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**ESSEX HEALTHCARE CORPORATION DBA ORANGE VILLAGE CARE CENTER
TRUMBULL COUNTY**

TABLE OF CONTENTS

Title	Page
Independent Accountant's' Report.....	1
Recommendation: Calculation of Salvage Value.....	5
Appendix A: Medicaid ICF Cost Report Adjustments – 2013	8

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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 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 Essex Health Systems DBA Orange Village Care Center (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 number of patient days for Medicaid and non-Medicaid patients from the Provider's Census Daily Detail by Name Reports for to those reported on *Schedule A-1*. We also footed the reports for accuracy.

We found no variances.

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 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 five 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 Census Daily Detail by Name Reports and *Schedule A-1*.

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.

Occupancy and Usage (Continued)

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 the 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 on 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 Detailed Revenue, Trial Balance and General Ledger 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 that would result in decreased costs on any schedule.

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 Detailed Revenue, Trial Balance and General Ledger reports 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 found no differences.

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 also 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 Trial Balance and General Ledger reports.

We found no differences exceeding \$500.

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 also 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 reported 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 found differences as reported 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 schedule 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 no inconsistencies or improper allocation methodologies used in the Home Office Trial Balances exceeding five percent of Home Office Costs reported on any schedule. However, we noted differences in the amount of allocated active treatment day programming costs as reported in Appendix A.

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*.

Non-Payroll Expenses (Continued)

We scanned the Provider's General Ledger and 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 differences exceeding \$500 on any schedule or contractor costs that 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.

The Provider stated that the increase in Payroll Taxes-Dietary, Worker's Compensation-Dietary and Employee Fringe Benefits-Dietary costs on *Schedule C* was due to an increase in labor and the increase in Interest-Other costs on *Schedule C* was due to an increase in banking interest. The Provider also stated that the increase in Consulting and Management Fees-Indirect costs on *Schedule C* were home office costs reported in error.

We reported this difference in Appendix A.

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 capital assets and the Provider began depreciating assets during the month of acquisition.

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 as required by 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 instance is salvage value so negligible that it may be ignored."

Property (Continued)

Recommendation (Continued):

We also recommend the Provider begin depreciating assets after the month of acquisition as required by OAC 5101:3-3-71.3 E, (2) which states "The following depreciation conventions shall be used to calculate depreciation expense:(1) For calendar year 1994 and each calendar year thereafter, in the month that a capital asset is placed into service, no depreciation expense is recognized as an allowable expense. A full month's depreciation expense is recognized in the month following the month the asset is placed into service."

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 Depreciation Expense report.

We found differences as reported in Appendix A.

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 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. The Provider reported no renovations or deletions.

We found no differences exceeding \$500 on any schedule.

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.

Property (Continued)

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 2013 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 Trial Balance and General Ledger reports.

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 employee personnel file, organizational chart, and 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 and 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.

Payroll (Continued)

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 five payroll variances that increased by more than five percent from the prior year's schedules.

The Provider stated that the increase in Registered Nurse costs on *Schedule B-2* was due to an increase in focus on clinical care. The Provider also stated that the increase in Activity Director, Program Director, and Social Services/Pastoral Care costs on *Schedule B-2* and Medical/Habilitation Records costs on *Schedule C* was due to open positions being filled.

We reported no adjustments.

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.



Dave Yost
Auditor of State

March 1, 2016

Appendix A
Essex Health Systems DBA Orange Village Care Center
2013 Income and Expenditure Adjustments

	Reported Amount		Correction		Corrected Amount		Explanation of Correction
Schedule B-2 Direct Care Cost Center							
14. Psychologist - 6175 - Other/Contract Wages (2)	\$ -		\$ 660		\$ 660		To correct misclassified psychological expense
21. Consulting and Management Fees-Direct Care - 6210 - Other/Contract Wages (2)	\$ 4,838		\$ (660)		\$ 4,178		To correct misclassified psychological expense
22. Active Treatment Off-site Day Programming - 6215 - Other/Contract Wages (2)	\$ 400,621		\$ (6,494)		\$ 394,127		To correct day hab allocation
30. Physical Therapist - 6600 - Other/Contract Wages (2)	\$ 29,584		\$ (2,587)				To correct misclassified Occupational Therapy expense
			\$ (1,907)		\$ (4,494)		To correct misclassified Speech Therapy expense
32. Occupational Therapist - 6610 - Other/Contract Wages (2)	\$ -		\$ 2,587		\$ 2,587		To correct misclassified Occupational Therapy expense
34. Speech Therapist - 6620 - Other/Contract Wages (2)	\$ -		\$ 1,907		\$ 1,907		To correct misclassified Speech Therapy expense
Schedule C Indirect Care Cost Center							
28. Consulting and Management Fees - Indirect - 7215 - Other/Contract Wages (2)	\$ 173,641		\$ (173,641)		\$ -		To remove home office expenses already recorded
Schedule D-1 Analysis of Property, Plant and Equipment							
3. Land Improvements - Cost at Beginning of Period (2)	\$ 31,314		\$ (19,415)		\$ 11,899		To remove Nursing Home costs
3. Land Improvements - Additions or Reductions (3)	\$ 2,400		\$ (1,488)		\$ 912		To remove Nursing Home costs
3. Land Improvements - Cost at End of Period (4)	\$ 33,714		\$ (20,903)		\$ 12,811		To remove Nursing Home costs
3. Land Improvements - Accumulated Depreciation End of Period (5)	\$ 4,475		\$ (2,775)		\$ 1,700		To remove Nursing Home costs
3. Land Improvements - Net Book Value End of Period (6)	\$ 29,239		\$ (18,128)		\$ 11,111		To remove Nursing Home costs
4. Leasehold Improvements - Cost at Beginning of Period (2)	\$ 218,615		\$ (135,541)		\$ 83,074		To remove Nursing Home costs
4. Land Improvements - Cost at End of Period (4)	\$ 218,615		\$ (135,541)		\$ 83,074		To remove Nursing Home costs
4. Leasehold Improvements - Accumulated Depreciation End of Period (5)	\$ 149,725		\$ (92,830)		\$ 56,895		To remove Nursing Home costs
4. Land Improvements - Net Book Value End of Period (6)	\$ 68,890		\$ (42,712)		\$ 26,178		To remove Nursing Home costs
5. Equipment - Cost at Beginning of Period (2)	\$ 390,650		\$ (242,203)		\$ 148,447		To remove Nursing Home costs
5. Equipment - Additions or Reductions (3)	\$ 19,411		\$ (12,035)		\$ 7,376		To remove Nursing Home costs
5. Land Improvements - Cost at End of Period (4)	\$ 410,061		\$ (254,238)		\$ 155,823		To remove Nursing Home costs
5. Equipment - Accumulated Depreciation End of Period (5)	\$ 247,254		\$ (153,297)		\$ 93,957		To remove Nursing Home costs
5. Land Improvements - Net Book Value End of Period (6)	\$ 162,807		\$ (100,940)		\$ 61,867		To remove Nursing Home costs



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ESSEX HEALTHCARE-ORANGE VILLAGE

TRUMBULL 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
APRIL 26, 2016**