



Dave Yost • Auditor of State



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Independent Auditor's Report on Applying Agreed-Upon Procedures

Ohio Department of Medicaid
50 West Town Street, Suite 400
Columbus, Ohio 43215

We have performed the procedures enumerated below, with which the Ohio Department of Medicaid (ODM) agreed, solely to assist ODM in evaluating whether Luther Home of Mercy (hereafter referred to as the Provider) prepared its Medicaid ICF-IID Cost Report for the period January 1, 2014 through December 31, 2014 in accordance with the Medicaid cost report instructions and the Appendix to Ohio Admin. Code § 5123:2-7 and to assist ODM in evaluating whether reported transactions complied with CMS Publication 15-1 (Provider Reimbursement Manual), and other compliance requirements described 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. We compared the number of patient days for Medicaid and non-Medicaid patients from the Provider's Monthly Census Summary Report to those reported on *Schedule A-1, Summary of Inpatient Days* to determine if the Provider's patient days were greater than those reported. We also footed the Provider's census report for accuracy.

We found no differences.

2. We haphazardly selected 11 residents' medical records and compared the total days of care for December 2014 with the total inpatient days reported on the Daily Census report and *Schedule A-1, Summary of Inpatient Days* to determine if total patient days were greater than those reported. 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 found no variances and no misclassified waiver respite days or unauthorized bed hold days.

3. 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, Summary of Inpatient Days* to identify if reimbursed Medicaid days were greater than total Medicaid days.

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

Medicaid Paid Claims

1. We selected all paid claims for five residents for December 2014 from MITS and compared the reimbursed 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, and 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.

Revenue

1. We compared all revenues on the Provider's General Ledger - Account Activity reports with those revenues reported on *Attachment 1, Revenue Trial Balance* 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 reported variances exceeding \$500 in Appendix A.

2. We scanned the Provider's General Ledger - Account Activity reports for any revenue offsets or applicable credits which were not reported on *Attachment 2, Adjustments to Trial Balance 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 worker's compensation rebates and other miscellaneous services and reimbursements exceeding \$500 on Attachment 1. In accordance with CMS Publication 15-1, §§ 804, 805 and 2302.5, and Title 42 CFR § 413.98 (3)(c), we reported these amounts as applicable credits/revenue offsets in Appendix A.

Non-Payroll Expenses

1. We compared all non-payroll expenses 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 – Account Activity to identify any variances exceeding \$500 resulting in decreased costs on any schedule.

We reported differences in Appendix A.

2. We selected 20 non-payroll expenses from *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 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 identified any variances exceeding \$500 resulting in decreased costs on any schedule.

We reported misclassified and non-federal reimbursable costs in Appendix A.

3. ODM asked 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 § 5123:2-7 and CMS Publication 15-1, Section 2150.

Non-Payroll Expenses (Continued)

We did not perform this procedure as the Provider operates only one facility and did not report Home Office costs on *Schedule B-1*, *Schedule B-2* or *Schedule C*.

4. We scanned the Provider's General Ledger – Account Activity report for 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 in accordance with Ohio Admin. Code § 5123:2-7 and CMS Publication 15-1. We also scanned for any contract costs which would require reporting on *Schedule C-3, Costs of Services from Related Parties*. We identified any reclassifications between schedules and adjustments exceeding \$500 resulting in decreased costs on any schedule or unreported contractor costs over \$10,000.

We reported misclassified costs in Appendix A. We found no unreported contracts.

5. We compared the 2014 non-payroll costs reported on *Schedule B-1, Other Protected Costs; Schedule B-2, Direct Care Cost Center; and Schedule C, Indirect Care Cost Center* by chart of account code to similar reported costs in 2013 and obtained the following Provider's explanations for increases greater than five percent and \$500:

- 1) Medical Minor Equipment – Medicare non-billable costs on *Schedule B-1* increased due to costs for equipment rental;
- 2) Staff Development – Direct Care costs on *Schedule B-2* increased due to number of staff attending training and conferences;
- 3) Minor Equipment costs on *Schedule C* increased due to preventative equipment maintenance agreements;
- 4) Legal Services costs on *Schedule C* increased due to bank fees associated with restructuring finance agreement; and
- 5) The increase in Security Services costs on *Schedule C* was due an error in coding anesthesia services as already reported under procedure 4 above.

We reported no variances exceeding \$500 and five percent of non-payroll costs.

Property

1. We compared 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 § 5123:2-7 and CMS Publication 15-1.

We found an inconsistency as the Provider did not determine a salvage value when calculating depreciation 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."

We also noted the Provider only depreciated assets with an acquisition cost of five hundred dollars or more and a useful life of five or more years. This is inconsistent with Ohio Admin. Code § 5123:2-7-18(B)(1), which states, "Any expenditure for an item that costs five hundred dollars or more and has a useful life of two or more years per item must be capitalized and depreciated over the asset's useful life."

Property (Continued)

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 and the Provider capitalize assets with a useful life of two or more years.

2. We compared 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 Expense and General Ledger - Account Activity Reports to identify variances exceeding \$500 resulting in decreased costs on any schedule.

We found no differences exceeding \$500.

3. We selected a total of three additions and deletions reported on *Schedule D-1, Analysis of Property, Plant and Equipment* and *Schedule D-2, Capital Additions/Deletions* and determined if the cost basis, useful life and depreciation expense were reported in accordance with Ohio Admin. Code § 5123:2-7. We determined if assets were used in residential care or should be reclassified as the Costs of Ownership in accordance with Ohio Admin § 5123:2-7 and CMS Publication 15-1. We identified variances exceeding \$500 which result in decreased costs on any schedule.

We found no variances exceeding \$500.

4. We reviewed rent and lease agreements and determined if any related party lease costs were recorded in accordance with 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. We identified any variances exceeding \$500 which result in decreased costs on any schedule.

We found no variances.

5. We compared the renovation costs 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, to identify variances exceeding \$500 which result in decreased costs on any schedule.

We found no variances exceeding \$500 resulting in decreased costs.

6. We reviewed the Depreciation Expense and General Ledger - Account Activity Reports to ensure transportation expenses were reasonable, allowable and related to patient care as defined in CMS Publication 15-1, Chapter 9 for costs recorded on *Schedule D-1, Analysis of Property, Plant and Equipment*. ODM asked that if any corporate officers or owners exclusively used vehicles, we review the W-2s to determine if they reported additional compensation or were adjusted from allowable expenses pursuant to CMS Publication 15-1. We identified any variances exceeding \$500 which result in decreased costs on any schedule.

We found no differences. We did not review any W-2s as no corporate officers or owners exclusively used any vehicles.

Payroll

1. We compared all salary, fringe benefits and payroll tax entries and hours worked reported on the Provider's General Ledger - Account Activity reports 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*. We identified any variances exceeding \$500 which result in decreased costs.

We found no differences.

2. We selected 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 compared to the Provider's employee listing and job descriptions to the schedule in which each employee's salary and fringe benefit expenses were reported. We determined if the payroll costs were allowable under CMS Publication 15-1, were properly classified, allocated and allowable in accordance with Ohio Admin. Code § 5123:2-7 and CMS Publication 15-1, Chapter 9 and Section 2150. We identified any variances exceeding \$500 which result in decreased costs on any schedule.

We found no differences.

3. We compared the 2014 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 similar costs in 2013 and we obtained the following Provider's explanation for three payroll variances that increased by more than five percent and \$500:

- 1) RN Charge Nurse payroll costs on *Schedule B-2* increased due to staff being reclassified from Registered Nurse cost center;
- 2) Promotional Advertising and Marketing payroll costs on *Schedule C* increased due to changed staffing patterns and adding staff; and
- 3) Dietary Personnel payroll costs on *Schedule C* increased due to a number of staff being moved out of the supervisory role.

We reported no variances exceeding \$500 and five percent of payroll costs resulting in decreased costs on any schedule.

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 Provider's management, the Ohio Department of Medicaid, the Ohio Department of Developmental Disabilities 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
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October 4, 2016

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Appendix A
Luther Home of Mercy
2014 Income and Expenditure Report Adjustments

	Reported Amount	Correction	Corrected Amount	Explanation of Correction
Schedule B-2 Direct Care Cost Center				
22. Active Treatment Off-site Day Programming - 6215 - Other/Contract Wages (2)	\$ 2,113,458	\$ (1,264)		To reclassify personal care supplies expenses
		\$ (35,676)		To reclassify dietary expenses
		\$ (1,050)	\$ 2,075,468	To reclassify dietary expenses
23. Other Direct Care - Specify Below - 6220 - Other/Contract Wages (2)	\$ 13,257	\$ 7,733	\$ 20,990	To reclassify anesthesia expenses
Schedule C Indirect Care Cost Center				
4. Dietary Supplies and Expenses - 7025 - Other/Contract Wages (2)	\$ 39,738	\$ 35,676		To reclassify dietary expenses
		\$ 1,050	\$ 76,464	To reclassify dietary expenses
23. Personal Care - Supplies - 7120 - Other/Contract Wages (2)	\$ 61,653	\$ 1,264	\$ 62,917	To reclassify personal care supplies expenses
24. Program Supplies - 7125 - Other/Contract Wages (2)	\$ 8,484	\$ (1,192)	\$ 7,292	To reclassify promotional expenses
31. Security Services - 7230 - Other/Contract Wages (2)	\$ 7,803	\$ (7,733)	\$ 70	To reclassify anesthesia expenses
42. Insurance - 7280 - Other/Contract Wages (2)	\$ 99,857	\$ (2,770)	\$ 97,087	To match general ledger
74. Promotional Advertising and Marketing - 9755 - Other/Contract Wages (2)	\$ 43,760	\$ 1,192	\$ 44,952	To reclassify promotional expenses
Attachment 1 - Revenue Trial Balance				
3. Medicaid	\$ 13,921,502	\$ 8,610	\$ 13,930,112	To match revenue ledger
77. Gain/Loss on Sale of Investments	\$ (44,859)	\$ 63,857	\$ 18,998	To match revenue ledger
Attachment 2 Adjustment to Trial Balance				
4. Workers Compensation Refund (1) Revenue Chart of Account #			5400	To record revenue offset
4. Workers Compensation Refund (3) Other Increase (Decrease)	\$ -	\$ 135,512	\$ 135,512	To record revenue offset
4. Workers Compensation Refund (5) Expense Chart of Account #			6520	To record revenue offset
4. Workers Compensation Refund (6) Revenue Reference Attachment 1 Line			59	To record revenue offset
5. Workers Compensation Refund (1) Revenue Chart of Account #			5400	To record revenue offset
5. Workers Compensation Refund (3) Other Increase (Decrease)	\$ -	\$ 6,340	\$ 6,340	To record revenue offset
5. Workers Compensation Refund (5) Expense Chart of Account #			7065	To record revenue offset
5. Workers Compensation Refund (6) Revenue Reference Attachment 1 Line			59	To record revenue offset
6. Workers Compensation Refund (1) Revenue Chart of Account #			5400	To record revenue offset
6. Workers Compensation Refund (3) Other Increase (Decrease)	\$ -	\$ 16,642	\$ 16,642	To record revenue offset
6. Workers Compensation Refund (5) Expense Chart of Account #			7510	To record revenue offset
6. Workers Compensation Refund (6) Revenue Reference Attachment 1 Line			59	To record revenue offset
7. Staff Lunches (1) Revenue Chart of Account #			5400	To record revenue offset
7. Staff Lunches (3) Other Increase (Decrease)	\$ -	\$ 3,295	\$ 3,295	To record revenue offset
7. Staff Lunches (5) Expense Chart of Account #			7040	To record revenue offset
7. Staff Lunches (6) Revenue Reference Attachment 1 Line			59	To record revenue offset
8. Insurance Reimbursement (1) Revenue Chart of Account #			5400	To record revenue offset
8. Insurance Reimbursement (3) Other Increase (Decrease)	\$ -	\$ 1,000	\$ 1,000	To record revenue offset
8. Insurance Reimbursement (5) Expense Chart of Account #			8050	To record revenue offset
8. Insurance Reimbursement (6) Revenue Reference Attachment 1 Line			59	To record revenue offset

Appendix A
Luther Home of Mercy
2014 Income and Expenditure Report Adjustments

	Reported Amount	Correction	Corrected Amount	Explanation of Correction
Attachment 2 Adjustment to Trial Balance (Continued)				
9. Insurance Reimbursement (1) Revenue Chart of Account #		5400		To record revenue offset
9. Insurance Reimbursement (3) Other Increase (Decrease)	\$ -	\$ 5,872	\$ 5,872	To record revenue offset
9. Insurance Reimbursement (5) Expense Chart of Account #		8010		To record revenue offset
9. Insurance Reimbursement (6) Revenue Reference Attachment 1 Line		59		To record revenue offset
10. Misc. Reimbursements (1) Revenue Chart of Account #		5400		To record revenue offset
10. Misc. Reimbursements (3) Other Increase (Decrease)	\$ -	\$ 15,307	\$ 15,307	To record revenue offset
10. Misc. Reimbursements (5) Expense Chart of Account #		7220		To record revenue offset
10. Misc. Reimbursements (6) Revenue Reference Attachment 1 Line		59		To record revenue offset



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LUTHER HOME OF MERCY

OTTAWA 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
NOVEMBER 29, 2016