>(7,917,542)</u>	<u>7,789</u>	<u>0.32</u>	O-1
<b>TOTAL COSTS</b>	<b>3</b>	<b>53</b>	<u><b>\$ 14,474,673</b></u>		<u><b>\$(8,022,554)</b></u>	<u><b>\$ 6,452,119</b></u>	<u><b>\$ 264.85</b></u>	

#### PART II - COST REPORT PATIENT DAYS

Total beds	6	1, 3	72		-	72		
Total bed days available	6	4	26,280		-	26,280		
Medicaid Patient Days	6	5A	1,412		(15)	1,397		PD-1
90% minimum census threshold	6		23,652		-	23,652		
Total census days	6	5E	24,361		-	24,361		

# Forwood Manor

## 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>			
Registered Nurse (RN) - Admin Salary	8	A.3	2,048		282	2,330		NWS-1
RN's - Hours	9	B	399		(18)	381		NWS-1
RN's - Salary	9	B	15,273		(928)	14,345		NWS-1
Licensed Practical Nurses (LPN) - Hours	9	B	927		(17)	910		NWS-1
LPN's - Total Number	9	B	17		(1)	16		NWS-1
LPN's - Salary	9	B	23,844		(387)	23,457		NWS-1
Nurses Aides - Hours	9	B	2,267		65	2,332		NWS-1
Nurses Aides - Total Number	9	B	34		1	35		NWS-1
Nurses Aides - Salary	9	B	33,390		1,014	34,404		NWS-1

### PART IV - DETAILED EXPLANATION OF ADJUSTMENTS

#### Adjustments affecting benefits (B):

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

#### 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 other costs (O):

O-1 To remove unallowable costs associated with Assisted Living

O-2 To remove unallowable costs that occurred in a prior fiscal year.

#### Adjustments affecting Patient Days (PD):

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

#### Adjustments affecting Nursing Wage Survey (NWS):

NWS-1 To adjust the number of nurses reported under the Nursing Wage Survey.



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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 Forwood Manor (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 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 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.

## 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 July 6, 2012.

The Facility's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Facility's response, and accordingly, we express no opinion on it.

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 Forwood Manor, 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

# FORWOOD MANOR

## Schedule of Findings and Responses

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*June 30, 2009*

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### CURRENT YEAR CONDITIONS

#### CONDITION 09-01

Condition: The Facility was unable to document \$4,773,886 in Debt Payable to Related Parties.

Criteria: Medicaid Cost Report Instructions state that a schedule of Debt Payable to Related Parties should accompany the Cost Report. The schedule should include related party names, amount of payables owed to each party, interest rates, and due dates.

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

Effect: Interest expense is not being charged and it is not clear to whom the debt is owed.

Suggestion: Management should keep a detailed schedule that lists related party names, amount of payables owed to each party, interest rates, and due dates. Further, management should document each debt arrangements with loan agreements that highlight the terms listed above.

Management response: Management has acknowledged our comment, and concurs with our recommendation.

#### CONDITION 09-02

Condition: We noted certain costs that were deducted on the Medicaid Cost Report but were not incurred for the Medicaid Cost Report year. The amount of costs removed from the Report totaled \$52,703.

Criteria: All costs reported during a Cost Report period must be incurred during that fiscal year.

Cause: Expenses are not being reviewed to ensure they are being recorded in the correct period.

Effect: Certain costs were overstated on the current year Cost Report and understated on the previous year.

Suggestion: The Facility Administrator should carefully review expenditures close to year-end to ensure they are posted in the correct accounting period.

Management response: Management has acknowledged our comment, and concurs with our recommendation.