



STATE OF NEW YORK
OFFICE OF THE MEDICAID INSPECTOR GENERAL
90 Church Street, 14th Floor
New York, New York 10007

ANDREW M. CUOMO
GOVERNOR

JAMES C. COX
MEDICAID INSPECTOR GENERAL

September 8, 2014

[REDACTED]
Sheepshead Nursing and Rehabilitation Center
2840 Knapp Street
Brooklyn, New York 11235

Re: Medicaid Rate Audit #10-2400
NPI Number: [REDACTED]
Provider Number: [REDACTED]

Dear [REDACTED]

Enclosed is the final audit report of the Office of the Medicaid Inspector General's (the "OMIG") audit of Sheepshead Nursing and Rehabilitation Center's (the "Facility") Medicaid rates for the rate period January 1, 2005 through December 31, 2008. In accordance with 18 NYCRR Section 517.6, this audit report represents the OMIG's final determination on issues raised in the draft audit report.

In response to the draft audit report dated May 23, 2014, you identified specific audit findings with which you disagreed. Your comments have been considered (see Attachment A) and the report has been either revised accordingly and/or amended to address your comments (see Attachment B). Consideration of your comments resulted in an overall reduction of \$43,311 to the total Medicaid overpayment shown in the draft audit report. As previously stated in the draft audit report, the Medicare Part B and D offsets were not within the scope of the review and may be examined as part of a future audit. Based on the enclosed audited rates calculated by the Bureau of Long Term Care Reimbursement, the Medicaid overpayment currently due is \$146,174. This overpayment is subject to Department of Health ("DOH") and Division of Budget ("DOB") final approval. While not anticipated, any difference between the calculated overpayment and the final DOH and DOB approved amount will be resolved with the Facility by the OMIG Bureau of Collections Management.

The overpayment does not reflect the impact on rates subsequent to December 31, 2008 that utilized the May 1, 1987 through October 31, 1987 base period for operating expense. Any overpayment resulting from operating expense disallowances in the May 1, 1987 through October 31, 1987 base period report for rates subsequent to December 31, 2008 will be addressed in the future.

In accordance with 18 NYCRR Part 518 which regulates the collection of overpayments, your repayment options are described below.

OPTION #1: Make full payment by check or money order within 20 days of the date of the final audit report. The check should be made payable to the New York State Department of Health and be sent with the attached Remittance Advice to:

[REDACTED]
New York State Department of Health
Medicaid Financial Management
GNARESP Corning Tower, Room 2739
File #10-2400
Albany, New York 12237-0048

OPTION #2: Enter into a repayment agreement with the Office of the Medicaid Inspector General. If your repayment terms exceed 90 days from the date of the final audit report, recoveries of amounts due are subject to interest charges at the prime rate plus 2%. If the process of establishing the repayment agreement exceeds 20 days from the date of the final audit report, the OMIG will impose a 50% withhold after 20 days until an agreement is established. OMIG acceptance of the repayment agreement is based on your repaying the Medicaid overpayment as agreed. The OMIG will adjust the rate of recovery, or require payment in full, if your unpaid balance is not being repaid as agreed. In addition, if you receive an adjustment in your favor while you owe funds to the State, such adjustment will be applied against any amount owed. If you wish to enter into a repayment agreement, please contact the Bureau of Collections Management within 20 days at the following:

Bureau of Collections Management
New York State Office of the Medicaid Inspector General
800 North Pearl Street
Albany, New York 12204

[REDACTED]

You have the right to challenge this action and determination by requesting an administrative hearing within sixty (60) days of the date of this notice. You may not request a hearing to raise issues related to rate setting or rate setting methodology. In addition, you may not raise any issue that was raised or could have been raised at a rate appeal with your rate setting agency. You may only request a hearing to challenge specific audit adjustments which you challenged in a response to the draft audit report.

If you wish to request a hearing, the request must be submitted in writing to:

General Counsel
Office of Counsel
New York State Office of the Medicaid Inspector General
800 North Pearl Street
Albany, New York 12204

Questions regarding the request for a hearing should be directed to the Office of Counsel at [REDACTED]

If a hearing is held, you may have a person represent you or you may represent yourself. If you choose to be represented by someone other than an attorney, you must supply a signed authorization permitting that person to represent you along with your hearing request. At the hearing, you may call witnesses and present documentary evidence on your behalf.

Should you have any questions, please contact me at [REDACTED] or through email at [REDACTED]. Please refer to audit number 10-2400 in all correspondence.

Sincerely,

[REDACTED]
Bureau of Rate Audit
Division of Medicaid Audit
Office of the Medicaid Inspector General

Enclosures

- Attachment A - Facility Draft Audit Report Comments and OMIG Response
- Attachment B - Summary of Changes From Draft Report to Final Report
- EXHIBIT I - Summary of Per Diem Impact and Medicaid Overpayment
- EXHIBIT II - Summary of Medicaid Rates Audited
- EXHIBIT III - Operating Expense Disallowances/(Allowances)
- EXHIBIT IV - Property Expense Disallowances/(Allowances)
- EXHIBIT V - Return on Average Equity Disallowances/(Allowances)

CERTIFIED MAIL [REDACTED]
RETURN RECEIPT REQUESTED

**NEW YORK STATE
OFFICE OF THE MEDICAID INSPECTOR GENERAL
REMITTANCE ADVICE**

NAME AND ADDRESS OF AUDITEE

Sheepshead Nursing and
Rehabilitation Center
2840 Knapp Street
Brooklyn, NY 11235

NPI #: [REDACTED]
PROVIDER #: [REDACTED]

AUDIT #10-2400

AMOUNT DUE: \$146,174

AUDIT	<input type="checkbox"/>	PROVIDER
TYPE	<input checked="" type="checkbox"/>	RATE
	<input type="checkbox"/>	PART B
	<input type="checkbox"/>	OTHER:

CHECKLIST

1. To ensure proper credit, please enclose this form with your check.
2. Make checks payable to: *New York State Department of Health*
3. Record the Audit Number on your check.
4. Mail check to:

[REDACTED]
New York State Department of Health
Medicaid Financial Management
GNARESP Corning Tower, Room 2739
File #10-2400
Albany, New York 12237-0048

5. If the provider number shown above is incorrect, please enter the correct number below.

[REDACTED]

CORRECT PROVIDER NUMBER

**SHEEPSHEAD NURSING & REHABILITATION CENTER - AUDIT #10-2400
FACILITY DRAFT AUDIT REPORT COMMENTS AND OMIG RESPONSE**

All OMIG adjustments were accepted by the Facility except for those shown below. The following details the disposition of final report adjustments after consideration of the Facility's draft audit report response comments. See Attachment B for adjustment changes included in the final audit report.

EXHIBIT IV COMMENTS

Adjustment #1 – Building Rent Disallowances

Based on the draft report response, the disallowance has been eliminated.

Adjustment #4 – Real Estate Tax Disallowance

Based on the draft report response, the disallowance has been eliminated.

Adjustment #8(c) – Return On Average Equity Disallowances

Based on the draft report response, the disallowance has been eliminated.

Adjustment #8(d) – Return On Average Equity Disallowances

Based on the draft report response, the disallowance has been eliminated.

Adjustment #11(a) – Sales Tax Disallowances

Facility Comment

We request that the item removed from 2004/2006 which are applicable to 2003/2005 be given in that year, as discussed at the exit conference.

OMIG Response

Based on the draft report response, the disallowances associated with sales tax applicable to a prior period and tax exempt clothing were eliminated.

Disposition: The draft report disallowance was reduced.

Adjustment #11(c) – Sales Tax Disallowances

Based on the OMIG's internal review, the disallowance has been eliminated.

SHEEPSHEAD NURSING & REHABILITATION CENTER - AUDIT #10-2400
SUMMARY OF CHANGES FROM DRAFT REPORT TO FINAL REPORT

	<u>Rate Period</u>	<u>Draft Disallowance (Allowance)</u>	<u>Change</u>	<u>Final Disallowance (Allowance)</u>
<u>EXHIBIT IV - PROPERTY EXPENSE DISALLOWANCES/(ALLOWANCES)</u>				
1. BUILDING RENT DISALLOWANCES	2006	\$ 360,000	\$ (360,000)	-
	2006	(360,000)	360,000	-
	2008	360,000	(360,000)	-
	2008	(360,000)	360,000	-
4. REAL ESTATE TAX DISALLOWANCE	2008	255,351	(255,351)	-
	2008	(255,351)	255,351	-
8. RETURN ON AVERAGE EQUITY DISALLOWANCES	2005	7,340	(2,973)	\$ 4,367
	2006	14,610	(6,516)	8,094
	2007	7,780	-	7,780
	2008	11,606	(5,337)	6,269
11a. SALES TAX DISALLOWANCES	2005	1,745	-	1,745
	2006	10,324	(2,136)	8,188
	2007	1,702	-	1,702
	2008	7,051	-	7,051
11b. SALES TAX DISALLOWANCES	2006	3,973	-	3,973
	2007	5,102	-	5,102
	2008	10,127	-	10,127
11c. SALES TAX DISALLOWANCES	2005	2,543	(2,543)	
	2006	1,975	(1,975)	
	2007	1,684	(1,684)	
	2008	662	(662)	

SHEEPSHEAD NURSING REHABILITATION CENTER - AUDIT #10-2400
RATE PERIODS JANUARY 1, 2005 THROUGH DECEMBER 31, 2008
SUMMARY OF PER DIEM IMPACT AND MEDICAID OVERPAYMENT

<u>RATE PERIOD</u>	<u>ISSUED PART B & D NON-ELIGIBLE RATES*</u>	<u>FINAL PART B & D NON-ELIGIBLE RATES</u>	<u>RATE DECREASE (INCREASE)</u>	<u>MEDICAID DAYS</u>	<u>MEDICAID OVERPAYMENT</u>
01/01/05 - 02/28/05	\$264.17	\$263.29	\$0.88	5,077	\$ 4,468
03/01/05 - 05/31/05	264.04	263.17	0.87	9,302	8,093
06/01/05 - 06/30/05	262.84	261.96	0.88	2,884	2,538
07/01/05 - 08/31/05	262.84	261.96	0.88	6,107	5,374
09/01/05 - 11/30/05	263.43	262.56	0.87	9,336	8,122
12/01/05 - 12/31/05	260.99	260.12	0.87	3,006	2,615
01/01/06 - 02/28/06	274.93	273.54	1.39	5,642	7,842
03/01/06 - 03/31/06	275.91	274.52	1.39	2,700	3,753
04/01/06 - 05/31/06	275.31	273.92	1.39	5,692	7,912
06/01/06 - 08/31/06	279.99	278.60	1.39	9,202	12,791
09/01/06 - 11/30/06	280.33	278.94	1.39	8,910	12,385
12/01/06 - 12/31/06	279.99	278.60	1.39	2,728	3,792
01/01/07 - 03/31/07	285.70	284.82	0.88	8,065	7,097
04/01/07 - 06/30/07	284.13	283.26	0.87	8,804	7,659
07/01/07 - 08/31/07	281.89	281.02	0.87	5,946	5,173
09/01/07 - 12/31/07	281.89	281.02	0.87	12,433	10,817
01/01/08 - 03/31/08	286.35	285.34	1.01	8,599	8,685
04/01/08 - 06/30/08	280.31	279.30	1.01	8,584	8,670
07/01/08 - 12/31/08	287.25	286.24	1.01	18,206	18,388
TOTAL MEDICAID OVERPAYMENT					<u>\$ 146,174</u>

* Any differences between these rates and the rates listed in Exhibit II of this audit report represent rate changes made subsequent to OMIG's audit. These changes remain open to future audit by the OMIG. For the purpose of this Exhibit, the Medicare Part B and D rates are not shown. The rate decrease/(increase) for those rates is the same as shown for the Medicare Part B and D non-eligible rates above.

SHEEPSHEAD NURSING REHABILITATION CENTER - AUDIT #10-2400**RATE PERIODS JANUARY 1, 2005 THROUGH DECEMBER 31, 2008****SUMMARY OF MEDICAID RATES AUDITED**

The Facility's Medicaid utilization was approximately 50 percent for the period under audit and the Medicaid per diem rates audited are shown below. Any differences between these rates and the "Issued Rates" listed in Exhibit I of this audit report represent rate changes made subsequent to our audit. These changes remain open to future audit by the OMIG.

<u>RATE PERIOD</u>	<u>ISSUED MEDICARE PART B & D NON-ELIGIBLE RATES *</u>
01/01/05 - 02/28/05	\$ 264.17
03/01/05 - 05/31/05	264.04
06/01/05 - 06/30/05	262.84
07/01/05 - 08/31/05	262.84
09/01/05 - 11/30/05	263.43
12/01/05 - 12/31/05	260.99
01/01/06 - 02/28/06	274.93
03/01/06 - 03/31/06	275.91
04/01/06 - 05/31/06	275.31
06/01/06 - 08/31/06	279.99
09/01/06 - 11/30/06	280.33
12/01/06 - 12/31/06	279.99
01/01/07 - 03/31/07	285.70
04/01/07 - 06/30/07	284.13
07/01/07 - 08/31/07	281.89
09/01/07 - 12/31/07	281.89
01/01/08 - 03/31/08	286.35
04/01/08 - 06/30/08	280.31
07/01/08 - 12/31/08	287.25

* The Medicare Part B and D rates are not shown for the purpose of this Exhibit. The Medicare Part B and D offsets were not within the scope of this audit and may be examined as part of a future audit.

SHEEPSHEAD NURSING REHABILITATION CENTER - AUDIT #10-2400
RATE PERIODS JANUARY 1, 2005 THROUGH DECEMBER 31, 2008
OPERATING EXPENSE DISALLOWANCES/(ALLOWANCES)

	DESCRIPTION	COST CTR.	DISALLOWED (ALLOWED)	TRACE- BACK %	OPERATING EXPENSE COMPONENT			
					DIRECT	INDIRECT	01/01/05 - 12/31/06 NON- COMP.	01/01/07 - 12/31/08 NON- COMP.
Operating Expense Allowed per HE-12B					\$ 2,292,698	\$ 1,457,108	\$ 212,391	\$ 125,769
Less Disallowances/(Allowances):								
SALES TAX DISALLOWANCES								
For rate years January 1, 2005 through December 31, 2008, the Facility reported and was reimbursed for all sales tax expense in the property portion of the rate. Since sales tax is included in the Facility's May 1, 1987 through October 31, 1987 base period and since this period is also the basis for the operating portion of the January 1, 2005 through December 31, 2008 rates, inclusion of sales tax in the capital portion of the rate resulted in duplicate reimbursement. In order to eliminate the duplication, the following disallowances to the operating component of the January 1, 2005 through December 31, 2008 rates were necessary.								
Regulations: 10 NYCRR Sections 86-2.17(a) & (d)								
	Activities	014	3,033	100.00%	3,033			
	Social Services	021	13	100.00%	13			
	Occupational Therapy	040	31	100.00%	31			
	Central Service Supply	043	10,712	100.00%	10,712			
	Fiscal	004	3,105	100.00%		3,105		
	Plant	006	3,813	100.00%		3,813		
	Security	008	2,817	100.00%		2,817		
	Laundry & Linen	009	7,069	100.00%		7,069		
	Housekeeping	010	3,713	100.00%		3,713		
	Medical Records	019	26	100.00%		26		
	Utilities & R. E Taxes	106	2,833	100.00%			2,833	2,833
Total Disallowances/(Allowances)					\$ 13,789	\$ 20,543	\$ 2,833	\$ 2,833
AUDITED OPERATING EXPENSE BY COMPONENT					\$ 2,278,909	\$ 1,436,565	\$ 209,558	\$ 122,936

SHEEPSHEAD NURSING REHABILITATION CENTER - AUDIT #10-2400
RATE PERIODS JANUARY 1, 2005 THROUGH DECEMBER 31, 2008
PROPERTY EXPENSE DISALLOWANCES/(ALLOWANCES)

	DESCRIPTION	CTR.	COST DISALLOWED (ALLOWED)	TRACE- BACK %	RATE PERIODS			
					2005	2006	2007	2008
Property Expense Allowed per HE-12B					\$ 1,004,960	\$ 1,227,622	\$ 1,455,980	\$ 1,391,256
Less Disallowances/(Allowances):								
1. BUILDING RENT DISALLOWANCES								
Based on the draft report response, the disallowance has been eliminated.								
	RHCF	051	-	100.00%				
	Bldg. Rent	001	-	93.50%				
	RHCF	051	-	100.00%				
	Bldg. Rent	001	-	93.23%				
2. PROPERTY INSURANCE DISALLOWANCES								
The Facility's January 1, 2005 through December 31, 2008 rates included insurance premiums for business income. This type of insurance does not relate to the loss of or damage to the Facility's physical property and consequently, is only includable in the operating component of the rate. Since these insurance premiums are not allowable as property insurance costs, they were disallowed.								
Regulations: 10 NYCRR Sections 86-2.10(g) & 86-2.17(a) & (d), PRM-1 Sections 2161 & 2806.2								
	Prop. Ins.	005	5,599	96.77%	5,418			
	Prop. Ins.	005	6,115	93.12%		5,694		
	Prop. Ins.	005	6,120	93.25%			5,707	
	Prop. Ins.	005	5,631	93.11%				5,243
3. LEASEHOLD IMPROVEMENT AMORTIZATION DISALLOWANCES								
a) The Facility incorrectly capitalized costs that should have been expensed as operating costs. These expenditures should have been expensed in accordance with Generally Accepted Accounting Principles and the guidelines included in the RHCF Accounting and Reporting Manual. Accordingly, the depreciation expense applicable to these costs were disallowed.								
Regulations: 10 NYCRR Sections 86-2.4, 86-2.10(g), & 451.230								
	Lease. Impr.	001	186	93.50%		174		
	Bldg. Dep.	001	541	93.40%			505	
	Bldg. Dep.	001	1,038	93.23%				968
b) Providers receiving payment on the basis of reimbursable costs are required to provide adequate cost data based on financial and statistical records that can be verified on audit. The cost information must be current, accurate, and in sufficient detail. Audited leasehold improvement amortization varied from the expense allowed in the rate resulting in disallowances.								
Regulations: 10 NYCRR Sections 86-2.17(a) & (d) & 86-2.21, PRM-1 Sections 2300 & 2304								
	Lease. Impr.	001	10,227	96.18%	9,836			
	Lease. Impr.	001	10,226	93.50%		9,562		
	Bldg. Dep.	001	10,227	93.40%			9,552	
	Bldg. Dep.	001	10,227	93.23%				9,535
4. REAL ESTATE TAX DISALLOWANCE								
Based on the draft report response, the disallowance has been eliminated.								
	RHCF	051	-	100.00%				
	RE Tax	006	-	93.33%				

SHEEPSHEAD NURSING REHABILITATION CENTER - AUDIT #10-2400
RATE PERIODS JANUARY 1, 2005 THROUGH DECEMBER 31, 2008
PROPERTY EXPENSE DISALLOWANCES/(ALLOWANCES)

	DESCRIPTION	CTR.	COST DISALLOWED (ALLOWED)	TRACE-BACK %	RATE PERIODS			
					2005	2006	2007	2008
5. MOVABLE EQUIPMENT DEPRECIATION DISALLOWANCES								
a) The Bureau of Long Term Care Reimbursement has determined the nature of telephone expense to be an operating expense. Since the expense is included in the formula to determine the base, mean, and ceiling prices used to establish the indirect expense corridor, the reimbursement of telephone depreciation expense in the property component amounts to duplicate reimbursement. Therefore, depreciation expense on telephone equipment purchased in 1998 is disallowed. Regulation: 10 NYCRR Section 86-2.17(d)								
	ME Depr.	002	4,277	89.02%	3,807			
	ME Depr.	002	4,702	81.27%		3,821		
	ME Depr.	002	850	81.54%			693	
	ME Depr.	002	4,702	81.93%				3,852
b) The Facility incorrectly capitalized costs that should have been expensed as operating costs. These expenditures should have been expensed in accordance with generally accepted accounting principles and the guidelines and definitions included in the RHC Accounting and Reporting Manual. Accordingly, the depreciation expense applicable to these costs was disallowed. Regulations: 10 NYCRR Sections 86-2.4 & 451.230								
	ME Depr.	002	40	81.54%			33	
	ME Depr.	002	80	81.93%				66
6. DISALLOWANCE OF AUTOMOBILE EXPENSES								
Providers are required to provide adequate cost data that can be verified. Additionally, only costs that are properly chargeable to necessary patient care are allowable. The Facility was unable to provide documentation or demonstrate the relationship to patient care for reported automobile expenses. Consequently, disallowances were necessary. Regulations: 10 NYCRR Section 86-2.17(a), PRM-1 Sections 2102.3, 2105.9, & 2300								
	Rent A	006	5,847	96.22%	5,626			
	Rent A	006	5,847	93.64%		5,475		
	Rent C	006	5,847	93.53%			5,469	
	Rent C	006	4,734	93.33%				4,418
	Auto Ins.	006	1,618	96.22%	1,557			
	Auto Ins.	006	3,130	93.64%		2,931		
	Auto Ins.	006	2,959	93.53%			2,768	
	Auto Ins.	006	1,531	93.33%				1,429
7. EQUIPMENT RENTAL EXPENSE DISALLOWANCES								
Rental expenses associated with maintenance agreements are considered operating expenses and should not be included in the property component of the rate. Consequently, maintenance fees were disallowed. Regulations: 10 NYCRR Sections 86-2.17(a) & (d) & 86-2.10(g), PRM-1 Section 2806.2								
	Rent B	004	1,500	96.77%	1,452			
	Rent B	004	6,000	93.12%		5,587		
	Rent B	004	6,000	93.25%			5,595	
	Rent B	004	6,000	93.11%				5,587
8. RETURN ON AVERAGE EQUITY DISALLOWANCES								
a) Based on the average equity regulation below, a proprietary residential health care facility is entitled to a reasonable return on average equity for equity associated with necessary and proper patient care activities. The returns in the 2005 and 2006 promulgated rates were based on average equity that included amounts for intangible assets. The Commissioner has determined that intangible assets are not reimbursable for Medicaid. Consequently, the average equity calculation was recomputed based on the elimination of the intangible assets, which resulted in disallowances to the return on average equity. (See Exhibit V) Regulations: 10 NYCRR Sections 86-2.17(d) & 86-2.28								
	Ret. Avg. Eq.	001	4,367	96.18%	4,200			
	Ret. Avg. Eq.	001	8,094	93.50%		7,568		
	Ret. Avg. Eq.	003	7,780	96.51%			7,508	
	Ret. Avg. Eq.	003	6,269	96.54%				6,052
b) The Bureau of Long Term Care Reimbursement has determined the nature of telephone expense to be an operating expense. Since the expense is included in the formula to determine the base, mean, and ceiling prices used to establish the indirect expense corridor, the reimbursement of telephone expense in the property component amounts to duplicate reimbursement. Consequently, the net book value of telephone equipment was disallowed from the computation. (See Exhibit V) Regulation: 10 NYCRR Section 86-2.17(d)								

SHEEPSHEAD NURSING REHABILITATION CENTER - AUDIT #10-2400
RATE PERIODS JANUARY 1, 2005 THROUGH DECEMBER 31, 2008
PROPERTY EXPENSE DISALLOWANCES/(ALLOWANCES)

	DESCRIPTION	CTR.	COST DISALLOWED		TRACE-	RATE PERIODS								
			(ALLOWED)	BACK %		2005	2006	2007	2008					
8. RETURN ON AVERAGE EQUITY DISALLOWANCES (CONT.)														
c) Based on the draft report response, the disallowance has been eliminated.														
d) Based on the draft report response, the disallowance has been eliminated.														
9. CAPITALIZED LEASED EQUIPMENT ADJUSTMENTS														
a) The Bureau of Long Term Care Reimbursement has determined the nature of telephone expense to be an operating expense. Since the expense is included in the formula to determine the base, mean, and ceiling prices used to establish the indirect expense corridor, the reimbursement of telephone rental expense in the property component amounts to duplicate reimbursement. Therefore, rental expense on telephone equipment leased in 2003 is disallowed.					Rent H	002	643	89.02%	572					
Regulation: 10 NYCRR Section 86-2.17(d)					Rent H	002	3,861	81.27%		3,138				
					Rent A	002	3,861	81.54%			3,148			
					Rent A	002	3,861	81.93%					3,163	
					b) In rate years 2005 and 2006, capital lease equipment rentals were improperly included in the Depreciation, Leases and Rentals (001) and Plant Operation and Maintenance (006) cost centers on Schedule VI of the HE-12B rate computation sheets. These costs should properly be included in the Depreciation on Major Movable Equipment cost center (002). Consequently, the expenses were reclassified.									
Regulations: 10 NYCRR Sections 86-2.10(g) & 86-2.17(a) & (d), PRM-1 Sections 2300 & 2304					Other	001	130,692	96.18%	125,700					
					Rent J	006	217,750	93.64%		203,901				
					Rent H	002	(130,692)	89.02%	(116,342)					
					Rent H	002	(217,750)	81.27%		(176,965)				
10. ADJUSTMENTS TO ADULT DAY CARE PROGRAM EXPENSES														
The Facility reported organization expenses that were 100% related to the Adult Day Care (ADC) program and not properly chargeable to nursing home patient care. Consequently, these amounts were disallowed.					Org/Start-Up	005	4,050	96.77%	3,919					
(Note: A reclassification to the ADC program was not made because those rates were based on budgeted costs and would not be impacted by a reclassification)					Org/Start-Up	005	4,203	93.12%		3,914				
					Org/Start-Up	005	4,050	93.25%			3,777			
					Org/Start-Up	005	4,050	93.11%					3,771	
					Direct Assn.	039	(159)	100.00%	(159)					
Regulations: 10 NYCRR Sections 86-2.7, 86-2.17(a) and (d), RHCf Accounting and Reporting Manual & PRM-1 Section 2102.2					Direct Assn.	039	(105)	100.00%		(105)	(105)	(105)	(105)	

SHEEPSHEAD NURSING REHABILITATION CENTER - AUDIT #10-2400
RATE PERIODS JANUARY 1, 2005 THROUGH DECEMBER 31, 2008
PROPERTY EXPENSE DISALLOWANCES/(ALLOWANCES)

	DESCRIPTION	CTR.	COST DISALLOWED (ALLOWED)	TRACE-BACK %	RATE PERIODS			
					2005	2006	2007	2008
11. SALES TAX DISALLOWANCES								
a) Facilities receiving payments on the basis of reimbursable costs are required to provide adequate cost data based on financial and statistical records that can be verified on audit. Cost data must be current, accurate, and in sufficient detail. Audited sales tax varied from the sales tax expense allowed in the rate resulting in disallowances. Regulations: 10 NYCRR Sections 86-2.4, 86-2.10(a), & 86-2.17(a), PRM-1 Sections 2122.2D, 2300, & 2304	Sales Tax	005	1,745	96.77%	1,689			
	Sales Tax	005	8,188	93.12%		7,625		
	Sales Tax	005	1,702	93.25%			1,587	
	Sales Tax	005	7,051	93.11%				6,565
b) Certain products are exempt from New York State sales tax. Oxygen is one of those products. In the 2004, 2005, and 2006 sales tax calculation provided, oxygen sales tax amounts were included. Consequently, disallowances are necessary. Regulations: 10 NYCRR Section 86-2.17(a), TSB-A-02(25)S, TSB-A-06(13)S, PRM-1 Section 2122.2D	Sales Tax	005	3,973	93.12%		3,700		
	Sales Tax	005	5,102	93.25%			4,758	
	Sales Tax	005	10,127	93.11%				9,429
c) Based on the OMIG's internal review, the disallowance has been eliminated.	Sales Tax	005		96.77%	-			
	Sales Tax	005		93.12%		-		
	Sales Tax	005		93.25%			-	
	Sales Tax	005		93.11%				-
12. WORKING CAPITAL INTEREST EXPENSE DISALLOWANCES								
Allowable costs shall not include any interest charged related to rate determination or penalty imposed by governmental agencies or courts, and the costs of policies obtained solely to insure against the imposition of such a penalty. Interest expense imposed by the New York City Department of Finance on real estate taxes was disallowed. Regulation: 10 NYCRR Section 86-2.17(g)	WCI Expense	005	5,426	96.77%	5,251			
	WCI Expense	005	2,475	93.12%		2,305		
Property Expense Disallowances/(Allowances)					\$ 52,526	\$ 88,325	\$ 50,995	\$ 59,973
TOTAL AUDITED PROPERTY EXPENSE					\$ 952,434	\$ 1,139,297	\$ 1,404,985	\$ 1,331,283

SHEEPSHEAD NURSING REHABILITATION CENTER - AUDIT #10-2400
RATE PERIODS JANUARY 1, 2005 THROUGH DECEMBER 31, 2008
RETURN ON AVERAGE EQUITY DISALLOWANCES/(ALLOWANCES)

<u>Return on Average Equity</u>	<u>RATE PERIODS</u>			
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Average Equity per HE-12B	\$4,724,189	\$5,139,399	\$4,717,334	\$3,780,569
Audit Disallowances:				
Nursing Facility Intangible Assets	72,402	57,970	-	-
Related Company Intangible Assets	143,828	143,828	143,828	143,828
NBV of Telephone Equipment	17,333	13,481	9,629	5,778
Security Deposits/Patient Advances	-	-	-	-
Audited Average Equity	\$4,490,626	\$4,924,120	\$4,563,877	\$3,630,963
Less: Audited Net Investment	-	-	-	-
Audited Remaining Equity	\$4,490,626	\$4,924,120	\$4,563,877	\$3,630,963
Rate of Return	1.87%	3.76%	5.07%	4.19%
Return on Average Equity Per Audit	\$ 83,975	\$ 185,147	\$ 231,389	\$ 152,137
Return on Average Equity Per HE-12B	88,342	193,241	239,169	158,406
Disallowance/(Allowance)	\$ 4,367	\$ 8,094	\$ 7,780	\$ 6,269