



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

January 31, 2013

[REDACTED]
Avalon Gardens Rehabilitation
and Health Care Center
7 Route 25A
Smithtown, New York 11787

Re: Medicaid Rate Audit #08-2363
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 Avalon Gardens Rehabilitation and Health Care Center's (the "Facility") Medicaid rates for the rate period August 1, 2004 through December 31, 2007. 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 December 12, 2012, you identified specific audit findings with which you disagreed. Your comments have been considered (see Attachment A). Consideration of your comments resulted in no reduction of the total Medicaid overpayment. 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 \$1,450,928. 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, 2007 that utilized the August 1, 2004 through July 31, 2005 base period for operating expense. Any overpayment resulting from operating expense disallowances in the August 1, 2004, through July 31, 2005 base period report for rates subsequent to December 31, 2007 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 #08-2363
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 [REDACTED] of 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 [REDACTED] at [REDACTED] or through email at [REDACTED]. Please refer to audit number 08-2363 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
- 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 - Adjustments for Pediatric Unit Operating and Property Per Diems

CERTIFIED MAIL # [REDACTED]
RETURN RECEIPT REQUESTED

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

NAME AND ADDRESS OF AUDITEE

Avalon Gardens Rehabilitation
& Health Care Center
7 Route 25A
Smithtown, New York 11787

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

AUDIT #08-2363

AMOUNT DUE: \$1,450,928

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 #08-2363
Albany, New York 12237-0048

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

[REDACTED]
CORRECT PROVIDER NUMBER

**AVALON GARDENS REHABILITATION & HEALTH CARE CENTER - AUDIT #08-2363
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.

EXHIBIT III COMMENTS

Adjustment #1(a) – Fiscal Services Disallowances

Facility Comment

This was the audit fee paid to Abbate DeMarinis, LLP (formerly Abbate Megale, LLP) for the base year audit. We accrued it as of 12/31/05 and was billed and paid subsequently upon completion of the audit and submission of the cost report in late 2005. This is normal and customary on all of these types of engagements was paid in the course of normal operations as cash flow permitted.

OMIG Response

The audit fee (\$30,000 total) was billed December 1, 2005, for audit work performed for the facility and related entities. None of the payments to Abbate DeMarinis, LLP were made within a year after the base year, and could therefore not be considered a base year expense. The first payment of five was presented to the bank on May 1, 2007, more than a year and a half after the end of the base year. The last of the five payments was presented to the bank on October 19, 2007, more than 2 years after the end of the base year.

Disposition: The draft report disallowance remains the same.

Adjustment #2(a) – Administrative Services Adjustments

Facility Comment

W. Eslinger - \$40,000. This was a fee paid to W. Eslinger who was a financing consultant who helped secure the loans necessary to purchase the facility as well as a working capital loan. This amount should be reclassified to organizational costs, amortized and reimbursed as property cost as you did similarly in Adjustment 2(b) of this section.

OMIG Response

The Facility has been requested several times to provide documentation for this expense. No documentation has been submitted, and the expense was disallowed.

Disposition: The draft report disallowance remains the same.

Adjustment #2(a) – Administrative Services Adjustments

Facility Comment

B&L Consulting - \$91,958. This was an erroneous adjustment. A review of G/L A/C 7162 (to which this balance came from) reclassified B&L Consulting and other related payments or \$98,124.70 to a "non-allowable related party expenses" account (which totaled \$209,083) and accordingly was self-disallowed on the RHCF-4. The \$91,958.36 were in fact fees for computer consulting costs and related to reimbursable expenses. This adjustment should be removed.

OMIG Response

B&L Consulting fees for \$91,958 were reported under fees in the administrative services and were therefore part of the indirect expense per diem. The Facility has been requested several times to provide documentation for this expense. No documentation has been submitted, and the expense was disallowed.

Disposition: The draft report disallowance remains the same.

Adjustment #2(a) – Administrative Services Adjustments

Facility Comment

Unidentified \$112,645. We cannot locate the derivation of the \$112,645 nor has the exact location on the general ledger and/or journal been articulated to us to that we can research it and possibly provide documentation. Accordingly, without the aforementioned information it is impossible to dispute and, conversely, should not be disallowed without an opportunity to substantiate it.

OMIG Response

Total legal fees reported in the RHCF-4 were \$427,019. From account summaries and invoices submitted, the audit allowed \$314,374 in legal expenses. This is \$112,645 less than the amount reported. Several requests have been made to submit documentation that matched the total amount reported. No additional documentation has been submitted, and the unsupported expense was disallowed.

Disposition: The draft report disallowance remains the same.

Adjustment #4 – Unsubstantiated Expense Disallowance

Facility Comment

Plant Operations Purchased Services \$60,924 included in \$70,223 adjustment. As was the case with the unidentified administrative costs, it was not articulated to us what and/or where on our books & records is the derivation of this disallowance. Accordingly, we would like more detail and the opportunity to substantiate this adjustment.

OMIG Response

Total purchased and contracted services reported in the RHCF-4 for Plant Operations were \$374,793. From account summaries and invoices submitted, the audit allowed \$304,570 of the supported expenses. The unsupported expenses were partially identified: Budget Services of \$1,288, and \$8,111, and an allowance of \$100 for RE tax transfer error made by the Bureau of Long Term Care Reimbursement (BLTCR). This left \$60,924 unidentified. Several requests have been made to submit documentation that matched the total amount reported. No additional documentation was submitted, and the unsupported expense was disallowed.

Disposition: The draft report disallowance remains the same.

Adjustment #4 – Unsubstantiated Expense Disallowance

Facility Comment

Housekeeping Purchased Services \$27,037. As was the case with the unidentified administrative & other costs, it was not articulated to us what and/or where on our books & records is the derivation of this disallowance. Accordingly, we would like more detail and the opportunity to substantiate this adjustment.

OMIG Response

Total purchased and contracted services for Housekeeping reported were \$223,546. During the audit invoices for \$196,509 were submitted. This is \$27,037 less than the amount reported. Several requests have been made to submit documentation that matched the total amount reported. No additional documentation has been submitted, and the unsupported expense was disallowed.

Disposition: The draft report disallowance remains the same.

Adjustment #4 – Unsubstantiated Expense Disallowance

Facility Comment

Patient Food Purchased Services \$41,361. As was the case with the unidentified administrative costs, it was not articulated to us what and/or where on our books & records is the derivation of this disallowance. Accordingly, we would like more detail and the opportunity to substantiate this adjustment.

OMIG Response

Total purchased and contracted services for Patient Food reported were \$388,312. During the audit, invoices for \$346,951 were submitted. This is \$41,361 less than the amount reported. Several requests have been made to submit documentation that matched the total amount reported. No additional documentation has been submitted, and the expense was disallowed.

Disposition: The draft report disallowance remains the same.

Adjustment #4 – Unsubstantiated Expense Disallowance

Facility Comment

Medical Records Purchased Service \$4,030. As was the case with the unidentified administrative costs, it was not articulated to us what and/or where on our books & records is the derivation of this disallowance. Accordingly, we would like more detail and the opportunity to substantiate this adjustment.

OMIG Response

Total purchased and contracted services for Medical Records reported were \$51,791. During the audit, invoices for \$47,761 were submitted. This is \$4,030 less than the amount reported. Several requests have been made to submit documentation that matched the total amount reported. No additional documentation has been submitted, and the unsupported expense was disallowed.

Disposition: The draft report disallowance remains the same.

Adjustment #4 – Unsubstantiated Expense Disallowance

Facility Comment

Inhalation Therapy Purchased Services: Staffing Remedies \$16,253 – NY Home Health \$7,605. In as much as we supplied substantially all invoices and were able to establish that the facility in fact used the vendors for the aforementioned inhalation therapy, we request that these costs be allowed.

OMIG Response

The Facility submitted several invoices and/or timesheets to support \$21,135 of the \$37,383 reported for purchased and contracted services. The Staffing Remedies amount reported for a total of \$16,248 were not supported by either invoices or timesheets, and therefore disallowed. The facility has been requested several times to submit invoices # 10652R \$3,622.50 and # 11015R \$3,982.50 (total \$7,605) from NY Home Health. No documentation for these invoices was submitted, and the unsupported amounts were disallowed.

Disposition: The draft report disallowance remains the same.

Adjustment #6 – Inhalation Therapy Disallowances

Facility Comment

\$128,746 – Salary - \$38,624 Benefits. Our review of this disallowance revealed that the inhalation therapist salary was posted (as other employees) through the payroll journal and was a salaried employee. Accordingly, it was never articulated the unidentifiable aspect of this salary (and related benefits). Accordingly, we would like the opportunity to give additional documentation (over what was already provided) to substantiate this cost.

OMIG Response

The Facility reported \$201,294 in salaries for Inhalation Therapy. The amount in account [REDACTED] for \$72,548 was supported. The \$128,746 difference was unsupported. When documentation was requested, invoices for the Day Care Center were submitted. These were disallowed as not being part of the inhalation therapy salaries. Additional requests for documentation to support the salary and benefits of \$128,746 and related benefits of \$38,624 were not submitted, and the unsupported expense was disallowed.

Disposition: The draft report disallowance remains the same.

EXHIBIT IV COMMENTS

Adjustment #2(d) - Equipment Rental Expense

Facility Comment

Pitney Bowes \$1,710 and \$4,417. Payments to Pitney Bowes generally are for the rental of the postage machine. Any such costs should be allowed, as they are property in nature and should be reimbursed accordingly.

OMIG Response

The payments for postage machine rental expense were allowed. The disallowed expenses were for reset charges, meter refill charges, and postage supplies. These are operating expenses and are not reimbursed through property expenses.

Disposition: The draft report disallowance remains the same.

Adjustment #2(e) - Equipment Rental Expense

Facility Comment

Rentals of \$98,755 and \$112,273. Substantial amounts have been reclassified from property to direct costs which effectively disallowed all of the aforementioned costs due to the direct ceiling. In as much that the majority of the vendors associated provided equipment for patient care on a lease basis, it should be allowed as property. Furthermore, it was never properly articulated as to why they were reclassified.

OMIG Response

The rental expenses reported in property were operating expenses. They consisted of foam dressing, canister gel, oxygen refills, supplies for bipap, etc. The expenses covering actual rentals, such as wound vacs were allowed. The vendors associated with these costs supply both rentals, and supplies covered in operating cost. The disallowed rental amount also included compactor service, which is also an operating expense.

Disposition: The draft report disallowance remains the same.

Adjustment #3 – Automobile Insurance Disallowance

Facility Comment

Amounts \$9,856 and \$15,553. These items self-disallowed in the cost report and should not be disallowed a second time.

OMIG Response

These amounts were included in the property per diem for all years under audit. The amounts are shown on Schedule VI of the HE-12B rate reports for each year, and were shown to be included in the property per diem. The audit disallowed these costs, since they were associated with an automobile for the administrator.

Disposition: The draft report disallowance remains the same.

AVALON GARDENS REHABILITATION AND HEALTH CARE CENTER - AUDIT #08-2363
RATE PERIODS AUGUST 1, 2004 THROUGH DECEMBER 31, 2007
SUMMARY OF PER DIEM IMPACT AND MEDICAID OVERPAYMENT

<u>RATE PERIOD</u>	<u>ISSUED</u> <u>PART B & D</u> <u>NON-ELIGIBLE</u> <u>RATES*</u>	<u>FINAL</u> <u>PART B & D</u> <u>NON-ELIGIBLE</u> <u>RATES</u>	<u>RATE</u> <u>DECREASE</u> <u>(INCREASE)</u>	<u>MEDICAID</u> <u>DAYS</u>	<u>MEDICAID</u> <u>OVERPAYMENT</u>
<u>NURSING FACILITY</u>					
08/01/04 - 08/31/04	\$212.79	\$208.59	\$4.20	8,174	\$ 34,331
09/01/04 - 11/30/04	211.68	207.45	4.23	23,499	99,401
12/01/04 - 12/31/04	208.61	204.36	4.25	7,735	32,874
01/01/05 - 02/28/05	215.79	210.87	4.92	14,397	70,833
03/01/05 - 05/31/05	219.18	214.28	4.90	24,255	118,850
06/01/05 - 06/30/05	219.27	214.38	4.89	8,313	40,651
07/01/05 - 08/31/05	219.98	215.09	4.89	17,420	85,184
09/01/05 - 11/30/05	220.82	215.93	4.89	25,405	124,230
12/01/05 - 12/31/05	220.86	215.98	4.88	8,671	42,314
01/01/06 - 02/28/06	228.83	224.61	4.22	16,582	69,976
03/01/06 - 03/31/06	223.85	219.58	4.27	7,896	33,716
04/01/06 - 05/31/06	223.57	219.31	4.26	15,499	66,026
06/01/06 - 08/31/06	224.88	220.64	4.24	22,653	96,049
09/01/06 - 11/30/06	236.56	232.41	4.15	21,448	89,009
12/01/06 - 12/31/06	236.71	232.56	4.15	7,518	31,200
01/01/07 - 03/31/07	244.83	240.34	4.49	21,532	96,679
04/01/07 - 06/31/07	242.82	239.71	3.11	21,764	67,686
07/01/07 - 08/31/07	239.91	236.80	3.11	15,997	49,751
09/01/07 - 12/31/07	239.91	236.80	3.11	30,145	93,751
MEDICAID OVERPAYMENT- NURSING FACILITY					<u>\$ 1,342,511</u>
<u>PEDIATRIC UNIT</u>					
12/23/05 - 12/31/05	\$495.01	\$487.81	\$7.20	6	\$ 43
01/01/06 - 02/28/06	509.28	502.75	6.53	59	385
03/01/06 - 03/31/06	504.10	497.56	6.54	745	4,872
04/01/06 - 05/31/06	503.16	496.63	6.53	1,424	9,299
06/01/06 - 08/31/06	504.86	498.33	6.53	2,373	15,496
09/01/06 - 11/30/06	516.42	509.90	6.52	2,382	15,531
12/01/06 - 12/31/06	517.27	510.75	6.52	780	5,086
01/01/07 - 03/31/07	524.83	518.64	6.19	2,415	14,949
04/01/07 - 10/31/07	522.83	518.02	4.81	6,804	32,727
11/01/07 - 12/31/07	522.83	518.02	4.81	2,085	10,029
MEDICAID OVERPAYMENT-PEDIATRIC UNIT					<u>\$ 108,417</u>
TOTAL MEDICAID OVERPAYMENT					<u>\$ 1,450,928</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.

AVALON GARDENS REHABILITATION AND HEALTH CARE CENTER - AUDIT #08-2363**RATE PERIODS AUGUST 1, 2004 THROUGH DECEMBER 31, 2007****SUMMARY OF MEDICAID RATES AUDITED**

The Facility's Medicaid utilization was approximately 78 percent for the Nursing Facility and 90 percent for the Pediatric Unit 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>	Issued Medicare Part B & D <u>Non-Eligible Rates *</u>
<u>NURSING FACILITY</u>	
08/01/04 - 08/31/04	\$212.79
09/01/04 - 11/30/04	211.68
12/01/04 - 12/31/04	208.61
01/01/05 - 02/28/05	215.79
03/01/05 - 05/31/05	219.18
06/01/05 - 06/30/05	219.27
07/01/05 - 08/31/05	219.98
09/01/05 - 11/30/05	220.82
12/01/05 - 12/31/05	220.86
01/01/06 - 02/28/06	228.83
03/01/06 - 03/31/06	223.85
04/01/06 - 05/31/06	223.57
06/01/06 - 08/31/06	224.88
09/01/06 - 11/30/06	236.56
12/01/06 - 12/31/06	236.71
01/01/07 - 03/31/07	244.83
04/01/07 - 06/31/07	242.82
07/01/07 - 08/31/07	239.91
09/01/07 - 12/31/07	239.91
<u>PEDIATRIC UNIT</u>	
12/23/05 - 12/31/05	\$495.01
01/01/06 - 02/28/06	509.28
03/01/06 - 03/31/06	504.10
04/01/06 - 05/31/06	503.16
06/01/06 - 08/31/06	504.86
09/01/06 - 11/30/06	516.42
12/01/06 - 12/31/06	517.27
01/01/07 - 03/31/07	524.83
04/01/07 - 10/31/07	522.83
11/01/07 - 12/31/07	522.83

*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.

AVALON GARDENS REHABILITATION AND HEALTH CARE CENTER - AUDIT #08-2363
RATE PERIODS AUGUST 1, 2004 THROUGH DECEMBER 31, 2007
OPERATING EXPENSE DISALLOWANCES/(ALLOWANCES)

DESCRIPTION	CTR.	COST DISALLOWED (ALLOWED)	TRACE- BACK %	OPERATING EXPENSE COMPONENT			
				DIRECT 8/1/2004- 12/31/07	INDIRECT 8/1/2004- 12/31/07	NON- COMP. 8/1/2004- 12/31/06	NON- COMP. 1/1/2007- 12/31/07
				\$ 16,793,851	\$ 7,677,733	\$ 1,387,408	\$ 1,099,687

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

1. FISCAL SERVICES DISALLOWANCES AND RECLASSIFICATIONS

a) Facilities receiving payment on the basis of reimbursable costs must provide adequate cost data based on financial and statistical records that can be verified on audit. In addition, the cost data is required to be current, accurate, and in sufficient detail. The Facility could not provide supporting documentation for expenses attributed to base year fiscal services. Consequently, the unsubstantiated expenses were disallowed.
Regulations: 10 NYCRR Section 86-2.17(a), PRM-1 Sections 2300 & 2304

b) The audit disclosed that the Facility reported rental equipment in operating expenses. Rental equipment is a property expense. Consequently, the expense was reclassified from operating expense to property expense.
Regulation: 10 NYCRR Section 86-2.10(a)(9)

c) Only necessary and properly chargeable expenses are allowed costs. Goodwill and 401k expenses are not necessary and properly chargeable to patient care. Therefore, the expenses were disallowed.
Regulations: 10 NYCRR Sections 86-2.17 (a) & (d)

2. ADMINISTRATIVE SERVICES ADJUSTMENTS

a) Facilities receiving payment based on reimbursable costs must provide adequate cost data based on financial and statistical records that can be verified on audit. The Facility could not provide supporting documentation for expenses attributed to base year administrative services. Consequently, the unsubstantiated expenses were disallowed.
Regulations: 10 NYCRR Section 86-2.17(a), PRM-1 Section 2300 & 2304

b) The audit disclosed that the Facility reported organization costs in operating expenses. Organization costs are considered capital expenses and are amortized. These expenses were reclassified from operating expense to property expense.
Regulation: 10 NYCRR Section 86-2.10(a)(9)

c) The BLTCR has determined the nature of telephone expense to be an operating expense. Consequently, the expense was reclassified from property expense to operating expense.
Regulation: 10 NYCRR Section 86-2.17(d)

Fiscal	004	339,883	94.00%			319,490	
Fiscal	004	15,906	94.00%			14,952	
Fiscal	004	10,035	94.00%			9,433	
Administrative	005	273,245	94.00%			256,850	
Administrative	005	225,665	94.00%			212,125	
Administrative	005	(9,152)	94.00%			(8,603)	

AVALON GARDENS REHABILITATION AND HEALTH CARE CENTER - AUDIT #08-2363
RATE PERIODS AUGUST 1, 2004 THROUGH DECEMBER 31, 2007
OPERATING EXPENSE DISALLOWANCES/(ALLOWANCES)

	OPERATING EXPENSE COMPONENT							
	DESCRIPTION	COST CTR.	DISALLOWED (ALLOWED)	TRACE-BACK %	DIRECT 8/1/2004-12/31/07	INDIRECT 8/1/2004-12/31/07	NON-COMP. 8/1/2004-12/31/06	NON-COMP. 1/1/2007-12/31/07
2. ADMINISTRATIVE SERVICES ADJUSTMENTS (CONT.)								
d) The Facility reported various expenses in rent expense that were operating in nature. These types of expenses are not includable in property costs. Consequently, these expenses were reclassified from property expense to operating expense. Regulations: 10 NYCRR Sections 86-2.17(a), 455.6 & 455.37, PRM-1 Section 2806.2	Administrative	005	(1,710)	94.00%		(1,607)		
3. GROUNDS EXPENSE DISALLOWANCE								
The audit disclosed that the Facility reported the purchase of maintenance equipment in operating expense. This expense is a capital cost and should be depreciated. The cost was disallowed in operating expenses and moved to the property component to be depreciated. Regulation: 10 NYCRR Section 86-2.10(a)(9)	Grounds	007	5,438	93.12%		5,064		
4. UNSUBSTANTIATED EXPENSE DISALLOWANCES								
Facilities receiving payment based on reimbursable costs must provide adequate cost data based on financial and statistical records that can be verified on audit. The Facility could not provide supporting documentation for various expenses associated with the base year. Consequently, the unsubstantiated expenses were disallowed. Regulations: 10 NYCRR Section 86-2.17(a), PRM-1 Sections 2300 & 2304	Plant Operation Housekeeping Patient Food Medical Records Medical Director Utilities Inhalation	006 010 011 019 017 006 035	70,223 27,037 41,361 4,030 3,384 45,039 23,858	93.12% 98.96% 85.76% 100.00% 100.00% 93.12% 100.00%		65,392 26,756 35,471 4,030	3,384 41,940 23,858	3,384 41,940 23,858
5. RADIOLOGY AND LABORATORY EXPENSE DISALLOWANCES								
Effective April 1, 2001, the Centers for Medicare and Medicaid Services (CMS) policy for consolidated billing required that nursing facilities bill and receive reimbursement under Medicare Part A for the radiology and laboratory "technical component" portion of charges. The actual radiology and laboratory service provider then bills the nursing facility to receive its reimbursement of the technical component. Consequently, inclusion of any such "expenses" in the Medicaid rate is inappropriate and would duplicate reimbursement. The "expense" is merely a pass through of income received by the nursing facility to the service provider. Additionally, the above transactions do not pertain to Medicaid patients in any way. Since the "expense" does not pertain to Medicaid patients, it is not reimbursable under the Medicaid program. Regulations: 10 NYCRR Section 86-2.17d, HCFA Pub. 60B, Transmittal B-00-67 dated November 27, 2000, Subject: Consolidated Billing for SNF Residents.	Radiology Laboratory	034 031	77,296 1,884	100.00% 100.00%			77,296 1,884	77,296 1,884

AVALON GARDENS REHABILITATION AND HEALTH CARE CENTER - AUDIT #08-2363
RATE PERIODS AUGUST 1, 2004 THROUGH DECEMBER 31, 2007
OPERATING EXPENSE DISALLOWANCES/(ALLOWANCES)

DESCRIPTION	COST CTR.	DISALLOWED (ALLOWED)	TRACE-BACK %	OPERATING EXPENSE COMPONENT			
				DIRECT 8/1/2004-12/31/07	INDIRECT 8/1/2004-12/31/07	NON-COMP. 8/1/2004-12/31/06	NON-COMP. 1/1/2007-12/31/07
Inhalation	035	174,432	100.00%			174,432	174,432
				\$ -	\$ 939,353	\$ 322,794	\$ 322,794
				\$ 16,793,851	\$ 6,738,380	\$ 1,064,614	\$ 776,893

6. INHALATION THERAPY DISALLOWANCES

Facilities receiving payment based on reimbursable costs must provide adequate cost data based on financial and statistical records that can be verified on audit. Additionally, costs not related to patient care are costs that are not appropriate or necessary or proper in developing and maintaining the operation of patient care facilities and activities. Only costs properly chargeable to necessary patient care are allowable. Reported inhalation therapy expense included expense applicable to the Adult Day Care program. Consequently, disallowances were necessary.
Regulations: 10 NYCRR Section 86-2.17(a), PRM-1 Section 2102.3, 2300 & 2304

Total Disallowances/(Allowances)
TOTAL AUDITED OPERATING EXPENSE BY COMPONENT

AVALON GARDENS REHABILITATION AND HEALTH CARE CENTER - AUDIT #08-2363
RATE PERIODS AUGUST 1, 2004 THROUGH DECEMBER 31, 2007
PROPERTY EXPENSE DISALLOWANCES/(ALLOWANCES)

DESCRIPTION	COST CENTER	DISALLOWED (ALLOWED)	TRACE-BACK %	RATE PERIODS		
				2004	2005	2006
Property Expense Allowed per HE-12B				\$ 558,641	\$ 550,264	\$ 539,624
Less Disallowances/(Allowances):						\$ 766,226

1. PROPERTY INSURANCE DISALLOWANCE

Business income insurance is only an allowable expense within the operating component. The Facility included this expense in property expenses. Therefore, it was disallowed from property expenses.
Regulations: 10 NYCRR Sections 86-2.17(a) & (d) and 455.5; PRM-1 Section 2161

Prop. Ins.	005	\$3,583	94.15%			3,373
------------	-----	---------	--------	--	--	-------

2. EQUIPMENT RENTAL EXPENSE ADJUSTMENTS

a) The BLTCR has determined the nature of telephone expense to be an operating expense. The audit disallowed the expense in property expenses and allowed the portion applicable to the base period in operating expenses.
Regulation: 10 NYCRR Section 86-2.17(d)

Rent B	005	9,152	94.00%	8,603	8,603	8,603
Rent C	005	5,100	93.07%			4,747

b) Reported rental expense included operating expense which should not be included in the property component of the rate. The expense was disallowed from property expenses and the portion applicable to the base period operating expenses was allowed in the operating component.
Regulation: 10 NYCRR Section 86-2.10(g)

Rent B	005	1,710	94.00%	1,607	1,607	1,607
Rent C	005	4,417	93.07%			4,111

c) Reported rental expense included operating expense which should not be included in the property component of the rate. The expenses applicable to the base period were transferred to direct operation expense.
Regulation: 10 NYCRR Section 86-2.10(g)

Rent C	051	98,755	100.00%	98,755	98,755	98,755
Rent D	051	112,273	100.00%			112,273

Regulation: 10 NYCRR Section 86-2.10(g)

d) The Facility reported movable equipment depreciation for the 25A Realty Co. BLTCR allowed both the depreciation and the rental expenses when processing appeals. The rental expense was disallowed to avoid duplicate reimbursement.
Regulations: 10 NYCRR Section 86-2.17(a), PRM-1 Sections 2300 & 2304

Rent A	002	5,554	93.12%			5,172
--------	-----	-------	--------	--	--	-------

e) The Facility reported the lease of a copier in operating expenses. The expense was transferred from operating (fiscal adjustment #2.b to property expense.
Regulation: 10 NYCRR Section 86-2.10 (a)(9)

Rent	004	(15,906)	100.00%	(15,906)	(15,906)	(15,906)
------	-----	----------	---------	----------	----------	----------

AVALON GARDENS REHABILITATION AND HEALTH CARE CENTER - AUDIT #08-2363
RATE PERIODS AUGUST 1, 2004 THROUGH DECEMBER 31, 2007
PROPERTY EXPENSE DISALLOWANCES/(ALLOWANCES)

DESCRIPTION	COST CENTER	DISALLOWED (ALLOWED)	TRACE-BACK %	RATE PERIODS		
				2004	2005	2006
3. AUTOMOBILE INSURANCE DISALLOWANCES						
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. Auto insurance expense on vehicles that were used exclusively by Administrators was disallowed since this expense was not directly related to patient care.						
Regulations: 10 NYCRR Section 86-2.17(a), PRM-1 Sections 2102.3 & 2105.9						
Auto Ins.	005	9,856	94.00%	9,265	9,265	9,265
Auto Ins.	005	15,553	94.15%			14,643
4. NON-TRENDED ITEMS - ORGANIZATION COSTS ALLOWANCE						
The Facility incurred organization costs to transfer from a voluntary to a proprietary organization. The costs associated with this transfer have been taken out of operating expense and are amortized over 5 years in property expense.						
Regulations: 10 NYCRR Section 86-2.17(a), PRM-1 Section 2134						
Org. Costs	005	(46,581)	100.00%	(46,581)	(46,581)	(46,581)
				\$ 55,743	\$ 55,743	\$ 55,743
				\$ 502,898	\$ 494,521	\$ 483,881
				\$ 502,898	\$ 494,521	\$ 483,881
				\$ 55,743	\$ 55,743	\$ 97,738
				\$ 502,898	\$ 483,881	\$ 668,488

Property Expense Disallowances/(Allowances)
TOTAL AUDITED PROPERTY EXPENSE

AVALON GARDENS REHABILITATION AND HEALTH CARE CENTER - AUDIT #08-2363
RATE PERIODS AUGUST 1, 2004 THROUGH DECEMBER 31, 2007
ADJUSTMENTS FOR PEDIATRIC UNIT OPERATING AND PROPERTY PER DIEMS

Pediatric Operating Per Diem

The Pediatric operating per diem consists of the Nursing Facility operating per diem along with a specific per diem based on budgeted costs pertaining to the Pediatric Unit. Nursing Facility audit adjustments contained within Exhibit III will result in revisions to the Pediatric operating per diem.

Pediatric Property Per Diem

The Pediatric property per diem consists of the Nursing Facility property per diem along with a specific per diem based on budgeted costs pertaining to the Pediatric Unit. Nursing Facility audit adjustments contained within Exhibit IV will result in revisions to the Pediatric property per diem. In addition, the Bureau of Long Term Care Reimbursement erroneously utilized the wrong Nursing Facility property per diem for the December 23, 2005 through December 31, 2005 and January 1, 2006 through December 31, 2006 rates. To reflect the correct Nursing Facility property per diem, it is necessary to make the following disallowance.

	RATE PERIODS	
	<u>12/23/05</u>	<u>01/01/06</u>
	<u>12/31/05</u>	<u>12/31/06</u>
Promulgated NF Property Per Diem Portion of Pediatric Rate	\$5.32	\$5.32
Audited NF Property Per Diem Portion of Pediatric Rate	<u>4.74</u>	<u>4.65</u>
Disallowance	<u><u>\$0.58</u></u>	<u><u>\$0.67</u></u>