



Dave Yost • Auditor of State

**FRONT LEASING CO., LLC. DBA ARISTOCRAT BEREA
CUYAHOGA COUNTY**

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Independent Accountant's Report on Applying Agreed-Upon Procedures

Mr. John Maynard, Program Integrity Director
Ohio Department of Medicaid
50 West Town Street, Suite 400
Columbus, Ohio 43215

Dear Mr. Maynard:

As required by Ohio Rev. Code § 5124.108 and Ohio Admin. Code § 5123:2-7-12, the Auditor of State's Office (AOS) performed the procedures enumerated below to which the Ohio Department of Medicaid (ODM) also agreed. These procedures are designed to assist you in evaluating whether Front Leasing Co., LLC dba Aristocrat Berea (hereafter referred to as the Provider) prepared its JFS 02524 ICF-MR Medicaid Cost Report for the period January 1, 2013 through December 31, 2013 in accordance with the Ohio Admin. Code Chapter § 5123:2-7 and to assist you in evaluating whether reported transactions complied with CMS Publication 15-1 (Provider Reimbursement Manual), and other compliance requirements described in the procedures below. Note that all rules and code sections relied upon in this report were those in effect during the Cost Report period and may be different from those currently in effect. The Provider's management is responsible for preparing these reports. This agreed-upon procedures engagement was conducted in accordance with the American Institute of Certified Public Accountants' attestation standards. The sufficiency of these procedures is solely the responsibility of ODM. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

OCCUPANCY AND USAGE

1. ODM requested that we report variances if the Provider's patient days were greater than those reported on *Schedule A-1, Summary of Inpatient Days*.

We compared the Provider's patient days on the Monthly Graphic Level of Care Reports for the number of patient days for Medicaid and non-Medicaid patients to those reported on *Schedule A-1*. We also footed the reports for accuracy.

We found no variances where patient days were greater than reported.

2. ODM requested that we report variances to *Schedule A-1, Summary of Inpatient Days* if total patient days for at least five individuals or 10 percent of individuals were greater than those reported for one month. For the selected individuals we also determined if the Provider included any waiver respite days as Medicaid or Medicare days and if bed hold days in excess of 30 in a calendar year received the proper authorization on form JFS 09402 in accordance with Ohio Admin. Code § 5123:2-7-08.

We haphazardly selected six residents' medical records and compared the total days the resident was in the Provider's care for December 2013 with the total inpatient days reported on the Monthly Graphic Level of Care Reports and *Schedule A-1*.

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OCCUPANCY AND USAGE (Continued)

We found no variances where inpatient days were greater than reported for the month and no misclassified waiver respite days or unauthorized bed hold days.

3. ODM requested that we report variances if the Provider had reimbursed Medicaid days in excess of total Medicaid days reported on *Schedule A-1, Summary of Inpatient Days*.

We compared the number of reimbursed Medicaid days per the Medicaid Information Technology System (MITS) with the total Medicaid days reported on *Schedule A-1*.

We found that total Medicaid days reported exceeded Medicaid reimbursed days.

MEDICAID PAID CLAIMS

1. ODM requested that we select paid claims for five residents in one month and report any variances if the claims did not meet the applicable documentation requirements.

We selected all paid claims for five residents for December 2013 from MITS and compared the reimbursed Medicaid days to the days documented per the resident's medical records. We determined if the Provider's documentation met the general requirements of CMS Publication 15-1, Chapter 23, Ohio Admin. Code § 5123:2-7-12 and if the days billed met the specific requirements of Ohio Admin. Code § 5123:2-7-08 (C) to (I) as an occupied or bed hold day and Ohio Admin. Code § 5123:2-7-15 for the payment adjustment requirements for resident's admission, discharge or death.

We found no instances of non-compliance with these documentation requirements.

REVENUE

1. ODM requested that we compare all revenues on the Provider's Revenue Ledger with those revenues reported on *Attachment 1, Revenue Trial Balance* and report any variances exceeding \$500 resulting in decreased costs on any schedule.

We compared all revenues on the Provider's General Ledger Detail, Trial Balance, and Working Trial Balance reports with those revenues reported on *Attachment 1* to determine if all revenues were reported in accordance with the Appendix to Ohio Admin. Code § 5123:2-7-16 and CMS Publication 15-1.

We found no differences exceeding \$500.

2. ODM requested we scan the Provider's Revenue Ledger to identify any revenue offsets/applicable credits which the Provider did not record on *Attachment 2, Adjustments to Trial Balance* or were not offset against expenses on *Schedule B-1, Other Protected Costs; Schedule B-2, Direct Care Cost Center; or Schedule C, Indirect Care Cost Center*. ODM asked us to report any reclassifications between schedules and adjustments exceeding \$500 resulting in decreased costs on any schedule.

We scanned the Provider's General Ledger Detail Report for revenues which roll up to *Attachment 1* and expenses on *Schedule B-1, Schedule B-2, and Schedule C* to identify any revenue offsets or applicable credits which were not reported on *Attachment 2 or Schedule B-1, Schedule B-2, or Schedule C* to offset corresponding expenses in accordance with CMS Publication 15-1, Chapters 1, 6, and 8.

We did not identify any revenue offsets/applicable credits on any schedule.

NON-PAYROLL EXPENSES

1. ODM requested that we compare the Provider's non-payroll expenses to the amounts reported on *Schedule B-1, Other Protected Costs; Schedule B-2, Direct Care Cost Center; and Schedule C, Indirect Cost Care Center* to the Provider's Trial Balance and General Ledger reports. ODM asked us to report any variances exceeding \$500 resulting in decreased costs on any schedule.

We compared all non-payroll expenses reported on *Schedule B-1, Schedule B-2, and Schedule C* to the Provider's General Ledger Detail, Trial Balance, and Working Trial Balance reports.

We found no differences.

2. ODM requested that we select 20 non-payroll disbursements on *Schedule B-1, Other Protected Costs; Schedule B-2, Direct Care Cost Center; Schedule C, Indirect Cost Center; and Exhibit 3, Home Office Trial Balance* and determine if these expenses had supporting documentation, were properly allocated and classified and were allowable expenses per Ohio Admin. Code Chapter 5123:2-7 and CMS Publication 15-1. ODM asked us to report any reclassifications between schedules and adjustments exceeding \$500 resulting in decreased costs on any schedule.

We selected 20 non-payroll expenses from non-payroll accounts on *Schedule B-1, Schedule B-2, Schedule C and Exhibit 3* and determined if these expenses had supporting documentation, were properly allocated and classified, and were allowable expenses per Ohio Admin. Code § 5123:2-7 and CMS Publication 15-1.

We reported differences exceeding \$500 in Appendix A.

3. ODM requested that we review the allocation methodology used in the Provider's Home Office Allocation schedule allocating costs on *Schedule B-1, Other Protected Costs; Schedule B-2, Direct Care Cost Center; and Schedule C, Indirect Cost Care Center* and determine if it was reasonable, allowable, related to residential care, and properly classified in accordance with Ohio Admin. Code Chapter 5123:2-7 and CMS Publication 15-1, Section 2150. ODM asked that we report any reclassifications between schedules and adjustments resulting in decreased Home Office costs exceeding five percent of Home Office costs reported on any schedule.

We reviewed the allocation methodology used in the Provider's Home Office Allocation and Analysis of Home Office Allocations reports allocating costs on *Schedule B-1, Schedule B-2, Schedule C* and determined whether it was reasonable, allowable, related to residential care, and properly classified in accordance with Ohio Admin. Code Chapter 5123:2-7 and CMS Publication 15-1, Section 2150.

We found the Provider allocated Home Office Costs among unlike facilities based on total gross costs which included Home Office costs which was not in accordance with CMS Publication 15-1, Section 2150.3 (D)(2)(b). However, we recalculated the Home Office allocation based on the Net Accumulated Costs from the Analysis of Home Office Allocations reports and noted it would not result in decreased Home Office Costs reported on any schedule.

Furthermore, we noted the Provider used a square footage allocation methodology on the Trial Balance, and Property, Property Allocation, Depreciation Allocation and Depreciation Expense reports to allocate non-payroll and depreciation costs to *Schedule B-1, Schedule C and Schedule D, Capital Cost Center*, see also Property, procedure 2. However, the Provider could not provide adequate supporting documentation for this allocation methodology. Therefore, we recalculated these costs based on the total costs reported for the Provider's ICF, Nursing Home and Respite operations.

We reported differences exceeding \$500 in Appendix A.

Recommendation:

We recommend the Provider implement an allocation methodology based on total net costs excluding Home Office costs in accordance with CMS Publication 15-1, Section 2150.3 (D)(2)(b) which states, "Pooled home office costs must be allocated to chain components on the basis of total costs if the chain is composed of either unlike health care facilities (e.g., a combination of short-term hospitals, long-term hospitals, and home health agencies) or a combination of health care facilities and non-health care facilities (i.e., facilities engaged in activities other than the provision of health care). Under this basis, all chain components will share in the pooled home office costs in the same proportion that the total costs of each component (excluding home office costs) bear to the total costs of all components in the chain..."

Furthermore, §2307 (A)(4) states " The basis of allocation for cost finding any indirect supervisory costs, residual costs and allocated overhead must be an appropriate measure of the benefits provided to the remaining cost centers..."

We recommend the Provider update its cost methodology for allocating indirect costs and ensure it has appropriate supporting documentation of any allocations used in accordance with CMS cost methodologies.

4. ODM requested that we scan the Provider's non-payroll expenses reported on *Schedule B-1, Other Protected Costs; Schedule B-2, Direct Care Cost Center; and Schedule C, Indirect Cost Center* for non-federal reimbursable costs or costs not properly classified. ODM asked us to report any reclassifications between schedules and adjustments exceeding \$500 resulting in decreased costs on any schedule or contractor costs over \$10,000 that should have been reported on *Schedule C-3, Costs of Services from Related Parties*.

We scanned the Provider's General Ledger Detail, Trial Balance, and Working Trial Balance reports for non-payroll expenses exceeding \$500 reported on *Schedule B-1, Schedule B-2, and Schedule C* for non-federal reimbursable costs or costs not classified in accordance with Ohio Admin. Code Chapter 5123:2-7 and CMS Publication 15-1. We also scanned for any contractors which would require reporting on *Schedule C-3*.

We found no reclassifications between schedules or adjustments exceeding \$500 resulting in decreased costs or additional contractors which required reporting on *Schedule C-3*.

5. ODM requested that we compare the 2013 non-payroll costs reported on *Schedule B-1, Other Protected Costs; Schedule B-2, Direct Care Cost Center; and Schedule C, Indirect Cost Care Center* by chart of account code to non-payroll costs reported by chart of account code in 2012 and obtain the Provider's explanation for non-payroll variances that increased by more than five percent and \$500 from the prior year's schedules and report adjustments exceeding \$500 and five percent of non-payroll costs on any schedule.

We compared the 2013 non-payroll costs reported on *Schedule B-1, Schedule B-2, and Schedule C* by chart of account code to non-payroll costs reported by chart of account code in 2012 and obtained the Provider's explanation for five non-payroll variances.

NON-PAYROLL EXPENSES (Continued)

The Provider stated that the increase in Water and Sewage costs on *Schedule B-1* was due to an increased Skilled Nursing Facility census. The Provider stated that the increase in Active Treatment Off-site Day Programming costs on *Schedule B-2* was due to changes in acuity level and number of residents. The Provider stated that the increase in Physical Therapist costs on *Schedule B-2* was due to an increase in usage. The Provider stated that the increase in Housekeeping costs on *Schedule C* was due to the change in using outside contractors for this service. The Provider stated that the increase in Bad Debt costs on *Schedule C* was due to increases in census and the aging balances which in turn increased the allowance adjustment.

We reported no differences.

PROPERTY

1. ODM requested that we compare the Provider's procedures regarding capitalization of fixed assets used for preparing *Schedule D, Capital Cost Center; Schedule D-1, Analysis of Property, Plant and Equipment; and Schedule D-2, Capital Additions/Deletions* with Ohio Admin. Code Chapter 5123:2-7 and CMS Publication 15-1, and report any variances.

We compared the Provider's procedures regarding capitalization of fixed assets used for preparing *Schedule D, Schedule D-1, and Schedule D-2* with Ohio Admin. Code Chapter 5123:2-7 and CMS Publication 15-1.

We noted inconsistencies as the Provider did not determine a salvage value when calculating depreciation on capitalized assets.

Recommendation:

We recommend the Provider calculate a salvage value equal to 10 percent of historical cost when determining the initial net book value to be depreciated for each new capital asset purchase in accordance with CMS Publication 15-1, 104.19, which states "Virtually all assets have a salvage value substantial enough to be included in calculating depreciation, and only in rare instances is salvage value so negligible that it may be ignored."

2. ODM requested that we compare capital assets and corresponding depreciation listed on *Schedule D, Capital Cost Center; Schedule D-1, Analysis of Property, Plant and Equipment; and Schedule D-2, Capital Additions/Deletions* to the Provider's Asset Depreciation Report and Monthly Abbreviated Depreciation Report, and report any reclassifications and adjustments exceeding \$500 resulting in decreased costs on any schedule.

We compared capital assets and corresponding depreciation listed on *Schedule D, Schedule D-1, and Schedule D-2* to the Provider's Property, Property Allocation, Depreciation Allocation and Depreciation Expense reports.

We found differences exceeding \$500 related to an unsupported allocation methodology as reported in Appendix A, see also Non-Payroll Expenses, procedure 3.

PROPERTY (Continued)

3. ODM requested that we select a total of three additions, renovations, and/or deletions reported on *Schedule D-1, Analysis of Property, Plant and Equipment* and *Schedule D-2, Capital Additions/Deletions* and determine if the cost basis, useful life and depreciation expense were in accordance with Ohio Admin. Code Chapter 5123:2-7 and report differences resulting in any reclassifications and adjustments exceeding \$500 which result in decreased costs on any schedule.

We selected three additions, renovations, and/or deletions reported on *Schedule D-1 and Schedule D-2* and determined if the cost basis, useful life and depreciation expense were reported in accordance with Ohio Admin. Code Chapter 5123:2-7. We also determined if assets were used in residential care or should be reclassified as the Costs of Ownership in accordance with Ohio Admin Chapter 5123:2-7 and CMS Publication 15-1.

We found differences related to the lack of a salvage value in depreciation calculation (see procedure 1 above) and the Provider recalculated the depreciation for all 2013 fixed assets using a salvage value. We reported differences exceeding \$500 in Appendix A.

4. ODM requested that we review the rent and lease agreements to determine if any related party lease costs were recorded in accordance CMS Publication 15-1, Section 1011.5, and Ohio Admin. Code § 5123:2-7-24(D) and that non-related leases meet the requirements of FASB 13 and Ohio Admin. Code § 5123:2-7-24(B) and related FASB guidance on leasehold improvements, if costs were recorded in *Schedule D, Analysis of Property, Plant and Equipment* in Lease and Rent Accounts 8060 or 8065. ODM asked that we report any reclassifications and adjustments exceeding \$500 which result in decreased costs on any schedule.

We reviewed rent and lease agreements and found no differences resulting in decreased costs over \$500 on any schedule.

5. ODM requested that we compare the renovation and financing costs in the Non-extensive Renovation Letter to *Schedule D-1, Analysis of Property, Plant and Equipment*, if costs were recorded in *Schedule E, Balance Sheet*, Account 1300, Renovations, and report reclassifications and adjustments exceeding \$500 which result in decreased costs on any schedule.

We did not perform this procedure because there were no costs recorded in *Schedule E, Balance Sheet*, Account 1300, Renovations.

6. ODM requested that we review the Depreciation Report to ensure transportation expenses were reasonable, allowable and related to patient care as defined in CMS Publication 15-1. ODM also requested we review the W-2s to determine if any corporate officers and owners who exclusively used vehicles reported additional compensation or were adjusted from allowable expenses pursuant to CMS Publication 15-1, Chapter 9, if transportation costs are recorded in *Schedule D-1, Analysis of Property, Plant and Equipment*. ODM asked us to report any reclassifications and adjustments exceeding \$500 which result in decreased costs on any schedule.

We did not perform this procedure because there were no transportation costs recorded in *Schedule D-1, Analysis of Property, Plant and Equipment*.

PAYROLL

1. ODM requested that we compare the Provider's payroll expenses to the amounts reported on *Schedule B-1, Other Protected Costs; Schedule B-2, Direct Care Cost Center; Schedule C, Indirect Cost Care Center; Schedule C-1, Administrator's Compensation; and Schedule C-2, Owner's Relatives Compensation*. ODM asked us to report any variances exceeding \$500 resulting in decreased costs on any schedule.

We compared all salary, fringe benefits and payroll tax entries and hours worked reported on *Schedule B-1, Schedule B-2, Schedule C, Schedule C-1 and Schedule C-2* to the Provider's General Ledger Detail, Trial Balance, and Working Trial Balance reports to identify variances exceeding \$500 resulting in decreased costs on any schedule.

We found no differences.

2. ODM requested that we select a sample of five employees reported on *Schedule B-1, Other Protected Costs; Schedule B-2, Direct Care Cost Center; Schedule C, Indirect Cost Center; and Exhibit 3, Home Office Trial Balance* and determine if any salaries and fringe benefit expenses exceeding \$500 were not properly allocated and classified or were unallowable per Ohio Admin. Code Chapter 5123:2-7 and CMS Publication 15-1. ODM asked us to report any reclassifications between schedules and adjustments exceeding \$500 resulting in decreased costs on any schedule.

We selected five employees (including all Administrators and Owners) and compared the Provider's job descriptions to the schedule in which each employee's salary and fringe benefit expenses were reported and determined if the payroll costs were allowable under CMS Publication 15-1, were properly classified, allocated and allowable in accordance with Ohio Admin. Code Chapter 5123:2-7 and CMS Publication 15-1, Chapter 9 and Section 2150.

We found no differences.

3. ODM requested that we compare the 2013 payroll costs reported on *Schedule B-1, Other Protected Costs; Schedule B-2, Direct Care Cost Center; Schedule C, Indirect Cost Care Center; Schedule C-1, Administrator's Compensation; and Schedule C-2, Owner's Relatives Compensation* by chart of account code to payroll costs reported by chart of account code in 2012 and obtain the Provider's explanation for five payroll variances that increased by more than five percent from the prior year's schedules. ODM asked us to report adjustments exceeding \$500 and five percent of payroll costs on any schedule.

We compared the 2013 payroll costs reported on *Schedule B-1, Schedule B-2, Schedule C, Schedule C-1, and Schedule C-2* by chart of account code to payroll costs reported by chart of account code in 2012 and found three payroll variances that increased by more than five percent from the prior year's schedules.

The Provider stated that the increase in Director of Nursing Salary costs on *Schedule B-2* was due to the position being vacant for part of 2012. The Provider stated that the increase in Registered Nursing Salaries on *Schedule B-2* was due to greater leave usage. The Provider stated that the increase in Plant Operations/Maintenance Supervisor costs on *Schedule C* was due to a new maintenance supervisor being hired in April 2012 at a higher wage.

We reported no adjustments.

Front Leasing Co., LLC DBA Aristocrat Berea
Independent Accountant's Report on
Applying Agreed-Upon Procedures

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the Provider's Cost Report. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the managements of the Provider, the Ohio Department of Medicaid, and the Centers for Medicare and Medicaid Services and is not intended to be, and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

Dave Yost

Auditor of State

December 3, 2015

Appendix A
Front Leasing Co., LLC dba Aristocrat Berea
2013 Income and Expense Report Adjustments

	Reported Amount	Correction	Corrected Amount	Explanation of Correction
Schedule B-1 Other Protected Costs				
7. Heat, Light, Power - 6020 - Other/Contract Wages (2)	81,773	(6,379)	\$ 75,394	Decrease based on Unsupported Sq footage Allocation Method
8. Water and Sewage - 6030 - Other/Contract Wages (2)	30,776	(2,401)	\$ 28,375	Decrease based on Unsupported Sq footage Allocation Method
9. Trash and Refuse Removal - 6040 - Other/Contract Wages (2)	14,331	(1,118)	\$ 13,213	Decrease based on Unsupported Sq footage Allocation Method
10. Hazardous Medical Waste Collection - 6050 - Other/Contract Wages (2)	854	(67)	\$ 787	Decrease based on Unsupported Sq footage Allocation Method
12. Real Estate Taxes - 6060 - Other/Contract Wages (2)	75,268	(5,871)	\$ 69,397	Decrease based on Unsupported Sq footage Allocation Method
Schedule B-2 Direct Care Cost Center				
39. Employee Fringe Benefits - Direct Care - 6530 - Other/Contract Wages (2)	\$ 100,349	\$ (1,071)	\$ 99,278	To reclassify employee gifts
Schedule C Indirect Care Cost Center				
35. Housekeeping - 7245 - Salary Facility Employed (1)	\$ 57,473	\$ (4,483)	\$ 52,990	Decrease based on Unsupported Sq footage Allocation Method
35. Housekeeping - 7245 - Other/Contract Wages (2)	\$ 107,605	\$ (8,394)	\$ 99,211	Decrease based on Unsupported Sq footage Allocation Method
50. Plant Operations/Maintenance Supervisor - 7320 - Salary Facility Employed (1)	\$ 18,499	\$ (1,443)	\$ 17,056	Decrease based on Unsupported Sq footage Allocation Method
51. Plant Operations and Maintenance - 7330 - Salary Facility Employed (1)	\$ 39,400	\$ (3,072)	\$ 36,328	Decrease based on Unsupported Sq footage Allocation Method
52. Repair and Maintenance - 7340 - Other/Contract Wages (2)	\$ 39,297	\$ (3,065)	\$ 36,232	Decrease based on Unsupported Sq footage Allocation Method
53. Minor Equipment - 7350 - Other/Contract Wages (2)	\$ 20,263	\$ (1,581)	\$ 18,682	Decrease based on Unsupported Sq footage Allocation Method
74. Promotional Advertising and Marketing - 9755 - Other/Contract Wages (2)	\$ 9,348	\$ 1,071	\$ 10,419	To reclassify employee gifts
Schedule D Capital Cost Center				
3. Amortization - Leasehold Improvements - 8030 - Total (3)	\$ 15,248	\$ (236)		To include salvage value
		\$ (2,984)	\$ 12,028	Decrease based on Unsupported Sq footage Allocation Method
4. Depreciation - Equipment - 8040 - Total (3)	\$ 44,147	\$ (888)		To include salvage value
		\$ (11,232)	\$ 32,027	Decrease based on Unsupported Sq footage Allocation Method
6. Lease and Rent - Building - 8060 - Total (3)	\$ 593,028	\$ (46,258)	\$ 546,770	Decrease based on Unsupported Sq footage Allocation Method
7. Lease and Rent - Equipment - 8065 - Total (3)	\$ 20,738	\$ (198)	\$ 20,540	Decrease based on Unsupported Sq footage Allocation Method
9. Amortization of Financing Costs - 8080 - Total (3)	\$ 1,186	\$ (93)	\$ 1,093	Decrease based on Unsupported Sq footage Allocation Method

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FRONT LEASING CO. LLC DBA ARISTOCRAT BEREA

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 16, 2016**