



STATE OF NEW YORK
OFFICE OF THE MEDICAID INSPECTOR GENERAL
800 North Pearl Street
Albany, New York 12204

ANDREW M. CUOMO
GOVERNOR

JAMES C. COX
MEDICAID INSPECTOR GENERAL

December 10, 2013

[REDACTED]
Riverhead Care Center
1146 Woodcrest Ave.
Riverhead, New York 11901-2016

Re: Medicaid Rate Audit #10-2542
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 Riverhead Care 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 report represents the OMIG's final determination on issues raised in the draft audit report.

In response to the draft audit report dated June 4, 2013, 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 \$84,791 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 \$175,550. This overpayment is subject to Department of Health (the "DOH") and Division of Budget (the "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 January 1, 1986 through June 30, 1986 base period for operating expense. Any overpayment resulting from operating expense disallowances in the January 1, 1986 through June 30, 1986 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 #10-2542
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 15% withhold after 20 days until the agreement is established. The OMIG may require financial information from you to establish the terms of the repayment agreement. If additional information is requested, the OMIG must receive the information within 30 days of the request or a 50% withhold will be imposed. 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. The OMIG will notify you no later than 5 days after initiating such action. If you wish to enter into a repayment agreement, you must forward your written request within 20 days to the following:

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

If within 20 days, you fail to make full payment or contact the OMIG to make repayment arrangements, the OMIG will establish a withhold equal to 50% of your Medicaid billings to secure payment and liquidate the overpayment amount, interest and/or penalty, not barring any other remedy allowed by law. The OMIG will provide notice to you no later than 5 days after the withholding of any funds.

In addition, if you receive an adjustment in your favor while you owe funds to the State, such adjustment will be applied against the amount owed.

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

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 [REDACTED] or through email at [REDACTED]. Please refer to audit number 10-2542 in all correspondence.

Sincerely,

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

Attachments:

- Attachment A - Facility Draft 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)

CERTIFIED MAIL [REDACTED]
RETURN RECEIPT REQUESTED

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

NAME AND ADDRESS OF AUDITEE

Riverhead Care Center
1146 Woodcrest Ave.
Riverhead, New York 11901

NPI [REDACTED]
PROVIDER [REDACTED]

AUDIT #10-2542

AMOUNT DUE: \$175,550

AUDIT
TYPE

PROVIDER
 RATE
 PART B
 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 #10-2542
Albany, New York 12237-0048

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

[REDACTED]

CORRECT PROVIDER NUMBER

**RIVERHEAD CARE CENTER - AUDIT #10-2542
FACILITY DRAFT 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 – Leasehold Improvements Amortization Disallowances

Facility Comment

The Facility's 2003 additions of \$1,192,451 were incorrectly entered with a 15 year depreciable or useful life. The correction to 10 years was made when it was discovered, for the 2004 audit. Please see Attachment #1, which is a copy of the relevant pages of the 2004 edition of the AHA guidelines of the Estimated Useful Lives of Depreciable Hospital Assets, and a copy of the contract with the construction company [REDACTED] with notations next to each item of the correct useful life for that item. Most of the assets have a useful life of 5, 8, or 10 years. The 10 year life being used is a very reasonable estimate of the average life of all of the assets in the project. Therefore, please eliminate this disallowance from our adjustment.

OMIG Response

OMIG retained the 15 year useful life for cost year 2003, but accepted changing it to 10 years for the remaining periods under audit.

Disposition: The draft report disallowance was revised accordingly.

Adjustment #2 – Interest Expense Disallowance

Facility Comment

A. The disallowance of interest expense related to the renovation loan is without any justification. The project (AEP-3945) was approved with financing included in it. There is nothing in the regulations that are referenced in the disallowance section of our draft OMIG report that would disallow approved project financing due to any equity withdrawals. They are completely unrelated items. Attached are the following items which illustrate the approval of the renovation loan, and the regulations which are lacking any verbiage, which would disallow the interest expense.

Attachment #2 – The March 10, 2003 approval of the Limited review for AEP-3945, which includes financing of \$1,080,000 at 8%

Attachment #3 – The July 15, 2004 approval of the Final Schedule of Certified Costs and the outstanding appeal #432401 for the reimbursement of the costs of the project and the loan reimbursement

Attachment #4 – A copy of the properly filed Schedule 17 from our 2004 RHCF-4 for the renovation loan.

Attachment #5 – A copy of Section 86-2.17(a), Section 86-2.20(b), and Section 2102.3

- B. Outstanding appeals for Interest Expense – We have two outstanding appeals (Attachment #6 and #7) for rate years 2007 and 2008 requesting reimbursement for the renovation loan interest. Please process these appeals with the response for the interest reimbursement and increase our 2007 and 2008 properly reimbursement by \$16,235 and \$5,192 for 2007 and 2008, respectively.

OMIG Response

Per regulations 10 NYCRR Section 86-2.17(a) and 86-2.20(b), PRM-1 Section 2102.3, in order to be considered an allowable cost, interest expense shall be incurred to satisfy a financial need. The Department of Health has determined that excessive equity withdrawals necessitated the borrowing of funds. Consequently, the interest associated with the unnecessary borrowing was disallowed.

Disposition: The draft report disallowance remains the same.

RIVERHEAD CARE CENTER - AUDIT #10-2542
SUMMARY OF CHANGES FROM DRAFT REPORT TO FINAL REPORT

<u>EXHIBIT IV - PROPERTY EXPENSE</u> <u>DISALLOWANCES/(ALLOWANCES)</u>	<u>Rate</u> <u>Period</u>	<u>Draft</u> <u>Disallowamnce</u> <u>(Allowance)</u>	<u>Change</u>	<u>Final</u> <u>Disallowamnce</u> <u>(Allowance)</u>
1. LEASEHOLD IMPROVEMENT AMORTIZATION ADJUSTMENTS	2005	\$251	\$0	\$251
	2006	37,797	(39,748)	(1,951)
	2007	39,000	(39,748)	(748)
	2008	39,749	(39,749)	0

Note: The adjustments shown above only reflect those adjustments that were revised as a result of the Facility's responses. All other adjustments remain the same as shown in the draft audit report.

RIVERHEAD CARE CENTER - AUDIT #10-2542
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 - 01/31/05	\$179.14	\$178.34	\$0.80	4,118	\$ 3,294
02/01/05 - 04/30/05	181.40	180.57	0.83	10,752	8,924
05/01/05 - 06/30/05	182.05	181.20	0.85	7,390	6,282
07/01/05 - 07/31/05	182.05	181.20	0.85	3,724	3,165
08/01/05 - 10/31/05	184.49	183.68	0.81	11,106	8,996
11/01/05 - 12/31/05	183.36	182.51	0.85	7,244	6,157
01/01/06 - 01/31/06	191.64	190.20	1.44	3,657	5,266
02/01/06 - 03/31/06	194.84	193.45	1.39	6,824	9,485
04/01/06 - 04/30/06	194.42	193.02	1.40	3,408	4,771
05/01/06 - 07/31/06	184.82	183.41	1.41	10,999	15,509
08/01/06 - 10/31/06	189.16	187.75	1.41	10,537	14,857
11/01/06 - 12/31/06	193.54	192.15	1.39	6,865	9,542
01/01/07 - 03/31/07	199.52	198.52	1.00	10,126	10,126
04/01/07 - 06/30/07	198.45	197.45	1.00	10,416	10,416
07/01/07 - 12/31/07	196.99	195.99	1.00	21,564	21,564
01/01/08 - 03/31/08	200.63	199.70	0.93	10,137	9,427
04/01/08 - 06/30/08	196.82	195.89	0.93	10,231	9,515
07/01/08 - 12/31/08	201.22	200.29	0.93	19,628	<u>18,254</u>
TOTAL MEDICAID OVERPAYMENT					<u>\$ 175,550</u>

* Any differences between these rates and the rates listed in Exhibit II of this 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.

RIVERHEAD CARE CENTER - AUDIT #10-2542
RATE PERIODS JANUARY 1, 2005 THROUGH DECEMBER 31, 2008
SUMMARY OF MEDICAID RATES AUDITED

The Facility's Medicaid utilization was approximately 74 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 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 - 01/31/05	\$ 179.14
02/01/05 - 04/30/05	181.40
05/01/05 - 06/30/05	182.05
07/01/05 - 07/31/05	182.05
08/01/05 - 10/31/05	184.49
11/01/05 - 12/31/05	183.36
01/01/06 - 01/31/06	191.64
02/01/06 - 03/31/06	194.84
04/01/06 - 04/30/06	194.42
05/01/06 - 07/31/06	184.82
08/01/06 - 10/31/06	189.16
11/01/06 - 12/31/06	193.54
01/01/07 - 03/31/07	199.52
04/01/07 - 06/30/07	198.45
07/01/07 - 12/31/07	196.99
01/01/08 - 03/31/08	200.63
04/01/08 - 06/30/08	196.82
07/01/08 - 12/31/08	201.22

- * 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.

RIVERHEAD CARE CENTER - AUDIT #10-2542
RATE PERIODS JANUARY 1, 2005 THROUGH DECEMBER 31, 2008
OPERATING EXPENSE DISALLOWANCES/(ALLOWANCES)

COST	DESCRIPTION	CTR.	DIRECT	INDIRECT	OPERATING EXPENSE COMPONENT	
					NON-	NON-
					COMP.	COMP.
			\$ 1,434,162	\$ 861,565	\$ 145,348	\$ 81,904
					<u>01/01/05-</u>	<u>01/01/07-</u>
					<u>12/31/06</u>	<u>12/31/08</u>

Operating Expense Allowed per HE-12B
Less Disallowances/(Allowances):

SALES TAX DISALLOWANCE

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 Facility's January 1, 1986 to June 30, 1986 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 property 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)

013	Nursing Admin.	47				
014	Activities	103				
021	Social Services	26				
043	Central Service	2,135				
004	Fiscal Services			153		
005	Admin.			106		
006	Plant			575		
009	Laundry			254		
010	Housekeeping			563		
011	Food			1,346		
106	Utilities					

Total Disallowances/(Allowances)

TOTAL AUDITED OPERATING EXPENSE BY COMPONENT

\$ 2,311	\$ 2,997	\$ 5,130	\$ 5,130
<u>\$ 1,431,851</u>	<u>\$ 858,568</u>	<u>\$ 140,218</u>	<u>\$ 76,774</u>

RIVERHEAD CARE CENTER - AUDIT #10-2542
RATE PERIODS JANUARY 1, 2005 THROUGH DECEMBER 31, 2008
PROPERTY EXPENSE DISALLOWANCES/(ALLOWANCES)

COST CTR.	RATE PERIODS		
	2005	2006	2007
	\$ 640,053	\$ 694,439	\$ 910,451
			\$ 875,959

2005 2006 2007

DESCRIPTION

2005 2006 2007

\$ 640,053 \$ 694,439 \$ 910,451

\$ 875,959

L/H Impr. Amort. 001 251 (1,951) (748)

1. LEASEHOLD IMPROVEMENTS AMORTIZATION ADJUSTMENTS
The audit of movable equipment depreciation in the promulgated rates disclosed that the expense varied when compared to audited movable equipment depreciation. Consequently, adjustments were necessary.
Regulations: 10 NYCRR Section 86-2.17(a), PRM-1 Section 2102.3

2. INTEREST EXPENSE DISALLOWANCES

Only costs that are properly chargeable to patient care are allowable. In order to be considered an allowable cost, interest expense shall be incurred to satisfy a financial need. The Department of Health has determined that excessive equity withdrawals necessitated the borrowing of funds to finance leasehold improvements. Consequently, interest associated with the unnecessary borrowing was disallowed as it was not necessary to satisfy a financial need or properly chargeable to patient care.
Regulations: 10 NYCRR Sections 86-2.17(a) & 86-2.20(b), PRM-1 Section 2102.3

3. PROPERTY INSURANCE DISALLOWANCE

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. The Facility did not provide adequate documentation to substantiate reported property insurance expense. Consequently, a disallowance was necessary.
Regulations: 10 NYCRR Section 86-2.17(a), PRM-1 Sections 2300 & 2304

4. MOVEABLE EQUIPMENT DEPRECIATION DISALLOWANCES

a) The Facility received movable equipment depreciation expense that was in excess of related asset costs. Reimbursement is based on allowable historical cost, and the expense was reduced to limit reimbursement to historical cost. The OMIG determined that computer additions purchased in 2003 were entered into the books at a higher cost than actually paid. A disallowance was necessary for each year in the amount of the disallowed cost divided by the useful life as determined by AHA.
Regulations: 10 NYCRR Sections 86-2.17(a) & 86-2.22

b) The audit of movable equipment depreciation in the promulgated rates disclosed that the expense varied when compared to audited movable equipment depreciation. Consequently, disallowances were necessary.
Regulations: 10 NYCRR Section 86 2.17(a), PRM-1 Section 2102.3

L/H Interest 003 13,120 46,155

13,120 46,155

4,767

1,225

1,225

1,225

132

22

RIVERHEAD CARE CENTER - AUDIT #10-2542
RATE PERIODS JANUARY 1, 2005 THROUGH DECEMBER 31, 2008
PROPERTY EXPENSE DISALLOWANCES/(ALLOWANCES)

	DESCRIPTION	COST CTR.	RATE PERIODS			
			2005	2006	2007	2008
5. MOVABLE EQUIPMENT RENTAL ADJUSTMENTS						
a) Costs incurred by providers related to the personal use of provider vehicles are not allowable. Costs not related to patient care are costs that are not appropriate or necessary and proper in developing and maintaining the operation of patient care facilities and activities. Only costs properly chargeable to necessary patient care are allowable. Costs pertaining to a luxury automobile are not related to patient care and were disallowed. Regulations: 10 NYCRR Section 86-2.17(a), PRM-1 Sections 2102.3 & 2105.9	Rent A Rent B	005 005	10,168	11,555	13,654	16,756
b) Costs not related to patient care are costs not appropriate or necessary in the development and maintenance of patient care facilities and activities. Only costs properly chargeable to necessary patient care are allowable. Providers receiving payment based on reimbursable costs are required to provide adequate cost data based on financial and statistical records that can be verified on audit. Supporting documentation provided for a portion of reported movable equipment rentals was not adequate. As a result, movable equipment rental expense that could not be verified was disallowed. Regulations: 10 NYCRR Section 86-2.17(a), PRM-1 Sections 2102.3, 2300, & 2304	Rent D Rent B Rent C Rent B Rent D Rent E Rent F	043 006 043 005 013 039 043	269 654 570		1,226	945 210 397
c) Audited equipment rental expense varied from the expense allowed in the promulgated rates. Consequently, an allowance was necessary. Regulations: 10 NYCRR Section 86-2.17(a), PRM-1 Section 2102.3	Rent D	043		(247)		
6. AUTO INSURANCE DISALLOWANCES						
Movable equipment insurance included insurance payments on a vehicle the administrator used for personal purposes. Only auto insurance on vehicles for nursing home use is an allowable expense. Therefore, the vehicle insurance payments were disallowed from property expense. Regulations: 10 NYCRR Sections 86-2.17(a) & (d), PRM-1 Sections 2102.3 & 2105.9	Auto Ins.	006	4,990	5,409	14,380	5,633
7. INVESTMENT INCOME OFFSET ALLOWANCES						
Reported investment income was appropriately offset against interest expense in the promulgated rates. However, adjustment #2 disallowed all interest expense. Consequently, it was necessary to reverse the offset of investment income in the rate computation. Any revisions to Adjustment #2 will result in corresponding revisions to this adjustment. Regulation: 10 NYCRR Section 86-2.20(c)	Inv. Inc. Offset	003	(8,417)	(12,649)		
8. MORTGAGE EXPENSE AMORTIZATION DISALLOWANCES						
Only costs that are properly chargeable to patient care are allowable. In order to be considered as an allowable cost, borrowing shall be incurred to satisfy a financial need. The Department of Health has determined that excessive equity withdrawals necessitated the borrowing of funds to finance leasehold improvements. Consequently, mortgage expense amortization associated with the unnecessary borrowing was disallowed as it was not necessary to satisfy a financial need or property chargeable to patient care. Regulations: 10 NYCRR Sections 86-2.17(a) & 86-2.20(b), PRM-1 Section 2102.3	Mort. Exp. Amort.	006	325	1,300		
Property Expense Disallowances/(Allowances)			\$ 21,451	\$ 56,788	\$ 29,737	\$ 25,188
TOTAL AUDITED PROPERTY EXPENSE			\$ 618,602	\$ 637,651	\$ 880,714	\$ 850,771