



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

May 10, 2012

[REDACTED]
New Franklin Rehabilitation and Health Care Facility
142-27 Franklin Avenue
Flushing, New York 11355

Re: Medicaid Rate Audit #04-C04-1018
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 New Franklin Rehabilitation and Health Care Facility's (the "Facility") Medicaid rates for the rate period November 1, 2002 through December 31, 2005. In accordance with 18 NYCRR Section 517.6, this report represents the OMIG's final determination on issues raised in the draft audit report.

Since you did not respond to our draft audit report dated February 12, 2008, the findings in the final audit report remain identical to the draft audit report. As previously stated in the draft audit report, the Medicare Part B offset was 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 \$354,540. 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, 2005 that utilized the November 1, 2002 through October 31, 2003 base period for operating expense. Any overpayment resulting from operating expense disallowances in the November 1, 2002 through October 31, 2003 base period report for rates subsequent to December 31, 2005 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 Coming Tower, Room 2266
File #04-C04-1018
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. If you have any questions regarding the above, please contact [REDACTED] at [REDACTED]

Sincerely,

[REDACTED]
Principal Medical Facilities Auditor
Division of Medicaid Audit
Audit Management and Development
Office of the Medicaid Inspector General

Enclosure

Exhibit I - Summary of Per Diem Impact and Medicaid Overpayment
Schedule A - Summary of Operating Expense Disallowances/(Allowances)
Schedule B - Summary of 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

**New Franklin Rehabilitation
and Health Care Facility
142-27 Franklin Avenue
Flushing, New York 11355**

AMOUNT DUE: \$354,540

NPI #: [REDACTED]

PROVIDER #: [REDACTED]

AUDIT #04-C04-1018

**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 2266
File #04-C04-1018
Albany, New York 12237-0048**

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

CORRECT PROVIDER NUMBER

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

**Andrew M. Cuomo
Governor**

**James C. Cox
Medicaid Inspector General**

FINAL REPORT

**NEW FRANKLIN REHABILITATION AND HEALTH CARE FACILITY
142-27 FRANKLIN AVENUE
FLUSHING, NEW YORK 11355**

**MEDICAID RATE AUDIT
#04-C04-1018**

**FOR THE RATE PERIOD NOVEMBER 1, 2002
THROUGH DECEMBER 31, 2005**



ISSUED MAY 10, 2012

TABLE OF CONTENTS

	Page
BACKGROUND	1
PURPOSE AND SCOPE	2
SUMMARY	2
DETAILED FINDINGS	3
A. <u>Operating Expense Disallowances/(Allowances)</u>	3
1. Automobile Leases, Automobile Expenses, Automobile Insurance	3
2. American Express Credit Cards – Other Than Automobile Costs	4
3. Bank Charges (A/C 7191)	4
4. Other Missing Documentation	6
5. Legal	6
B. <u>Property Expense Disallowances/(Allowances)</u>	7
1. Sales Tax	7
2. Other – Leasehold Improvement	8

EXHIBITS AND SCHEDULES

- EXHIBIT I - SUMMARY OF PER DIEM IMPACT AND MEDICAID OVERPAYMENT
- SCHEDULE A - SUMMARY OF OPERATING EXPENSE DISALLOWANCES/(ALLOWANCES)
- SCHEDULE B - SUMMARY OF PROPERTY EXPENSE DISALLOWANCES/(ALLOWANCES)

BACKGROUND

New Franklin Rehabilitation and Health Care Facility is a 308 bed proprietary nursing facility (NF) and 12 bed long term ventilator unit (Vent Unit) located in Flushing, New York. The Facility received reimbursement from the Medicaid program for the period November 1, 2002 through December 31, 2005 by a daily rate established by the Department of Health. This rate consisted of operating and capital components as well as other various per diems. The operating component included in the November 1, 2002 through December 31, 2005 rates was based on the November 1, 2002 through October 31, 2003 base period. The Department of Health used the property expenses reported in November 1, 2002 through October 31, 2003 as the basis for the November 1, 2002 through December 31, 2005 rates.

The Facility's Medicaid utilization was approximately 77 percent for the period under review and the Medicaid per diem rates audited were as follows.

	<u>Rate Period</u>	Medicare Part B	
		<u>Non-Eligible</u>	<u>Eligible</u>
<u>Nursing Facility</u>	11/01/02-11/30/02	\$225.42	\$224.59
	12/01/02-12/31/02	226.36	225.53
	01/01/03-02/28/03	228.29	227.44
	03/01/03-05/31/03	237.94	237.09
	06/01/03-08/31/03	237.57	236.72
	09/01/03-11/30/03	236.51	235.66
	12/01/03-12/31/03	238.53	237.68
	01/01/04-03/31/04	243.69	242.82
	04/01/04-05/31/04	238.31	237.44
	06/01/04-08/31/04	240.74	239.87
	09/01/04-12/31/04	241.72	240.85
	01/01/05-12/31/05	250.23	249.34
<u>Ventilator Unit</u>	11/01/02-11/30/02	\$514.01	\$509.03
	12/01/02-12/31/02	517.45	512.47
	01/01/03-02/28/03	522.72	517.62
	03/01/03-12/31/03	521.82	516.72
	01/01/04-12/31/04	535.85	530.65
	01/01/05-12/31/05	554.66	549.36

This audit included consideration of granted rate appeals reflected in the rates audited. Differences between the above rates and the "issued" rates used for Medicaid impact on Exhibit I of this report represent rate changes made subsequent to our audit. These changes are subject to future audit by the Office of the Medicaid Inspector General.

This audit was completed in accordance with the State of New York Official Compilation of Codes, Rules and Regulations (18 NYCRR Part 517 and 10 NYCRR Subpart 86-2), the Centers for Medicare and Medicaid Services Provider Reimbursement Manual (PRM-1), and the New York State Residential Health Care Facility (RHCF) Accounting and Reporting Manual.

PURPOSE AND SCOPE

The purpose of the audit was to identify Medicaid overpayments associated with the November 1, 2002 through December 31, 2005 promulgated Medicaid rates. The audit included various tests and reviews of selected fiscal and statistical data used in the computation of the Medicaid rates under review. The Medicare Part B offset was not within the scope of the review and may be examined as part of a future audit.

SUMMARY

Our findings applicable to the November 1, 2002 through December 31, 2005 Medicaid rates resulted in a Medicaid overpayment of \$354,540 as detailed in Exhibit I. The overpayment was due to operating expense disallowances in the November 1, 2002 through December 31, 2005 rate periods (summarized on Schedule A) and capital cost disallowances in the November 1, 2002 through December 31, 2005 rates (summarized on Schedule B).

The overpayment does not reflect the impact on rates subsequent to 2005 that utilized November 1, 2002 through October 31, 2003 as the base year for operating expense. Any overpayment resulting from operating expense disallowances in this report for rates subsequent to 2005 will be addressed in the future.

DETAILED FINDINGS

A. Operating Expenses Disallowances/(Allowances)

1. Automobile Leases, Automobile Expenses, Automobile Insurance

Automobile leases and automobile insurance expense are considered a property cost for rate setting purposes. The provider incorrectly reported these expenses as an operating cost. The OMIG would generally make an audit adjustment to reclassify these costs had they been allowable; however, the expenses were disallowed for the following reasons.

According to 10 NYCRR Section 86-2.17(d), allowable costs shall not include expenses or portions of expenses reported by individual residential health care facilities which are determined not to be reasonably related to the efficient production of service because of either the nature or amount of the particular item.

According to PRM-1 Section 2102.3 and 10 NYCRR Section 86-2.17(a), for any expense to be allowable it must be related to patient care. PRM-1 Section 2300 requires providers receiving payment on the basis of reimbursable costs to provide adequate cost data based on financial and statistical records that can be verified on audit. The Facility failed to maintain auto logs, detailing the usage between personal and business use. The auditors were informed that various automobiles were used for commutation. Commutation costs are not allowable and the expenses were not substantiated as to their relationship to patient care. The total auto expenses of \$60,657 were disallowed as follows.

Fiscal Services	Cost Center 004	\$ 4,409
Administrative Services	Cost Center 005	38,254
Nursing Administration	Cost Center 013	7,152
Social Services	Cost Center 021	<u>10,842</u>
Total Auto Expenses		<u>\$60,657</u>

2. American Express Credit Cards – Other Than Automobile Costs

According to PRM-1 Section 2300, providers receiving payment on the basis of reimbursable costs must provide adequate cost data based on financial and statistical records which can be verified on audit. 10 NYCRR Section 86-2.17(a) states that, for any expense to be allowable, it must be related to patient care. The Facility was unable to locate documentation necessary to support \$10,630 of cost charged to an American Express credit card. This amount was disallowed as follows.

Fiscal Services	Cost Center 004	\$ 5,023
Administrative Services	Cost Center 005	4,886
Plant, Operation and Maintenance	Cost Center 006	164
Patient Food Service	Cost Center 011	<u>577</u>
Total Expenses		<u>\$10,630</u>

3. Bank Charges (A/C 7191)

a) According to PRM-1 Section 2300, providers receiving payment on the basis of reimbursable costs must provide adequate cost data based on financial and statistical records which can be verified on audit. 10 NYCRR Section 86-2.17(a) states that, for any expense to be allowable, it must be related to patient care. The Facility was unable to locate the documentation necessary to support \$3,411 of bank charges and this amount was disallowed.

- b) The provider reported late charges of \$2,734 on the cost report. According to PRM-1 Section 2103, the prudent and conscious buyer refuses to pay more than the going price for an item or service. Late charges are not a cost that the prudent buyer would pay. In addition, the interest, penalty and/or finance charge paid on account of a late payment would not be reimbursed because it would not meet the definition of interest as defined in PRM-1 Section 202.1, and the definition of necessary cost as defined in PRM-1 Section 202.2. This disallowance is further supported by the fact that there was an active one million dollar working capital loan on which reimbursement was allowed on the applicable \$28,745 of interest expense. The working capital loan afforded the Facility the opportunity to pay its bills in a timely manner and thereby avoiding late payment charges. The \$2,734 in late charges was disallowed.
- c) According to 10 NYCRR Section 86-2.17(d), allowable costs shall not include expenses or portions of expenses reported by individual residential health care facilities which are determined not to be reasonably related to the efficient production of service because of either the nature or amount of the particular item. The recorded operating costs included \$27,837 that related to a line of credit required as a condition of the lease between the landlord and tenant. The letter of credit was security to protect the landlord (Vitale) in the event of default by the tenant. The letter of credit ended November 3, 2003. The bank charges of \$27,837 were disallowed as this was considered additional lease expense and the leasing ceiling for an arms-length lease as established by the Bureau of Long Term Care was all ready fully reimbursed.

The total of the disallowances for this adjustment is \$33,982.

4. Other Missing Documentation

According to PRM-1 Section 2300, providers receiving payment on the basis of reimbursable costs must provide adequate cost data based on financial and statistical records which can be verified on audit. 10 NYCRR Section 86-2.17(a) states that, for any expense to be allowable, it must be related to patient care. The Facility was unable to locate documentation necessary to support the following reported expenses. Consequently, \$21,522 (\$8,439 + \$13,083) was disallowed.

a)	<u>Account #</u>		<u>Date</u>	<u>Amount</u>
	7260.91	Guardian Life Ins. Co.	12/02	\$1,028
	7235	American Hospital Patient	4/03	4,368
	7260.91	Chubb	12/02	<u>3,043</u>
	Total			<u>\$8,439</u>

b) Failure to obtain documentation for the October 2003 costs for:

<u>Vendor</u>		<u>Amount</u>
Approved Services	Purchase Journal # 72	<u>\$13,083</u>

5. Legal

According to PRM-1 Section 2300, providers receiving payment on the basis of reimbursable costs must provide adequate cost data based on financial and statistical records which can be verified on audit. 10 NYCRR Section 86-2.17(a) states that, for any expense to be allowable, it must be related to patient care. The Facility was unable to document that \$27,568 of legal fees paid Abrams, Fensterman, Fensterman, Flowers and Eisman, LLP were related to patient care. The \$27,568 of legal fees was disallowed.

B. Property Expense Disallowances/(Allowances)

1. Sales Tax

According to 10 NYCRR Section 86-2.17(d), allowable costs shall not include expenses or portions of expenses reported by individual residential health care facilities which are determined not to be reasonably related to the efficient production of service because of either the nature or amount of the particular item. PRM-1 Section 2102.2 states that costs related to patient care include all necessary and proper costs which are appropriate and helpful in developing and maintaining the operation of patient care facilities and activities. Necessary and proper costs related to patient care are usually costs which are common and accepted occurrences in the field of the provider's activity. According to 10 NYCRR Section 86-2.22, necessary and reasonable movable equipment depreciation expense is considered an allowable cost for residential health care facilities.

Sales tax of \$33,000 (opening entry – November 1, 2002) was reimbursed for the rate periods November 1, 2002 through December 31, 2005. The sales tax return (ST131) showed that the \$33,000 sales tax pertained to the \$400,000 transfer sale resulting from the change of ownership ($\$400,000 \times 8.25$ sales tax rate = \$33,000). The \$400,000 was the unreimbursed value of movable equipment. When a facility is sold and a payment of sales tax on the movable equipment is made, the sales tax would be treated as a one-time property expense. The sales tax expense of \$33,000 was included in the 2003 rate year property per diem as a one-time allowance. For the other rate periods, the sales tax amount of \$33,000 was disallowed.

2. Other – Leasehold Improvement

According to PRM-1 Section 2300, providers receiving payment on the basis of reimbursable costs must provide adequate cost data based on financial and statistical records which can be verified on audit. 10 NYCRR Section 86-2.17(a) states that, for any expense to be allowable, it must be related to patient care. The Facility was unable to locate documentation necessary to support the \$24,213 of leasehold improvement (lease assumed). The amortization of \$2,198 applicable to the leasehold improvement and included on the rate sheets as other (cost center 001) was disallowed.

NEW FRANKLIN REHABILITATION AND HEALTH CARE FACILITY
RATE YEARS NOVEMBER 1, 2002 THROUGH DECEMBER 31, 2005
SUMMARY OF PER DIEM IMPACT AND MEDICAID OVERPAYMENT

NURSING FACILITY RATE PERIOD	ISSUED RATES*		FINAL RATES		RATE DECREASE (INCREASE)	MEDICAID DAYS	MEDICAID OVERPAYMENT
	Medicare Part B		Medicare Part B				
	Non-Elig.	Eligible	Non-Elig.	Eligible			
11/01/02-11/30/02	\$225.42	224.59	\$223.88	223.05	\$1.54	6,882	\$ 10,598
12/01/02-12/31/02	226.36	225.53	224.82	223.99	1.54	6,882	10,598
01/01/03-02/28/03	228.29	227.44	227.21	226.36	1.08	13,936	15,051
03/01/03-05/31/03	237.94	237.09	236.86	236.01	1.08	20,903	22,575
06/01/03-07/24/03	237.57	236.72	236.49	235.64	1.08	12,269	13,251
07/25/03-08/31/03	237.57	236.72	236.49	235.64	1.08	8,634	9,325
09/01/03-11/30/03	236.51	235.66	235.43	234.58	1.08	20,904	22,576
12/01/03-12/31/03	238.53	237.68	237.45	236.60	1.08	6,968	7,525
01/01/04-02/29/04	244.70	243.83	243.32	242.45	1.38	14,322	19,764
03/01/04-05/31/04	238.31	237.44	236.94	236.07	1.37	21,483	29,432
06/01/04-08/31/04	240.74	239.87	239.37	238.50	1.37	21,483	29,432
09/01/04-11/30/04	241.72	240.85	240.35	239.48	1.37	21,366	29,271
12/01/04-12/31/04	244.29	243.42	242.91	242.04	1.38	7,279	10,045
01/01/05-02/28/05	252.89	252.00	251.47	250.58	1.42	13,463	19,117
03/01/05-05/31/05	249.46	248.57	248.05	247.16	1.41	20,993	29,600
06/01/05-06/30/05	251.67	250.78	250.26	249.37	1.41	6,845	9,651
07/01/05-08/31/05	251.67	250.78	250.26	249.37	1.41	14,147	19,947
09/01/05-11/30/05	247.05	246.16	245.64	244.75	1.41	20,764	29,277
12/01/05-12/31/05	248.03	247.14	246.62	245.73	1.41	7,074	9,974
MEDICAID OVERPAYMENT - NURSING FACILITY							\$ 347,009

NEW FRANKLIN REHABILITATION AND HEALTH CARE FACILITY
RATE YEARS NOVEMBER 1, 2002 THROUGH DECEMBER 31, 2005
SUMMARY OF PER DIEM IMPACT AND MEDICAID OVERPAYMENT

VENTILATOR UNIT RATE PERIOD	ISSUED RATES*		FINAL RATES		RATE DECREASE (INCREASE)	MEDICAID DAYS	MEDICAID OVERPAYMENT
	Medicare Part B Non-Elig.	Eligible	Medicare Part B Non-Elig.	Eligible			
11/01/02-11/30/02	\$514.01	/ 509.03	\$513.06	/ 508.08	\$0.95	310	\$ 295
12/01/02-12/31/02	517.45	/ 512.47	516.48	/ 511.50	0.97	310	301
01/01/03-02/28/03	522.72	/ 517.62	522.41	/ 517.31	0.31	624	193
03/01/03-05/31/03	521.82	/ 516.72	521.55	/ 516.45	0.27	939	254
06/01/03-07/24/03	521.82	/ 516.72	521.55	/ 516.45	0.27	551	149
07/25/03-08/31/03	521.82	/ 516.72	521.55	/ 516.45	0.27	388	105
09/01/03-11/30/03	515.64	/ 510.54	515.35	/ 510.25	0.29	928	269
12/01/03-12/31/03	521.76	/ 516.66	521.47	/ 516.37	0.29	316	92
01/01/04-02/29/04	535.83	/ 530.63	534.88	/ 529.68	0.95	557	529
03/01/04-05/31/04	536.80	/ 531.60	535.83	/ 530.63	0.97	853	827
06/01/04-08/31/04	537.14	/ 531.94	536.20	/ 531.00	0.94	853	802
09/01/04-11/30/04	535.42	/ 530.22	534.48	/ 529.28	0.94	844	793
12/01/04-12/31/04	542.91	/ 537.71	541.95	/ 536.75	0.96	288	276
01/01/05-02/28/05	562.45	/ 557.15	561.46	/ 556.16	0.99	429	425
03/01/05-05/31/05	562.86	/ 557.56	561.87	/ 556.57	0.99	669	662
06/01/05-06/30/05	561.63	/ 556.33	560.62	/ 555.32	1.01	218	220
07/01/05-08/31/05	561.63	/ 556.33	560.62	/ 555.32	1.01	451	456
09/01/05-11/30/05	558.11	/ 552.81	557.12	/ 551.82	0.99	662	655
12/01/05-12/31/05	558.39	/ 553.09	557.38	/ 552.08	1.01	226	228
MEDICAID OVERPAYMENT - VENTILATOR UNIT							<u>\$ 7,531</u>
TOTAL MEDICAID OVERPAYMENT							<u>\$ 354,540</u>

* Any differences between these rates and the rates listed in the Background Section of this report represent rate changes made subsequent to our audit. These changes remain open to future audit by the Office of the Medicaid Inspector General.

NEW FRANKLIN REHABILITATION AND HEALTH CARE FACILITY
RATE YEARS NOVEMBER 1, 2002 THROUGH DECEMBER 31, 2005
SUMMARY OF OPERATING EXPENSE DISALLOWANCES/(ALLOWANCES)

	COST CENTER	DISALLOWED (ALLOWED)	TRACE-BACK %	DIRECT COMPONENT	INDIRECT COMPONENT	NON-COMP COMPONENT
Nursing Facility						
Operating Expense Allowed per HE-12B				\$ 15,360,926	\$ 7,045,312	\$ 1,115,788
Less Expense Disallowances/(Allowances):						
A1 Automobile Leases, Expenses, Insurance	004	\$ 4,409	89.27%		\$ 3,936	
A1 Automobile Leases, Expenses, Insurance	005	38,254	89.27%		34,149	
A1 Automobile Leases, Expenses, Insurance	013	7,152	93.63%	6,696		
A1 Automobile Leases, Expenses, Insurance	021	10,842	84.63%	9,176		
A2 American Express - Other Than Auto	004	5,023	89.27%		4,484	
A2 American Express - Other Than Auto	005	4,866	89.27%		4,344	
A2 American Express - Other Than Auto	006	164	92.57%		152	
A2 American Express - Other Than Auto	011	577	94.83%		547	
A3 Bank Charges	004	33,982	89.27%		30,336	
A4 Other Missing Documentation	004	(250)	89.27%		(223)	
A4 Other Missing Documentation	005	8,439	89.27%		7,534	
A4 Other Missing Documentation	006	4,680	92.57%		4,314	
A4 Other Missing Documentation	008	1,352	92.57%		1,252	
A4 Other Missing Documentation	019	61	95.99%		59	
A4 Other Missing Documentation	014	7,260	87.52%	6,354		
A5 Legal	005	27,568	89.27%		24,610	
Operating Expense Disallowances				\$ 22,226	\$ 115,494	\$ -
AUDITED OPERATING EXPENSE BY COMPONENT				\$ 15,368,700	\$ 6,929,818	\$ 1,115,788

**NEW FRANKLIN REHABILITATION AND HEALTH CARE FACILITY
RATE YEARS NOVEMBER 1, 2002 THROUGH DECEMBER 31, 2005
SUMMARY OF OPERATING EXPENSE DISALLOWANCES/(ALLOWANCES)**

	COST CENTER	DISALLOWED (ALLOWED)	TRACE-BACK %	DIRECT COMPONENT	INDIRECT COMPONENT	NON-COMP COMPONENT
<u>Ventilator Unit</u>						
Expense Allowed on HE-12B				\$ 1,149,844	\$ 387,046	\$ 706,638
Less Expense Disallowances/(Allowances):						
A1 Automobile Leases, Expenses, Insurance	004	\$ 4,409	8.08%		\$ 356	
A1 Automobile Leases, Expenses, Insurance	005	38,254	8.08%		3,091	
A1 Automobile Leases, Expenses, Insurance	013	7,152	6.20%	\$ 443		
A1 Automobile Leases, Expenses, Insurance	021	10,842	3.53%	383		
A2 American Express - Other Than Auto	004	5,023	8.08%		406	
A2 American Express - Other Than Auto	005	4,866	8.08%		393	
A2 American Express - Other Than Auto	008	164	2.50%		4	
A2 American Express - Other Than Auto	011	577	4.21%		24	
A3 Bank Charges	004	33,982	8.08%		2,746	
A4 Other Missing Documentation	004	(250)	8.08%		(20)	
A4 Other Missing Documentation	005	8,439	8.08%		682	
A4 Other Missing Documentation	006	4,660	2.50%		117	
A4 Other Missing Documentation	008	1,352	2.50%		34	
A4 Other Missing Documentation	019	61	4.01%		2	
A4 Other Missing Documentation	014	7,260	4.28%	311		
A5 Legal	005	27,568	8.08%		2,228	
Operating Expense Disallowances				\$ 1,137	\$ 10,063	\$ 0
AUDITED OPERATING EXPENSE BY COMPONENT				\$ 1,148,707	\$ 376,983	\$ 706,638

SCHEDULE B

NEW FRANKLIN REHABILITATION AND HEALTH CARE FACILITY
RATE YEARS NOVEMBER 1, 2002 THROUGH DECEMBER 31, 2005
SUMMARY OF PROPERTY EXPENSE DISALLOWANCES/(ALLOWANCES)

	COST CENTER	DISALLOWED (ALLOWED)	TRACE-BACK %	RATE PERIODS			
				11/1/02 - 12/31/2002	2003	2004	2005
<u>Nursing Facility</u>							
Property Expense Allowed on HE-12B				\$ 1,277,587	\$ 1,277,587	\$ 1,277,587	\$ 1,277,587
Less Disallowances/(Allowances):							
B1 Disallowance of Sales Tax	005	\$ 33,000	89.27%	\$ 29,459	0	\$ 29,459	\$ 29,459
B2 Disallowance of Other - Leasehold Improvement	001	2,198	92.46%	2,033	2,033	2,033	2,033
Property Expense Disallowances/(Allowances)				<u>\$ 31,492</u>	<u>\$ 2,033</u>	<u>\$ 31,492</u>	<u>\$ 31,492</u>
AUDITED PROPERTY EXPENSE				<u>\$ 1,246,095</u>	<u>\$ 1,275,554</u>	<u>\$ 1,246,095</u>	<u>\$ 1,246,095</u>
<u>Ventilator Unit</u>							
Property Expense Allowed on HE-12B				\$ 53,030	\$ 53,030	\$ 53,030	\$ 53,030
Less Expense Disallowances/(Allowances):							
B1 Disallowance of Sales Tax	005	\$ 33,000	8.08%	\$ 2,686	0	\$ 2,686	\$ 2,686
B2 Disallowance of Other - Leasehold Improvement	001	2,198	2.65%	58	58	58	58
Property Expense Disallowances/(Allowances)				<u>\$ 2,724</u>	<u>\$ 58</u>	<u>\$ 2,724</u>	<u>\$ 2,724</u>
AUDITED PROPERTY EXPENSE				<u>\$ 50,306</u>	<u>\$ 52,972</u>	<u>\$ 50,306</u>	<u>\$ 50,306</u>