



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

May 25, 2012

[REDACTED]
Betsy Ross Rehabilitation Center, Inc.
1 Elsie Street
Rome, New York 13440

Re: Medicaid Rate Audit #10-1947
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 Betsy Ross Rehabilitation Center, Inc.'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 February 2, 2012, you identified specific audit findings with which you disagreed. Your comments have been considered (see Attachment A) and the consideration of your comments resulted in no reduction 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 \$34,840. 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.

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 2266
File #10-1947
Albany, New York 12237

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]
Coordinator Medical Facilities Audit
Division of Medicaid Audit
Audit Management and Development
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 - Property Expense Disallowances/(Allowances)
- EXHIBIT IV - Return on and Return of Real Property 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

BETSY ROSS REHABILITATION
CENTER, INC.
1 ELSIE ROAD
ROME, NEW YORK 13440

NPI # [REDACTED]
PROVIDER [REDACTED]

AUDIT #10-1947

AMOUNT DUE: \$34,840

AUDIT
TYPE

[] PROVIDER
[X] 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 #10-1947
Albany, New York 12237-0048

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

[REDACTED]

CORRECT PROVIDER NUMBER

**BETSY ROSS REHABILITATION CENTER INC. - AUDIT #10-1947
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 audit report adjustments after consideration of the Facility's draft audit report response comments.

EXHIBIT III COMMENTS

Adjustment #2 – Property Insurance Expense Adjustments

Facility Comment

In response to the OMIG Audit findings, we feel that there are errors that need to be addressed. Could you provide us with how you calculated the property insurance adjustment or let unknown what bills you are missing. The schedule sent disallows the crime policies; however, the crime policy protects the facility's property against crime and is allowable.

OMIG Response

Crime 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.

Disposition: The draft report disallowance remains the same.

Adjustment #3 –Rent Expense Adjustments

The Rental expenses are in wrong year need to be moved to the appropriate year and reimbursed.

OMIG Response

Under the accrual basis of accounting, revenue is recorded in the period when it is earned, regardless of when it is collected, and expenditures for expense and asset items are recorded in the period in which they are incurred, regardless of when they are paid. Therefore, OMIG has disallowed these rentals as they were incurred in periods not under audit.

Disposition: The draft report disallowance remains the same.

BETSY ROSS REHABILITATION CENTER, INC.
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 - 03/31/05	\$129.01	\$128.56	\$0.45	7,285	\$ 3,278
04/01/05 - 06/30/05	128.24	127.79	0.45	6,937	3,122
07/01/05 - 09/30/05	133.14	132.69	0.45	7,879	3,546
10/01/05 - 12/31/05	133.51	133.06	0.45	7,775	3,499
01/01/06 - 03/31/06	135.70	135.56	0.14	7,428	1,040
04/01/06 - 06/30/06	133.99	133.85	0.14	7,478	1,047
07/01/06 - 09/30/06	133.36	133.22	0.14	7,250	1,015
10/01/06 - 12/31/06	137.26	137.12	0.14	7,364	1,031
01/01/07 - 03/31/07	146.12	145.95	0.17	6,734	1,145
04/01/07 - 06/30/07	145.35	145.18	0.17	6,806	1,157
07/01/07 - 12/31/07	140.89	140.72	0.17	13,459	2,288
01/01/08 - 03/31/08	145.29	144.86	0.43	6,207	2,669
04/01/08 - 06/30/08	142.73	142.30	0.43	7,097	3,052
07/01/08 - 12/31/08	145.55	145.12	0.43	16,166	6,951
TOTAL MEDICAID OVERPAYMENT					<u>\$ 34,840</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.

BETSY ROSS REHABILITATION CENTER, INC.
RATE PERIODS JANUARY 1, 2005 THROUGH DECEMBER 31, 2008
SUMMARY OF MEDICAID RATES AUDITED

The Facility's Medicaid utilization was approximately 66 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 - 03/31/05	\$129.01
04/01/05 - 06/30/05	128.24
07/01/05 - 09/30/05	133.14
10/01/05 - 12/31/05	133.51
01/01/06 - 03/31/06	135.70
04/01/06 - 06/30/06	133.99
07/01/06 - 09/30/06	137.36
10/01/06 - 12/31/06	133.26
01/01/07 - 03/31/07	146.12
04/01/07 - 06/30/07	145.35
07/01/07 - 12/31/07	140.89
01/01/08 - 03/31/08	145.29
04/01/08 - 06/30/08	142.73
07/01/08 - 12/31/08	145.55

* 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.

BEISY ROSS REHABILITATION CENTER, INC.
RATE PERIODS JANUARY 1, 2005 THROUGH DECEMBER 31, 2008
PROPERTY EXPENSE DISALLOWANCES/(ALLOWANCES)

	RATE PERIODS		
	2005	2006	2007
	\$ 344,757	\$ 266,580	\$ 306,207
			\$ 310,430

DESCRIPTION	COST CENTER	DISALLOWED (ALLOWED)	TRACE-BACK %	RATE PERIODS	
				2005	2006

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

1. MOVABLE EQUIPMENT DEPRECIATION EXPENSE 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. Consequently, disallowances were necessary.
Regulation: 10 NYCRR Section 86-2.17(d).

b) The Facility incorrectly capitalized costs that should have been expensed as operating costs because they were for repairs, supplies, or inventory. 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 451.168, 451.181, 451.230, 451.6, and 86-2.4.

c) The Facility misclassified building/fixxed equipment depreciation expense as movable equipment depreciation expense when reporting depreciation expense for all cost years under audit. Only reasonable and necessary expenses related to movable equipment are considered allowable costs for residential health care facilities. Consequently, disallowances were necessary.
Regulation: 10 NYCRR Section 86-2.22.

2. PROPERTY INSURANCE EXPENSE ADJUSTMENTS

Providers 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 insurance varied from the insurance expense allowed in the rate resulting in adjustments to expense.
Regulations: 10 NYCRR Section 86-2.17(a), PRM-1 Sections 2300 and 2304

3. RENT EXPENSE ADJUSTMENTS

a) Providers 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. Equipment rental expense determined per audit varied from the expenses allowed in the rate computation process resulting in adjustments.
Regulations: 10 NYCRR Sections 86-2.17(a) & 86-2.10(g), PRM-1 Sections 2300 & 2304

ME Depr.	002	\$388	99.98%	388		
ME Depr.	002	239	99.98%		239	
ME Depr.	002	352	99.98%			352
ME Depr.	002	239	99.98%			239
ME Depr.	002	1,260	99.98%	1,260		
ME Depr.	002	2,307	99.98%		2,307	
ME Depr.	002	3,230	99.98%			3,229
ME Depr.	002	3,709	99.98%			3,708
ME Depr.	002	1,741	99.98%	1,741		
ME Depr.	002	2,956	99.98%		2,955	
ME Depr.	002	3,192	99.98%			3,191
ME Depr.	002	3,093	99.98%			3,092
Prop. Ins.	006	7,569	99.82%	7,555		
Prop. Ins.	006	269	99.82%		269	
Prop. Ins.	006	2,204	99.82%			2,200
Prop. Ins.	006	5,489	99.97%			5,487
Auto Ins.	006	(1,083)	99.82%			(1,081)
Auto Ins.	006	88	99.82%			88
Rent B	006	87	99.82%	87		
Rent B	006	348	99.82%		347	
Rent C	005	(122)	99.97%			(122)
Rent D	010	1,761	100.00%	1,761		
Rent D	006	1,205	99.82%			1,203
Rent E	051	308	100.00%			308
Rent G	051	230	100.00%	230		
Rent G	051	815	100.00%		815	
Rent H	051	(220)	100.00%			(220)

BEISY ROSS REHABILITATION CENTER, INC.
RATE PERIODS JANUARY 1, 2005 THROUGH DECEMBER 31, 2008
PROPERTY EXPENSE DISALLOWANCES/(ALLOWANCES)

	DESCRIPTION	COST CENTER	DISALLOWED (ALLOWED)	TRACE-BACK %	RATE PERIODS		
					2005	2006	2007
3. RENT EXPENSE ADJUSTMENTS (CONT.)							
b) Providers 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. Since the Facility could not fully document commercial leasing and beds rental expenses a disallowance was necessary. Regulations: 10 NYCRR Section 86-2.17(a), PRM-1 Sections 2300 and 2304	Rent E	051	1,724	100.00%			1,724
c) Rental expenses associated with supplies are considered operating expenses and should not be included in the property component of the rate. The copier supplies and postage are considered operating expenditures. Disallowances were necessary to remove these amounts from the capital component of the rate. Regulations: 10 NYCRR Sections 86-2.17(a), 86-2.10(g), and 86-2.17(d), PRM-1 Section 2102.2	Rent A Rent A Rent C Rent C Rent G	005 005 005 005 051	2,466 107 2,636 501 838	99.97% 99.97% 99.97% 99.97% 100.00%	2,465 107 2,635 501 838		
d) Rental expenses included other period charges that were not related to the period under audit. Consequently, the expenses were disallowed. Regulations: 10 NYCRR Sections 86-2.4, 86- 2.17(a) and (d)	Rent B Rent E Rent G	004 051 051	758 1,248 4,713	99.97% 100.00% 100.00%		4,713	758 1,248
4. RETURN ON AND OF EQUITY ALLOWANCES							
The real property historical costs were adjusted to reflect the inclusion of audited building and fixed equipment additions resulting in return on and of equity allowances. Refer to Exhibit IV. Regulation: 10 NYCRR Section 86-2.21	Ret. on Eq. Ret. on Eq. Ret. on Eq. Ret. on Eq. Ret. of Eq. Ret. of Eq. Ret. of Eq.	001 001 001 001 001 001 001	(1,088) (901) (1,194) (1,032) (1,758) (1,759) (2,321)	99.82% 99.82% 99.82% 99.82% 99.82% 99.82% 99.82%	(1,086) (899) (1,192) (1,755) (1,756) (2,317)		(1,030) (1,248)
5. NET RENTAL INCOME RECOVERY							
Interest expense is to be reduced by investment income. Investment income shall be defined as the aggregate net amount realized from dividends, interest, rental income, interest earned on temporary investment of withholding taxes, as well as all gains and losses. Consequently, the net rental income derived from the two family house rental was offset against interest expense. Regulations: 10 NYCRR Sections 86-2.17(a) & 86-2.20(c)(1), PRM-1 Section 202.2	Inv. Income Inv. Income	005 005	322 618	99.97% 99.97%	322 618		
6. REAL ESTATE TAX EXPENSE DISALLOWANCE							
The allowable facility specific capital component of the rate shall include allowable capital costs. The Facility included late interest charges in the total real estate tax expenses which are not an allowable capital expense. Therefore, a disallowance was necessary. Regulations: 10 NYCRR Sections 86-2.17(a) & 86-2.10(g), PRM-1 Section 2103	RE Tax	006	1,954	99.82%			1,950

Total Disallowances/(Allowances)	\$ 17,681	\$ 5,840	\$ 8,000	\$ 15,633
AUDITED PROPERTY EXPENSE	\$ 327,076	\$ 260,740	\$ 298,207	\$ 294,797

EXHIBIT IV

BETSY ROSS REHABILITATION CENTER, INC.
RATE PERIODS JANUARY 1, 2005 THROUGH DECEMBER 31, 2008
RETURN ON AND RETURN OF REAL PROPERTY EQUITY DISALLOWANCES/(ALLOWANCES)

<u>Return of Equity Calculation</u>	RATE PERIODS			
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Real Property Historical Cost per HE-12B	\$ 2,777,614	\$ 2,805,959	\$ 2,634,459	\$ 2,638,837
Audit Disallowances/(Allowances):				
• Inclusion of Building and Fixed Equipment Additions	<u>(22,865)</u>	<u>(22,865)</u>	<u>(29,053)</u>	<u>(29,053)</u>
Audited Historical Cost	\$ 2,800,479	\$ 2,828,824	\$ 2,663,512	\$ 2,667,890
Less: Accumulated Reimbursement	<u>1,847,288</u>	<u>1,920,610</u>	<u>1,996,295</u>	<u>2,059,592</u>
Audited Net Equity	<u>\$ 953,191</u>	<u>\$ 908,214</u>	<u>\$ 696,267</u>	<u>\$ 637,348</u>
Remaining Useful Life	<u>13</u>	<u>12</u>	<u>11</u>	<u>10</u>
Audited Return of Equity	\$ 73,322	\$ 75,685	\$ 63,297	\$ 63,735
Promulgated Return of Equity	<u>\$ 71,564</u>	<u>\$ 73,926</u>	<u>\$ 60,976</u>	<u>\$ 61,413</u>
Disallowances/(Allowances)	<u>\$ (1,758)</u>	<u>\$ (1,759)</u>	<u>\$ (2,321)</u>	<u>\$ (2,322)</u>
<u>Return on Equity Calculation</u>				
Audited Net Equity	\$ 953,191	\$ 908,214	\$ 696,267	\$ 637,348
Less: ½ Current Return of Equity	<u>36,661</u>	<u>37,843</u>	<u>31,649</u>	<u>31,868</u>
Audited Net Investment	\$ 916,530	\$ 870,371	\$ 664,618	\$ 605,480
Rate of Return	<u>4.95%</u>	<u>4.45%</u>	<u>4.90%</u>	<u>4.68%</u>
Audited Return on Equity	\$ 45,368	\$ 38,732	\$ 32,566	\$ 28,336
Promulgated Return on Equity	<u>\$ 44,280</u>	<u>\$ 37,831</u>	<u>\$ 31,372</u>	<u>\$ 27,304</u>
Disallowances/(Allowances)	<u>\$ (1,088)</u>	<u>\$ (901)</u>	<u>\$ (1,194)</u>	<u>\$ (1,032)</u>