



DEPARTMENT OF HEALTH AND HUMAN SERVICES

OFFICE OF AUDIT SERVICES
233 NORTH MICHIGAN AVENUE
CHICAGO, ILLINOIS 60601

REGION V
OFFICE OF
INSPECTOR GENERAL

October 5, 2004

Report Number A-05-03-00105

Dr. Karipineni Prasad
President
Austinwoods Nursing Center, Inc.
4780 Kirk Road
Austintown, Ohio 44515-4515

Dear Dr. Prasad:

Enclosed are two copies of U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report entitled "Audit of Austinwoods Nursing Center's Medicaid Cost Report for the Calendar Year (CY) ended December 31, 2001." A copy of the report will be forwarded to the action official noted below for review and any actions deemed necessary.

Final determination as to actions taken on all matters reported will be made by the action official. We request that you respond to the action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe will have a bearing on the final determination.

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If you have any questions or comments about this report, please do not hesitate to call me, or George Reeb Assistant Inspector General for Health Care, at (410) 786-7104 or through e-mail at George.Reeb@oig.hhs.gov. To facilitate identification, please refer to report number A-05-03-00105 in all correspondence.

Sincerely,

A handwritten signature in cursive script that reads "Paul Swanson".

Paul Swanson
Regional Inspector General
for Audit Services

Enclosures

Direct Reply to HHS Action Official:

Ms. Jacqueline Garner
Regional Administrator
Centers for Medicare & Medicaid Services
Department of Health and Human Services
233 North Michigan Avenue, Suite 600
Chicago, Illinois 60601-5519

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**AUDIT OF AUSTINWOODS NURSING
CENTER'S MEDICAID COST REPORT
FOR THE CALENDAR YEAR (CY)
ENDED DECEMBER 31, 2001**



**October 2004
A-05-03-00105**

Office of Inspector General

<http://oig.hhs.gov>

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OAS FINDINGS AND OPINIONS

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed, as well as other conclusions and recommendations in this report, represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the HHS divisions will make final determination on these matters.



EXECUTIVE SUMMARY

BACKGROUND

Austinwoods is a nursing facility, located in Austintown, Ohio, that provides services to resident patients who are Medicaid eligible. In Ohio, the Medicaid program is administered by the Ohio Department of Human Services (the State). The Ohio Administrative Code describes the Medicaid costs that are allowable under the Ohio Medicaid State Plan (State plan) and requires that providers report these costs to the State on annual cost reports.

OBJECTIVES

The audit objective was to determine whether costs reported on Austinwoods' Calendar Year (CY) 2001 cost report, totaling \$9,667,986, were allowable, allocable, and reasonable in accordance with applicable Federal and State requirements.

FINDINGS

Of the \$9,667,986 in total costs claimed on Austinwoods' CY 2001 cost report, \$39,104 were unallowable. The \$39,104 was comprised of \$31,563 in indirect costs related to services provided to non-resident patients in the physical therapy unit and \$7,541 in non-patient care costs, such as country club dues of the owner and the expenses of the owners' privately owned vehicles. The State plan requires that costs claimed by nursing facilities must be related to patient care provided to resident patients.

We attribute the \$31,563 of unallowable indirect costs to Austinwoods' lack of a methodology to identify their indirect costs and allocate those costs to the physical therapy unit and, subsequently, between resident and non-resident services. The \$7,541 of unallowable costs not related to patient care is due to weaknesses in Austinwoods' system for classifying costs and their misunderstanding of the cost criteria in the State plan and the Medicare Provider Reimbursement Manual.

RECOMMENDATIONS

We recommend that Austinwoods:

- work with the State to adjust the total of \$39,104 in unallowable expenses through its prospective payment system.
- establish an allocation methodology to identify indirect costs and allocate costs to the physical therapy unit and, subsequently, between resident and non-resident services.
- establish policies and procedures to ensure that costs are properly categorized.

- establish controls to ensure that the State plan and the Medicare Provider Reimbursement Manual cost criteria are properly applied to costs claimed on the Medicaid cost report.

AUDITEE COMMENTS

Austinwoods agreed to establish a methodology to allocate allowable indirect costs to the physical therapy unit and between residents and non-residents. Regarding non-patient care costs, facility officials feel that the amounts for resident Christmas gifts and newspaper subscriptions are related to patient care and should be allowable. Since a cost is defined as related to patient care if it is necessary to the development and maintenance of the facility and its activities, we disagree.

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INTRODUCTION

BACKGROUND

Title XIX of the Social Security Act established the Medicaid program to provide medical assistance for individuals and families with low income and resources. Medicaid is a jointly funded Federal and State program which is administered at the Federal level by the Centers for Medicare & Medicaid Services and at the State level by the Ohio Department of Human Services. Medicaid assists States in the provision of adequate medical care to eligible needy persons. Using broad national guidelines, each State administers its program under a State plan, which establishes its own payment rates, eligibility standards, and types of services.

The Ohio Administrative Code describes the Medicaid costs that are allowable under the State plan and requires providers to annually report their costs to the State. Regarding the allowable Medicaid costs of nursing facilities, the State plan provides per diem reimbursement rates constrained by ceilings established by Ohio Department of Human Services. Individual rates for each nursing facility are established and subsequently adjusted based on each provider's most recently finalized cost report. Accordingly, to ensure that the rates calculated for each provider represent reasonable and equitable Medicaid reimbursements, it is important that the State ensures that the cost reports submitted by nursing facilities contain only allowable costs. Although the State has procedures to select nursing facility cost reports for audit, these procedures allow a significant number of cost reports to be finalized without an audit.

Austinwoods is a nursing facility, located in Austintown, Ohio, that provides services to resident patients who are Medicaid eligible. We reviewed their CY 2001 cost report because it was not audited by the State and it was the basis for Austinwood's FY 2003 reimbursement rate.

OBJECTIVE, SCOPE, AND METHODOLOGY

The audit objective was to determine whether costs reported in Austinwoods' CY 2001 cost report were allowable, allocable, and reasonable in accordance with applicable Federal and State requirements. To accomplish this objective, we performed the following procedures:

- reviewed applicable laws, regulations, and State guidelines
- reconciled the cost report to the trial balance and general ledgers
- reconciled the salary expenses reported on the cost report to the payroll ledgers
- gained an understanding of the payroll and account payable process

- reviewed supporting documentation for expenses claimed in the cost report related to administrative and general, capital, and direct patient care costs
- identified Austinwoods' indirect costs and allocated those costs to the physical therapy unit, and, subsequently, between resident and non-resident services.

The audit was conducted in accordance with generally accepted government auditing standards

FINDINGS AND RECOMMENDATIONS

The review disclosed that \$39,104, claimed by Austinwoods, was unallowable because (1) indirect costs of \$31,563, were related to services provided to non-residents and (2) costs of \$7,541 were not related to patient care. The State Medicaid program requires that costs claimed by nursing facilities must be related to patient care provided to residents.

Non-Resident Related Expenses

Austinwoods claimed \$31,563 of unallowable indirect costs related to services provided to non-resident patients in the physical therapy unit. The physical therapy unit is the only treatment area in Austinwoods that provides medical care to both resident and non-resident patients. The State plan, section 5101:3-3-56, requires that Medicaid costs claimed by nursing facilities be related to residents' care. Although Austinwoods properly excluded the direct costs related to non-resident care provided in the physical therapy unit, the indirect costs related to such care remained in its Medicaid cost report. We attribute the unallowable costs to Austinwoods' lack of a methodology to identify their indirect costs and allocate those costs to the physical therapy unit and, subsequently, between resident and non-resident services.

The unallowable indirect costs of \$31,563 pertained to \$21,483 for administrative and general expenses and \$10,080 for capital expenses. Since Austinwoods did not have a methodology to determine the indirect costs associated with non-resident services, we calculated these costs in accordance with the cost criteria in the State plan, using the following methods:

- **Administrative and General Expenses.** We analyzed the individual expense items included in this cost category to identify the indirect expenses. The indirect expenses were considered to be any costs that were not directly related to patient services; such as, consulting, accounting, and management fees. The indirect costs were allocated to the physical therapy unit on the ratio of the unit's direct costs to the total direct costs of the facility and then allocated to non-resident services based on the ratio of non-resident physical therapy units to total physical therapy units served.

- **Capital Expenses.** The individual expense items, consisting of housekeeping and maintenance, utilities, interest on capital obligations, and similar expenses, are all indirect in nature. They were allocated to the physical therapy unit based on the ratio of the unit’s square footage to Austinwoods’ total square footage and then allocated to non-resident services based on the ratio of non-resident physical therapy units to total physical therapy units served.

Costs Not Related To Patient Care

Austinwoods claimed \$7,541 in unallowable costs that are not related to patient care. According to the Medicare Provider Reimbursement Manual section 2102.3, an allowable cost must be related to “... developing and maintaining the operation of patient care facilities and activities.” The Manual, section 2138, and section 2105.9, prohibit membership fees associated with non-professional organizations and costs related to the personal use of an automobile, respectively. The unallowable costs of \$7,541 pertain to:

• Country club dues for the owner	\$4,702
• Gasoline credit card purchases for personally owned vehicles	\$1,214
• Christmas gifts	\$ 520
• Tickets to an amusement park	\$ 440
• Newspaper subscriptions	\$ 351
• Advertising and promotional fees	\$ 164
• Donations to a New York City 9/11 Relief Fund	\$ 150

We attribute Austinwoods’ inappropriate claiming of non-resident expenses and non-patient care costs to weaknesses in their system for classifying costs and facility official’s misunderstanding of the State plan and the Medicare Provider Reimbursement Manual cost criteria.

RECOMMENDATIONS

We recommend that Austinwoods:

- work with the State to adjust the \$39,104 in unallowable expenses through its prospective payment system
- establish an allocation methodology to identify indirect costs and allocate costs to the physical therapy unit and, subsequently, between resident and non-resident services.
- establish policies and procedures to ensure that costs are properly categorized.
- establish controls to ensure that the State plan and the Medicare Provider Reimbursement Manual cost criteria are properly applied to costs claimed on the Medicaid cost report.

AUDITEE COMMENTS

In a written response to the draft report, Austinwoods' agreed to establish an allocation methodology to allocate allowable indirect costs to the physical therapy unit and between residents and non-residents.

Facility officials stated that the disallowed amounts for resident Christmas gifts and newspaper subscriptions are related to patient care and, thus, should be allowable for Medicaid reimbursement.

OIG RESPONSE

We disagree that Christmas gifts and newspaper subscriptions for residents are related to patient care. The Provider Reimbursement Manual specifies that costs related to patient care must be necessary in developing and maintaining the operation of the patient care facilities and activities. The newspaper subscriptions and Christmas gifts are not necessary in maintaining the operation of Austinwoods and its activities.

APPENDIX



Austin Woods

APPENDIX
Page 1 of 1

"Meeting your healthcare & lifestyle needs"

July 22, 2004

Re: AustinWoods Nursing Center, Inc.
2001 Medicaid Cost Report Audit

To Whom It May Concern:

We accept the audit report subject to the information provided below and will establish an allocation methodology to identify indirect costs allowable to the physical therapy unit between "Resident" and "Non-Resident" on a go forward basis.

While we agree with the findings of unallowable indirect costs, related to the Physical therapy unit, \$21,483.00 of these indirect costs (Administrative and General Expenses) will not affect reimbursement since AustinWoods was over the indirect ceiling on the Medicaid rate setting. Also, we feel the unallowable Administrative and General Expenses should be higher and that the capital unallowable expenses should be lower because the allocation of housekeeping and maintenance to capital cost, we feel, is incorrect. According to the Medicaid reimbursement, these functions fall under indirect care reimbursement (Administrative and General Expenses).

Also, we do feel that the some of the costs disallowed for the reason of unrelated to patient care in-turn are related to patient care. \$520.00 for resident Christmas gifts and \$351.00 for newspaper subscriptions for resident's activity functions we believe are related to resident care. However, these unallowable costs also do not affect reimbursement due to AustinWoods being over the indirect ceiling.

We would like to express our appreciation to you for conducting this audit in a professional manner open to the exchange of information and consideration of our day-to-day work schedule and obligations.

Sincerely,

Kathy Prasad
Kathy Prasad

ACKNOWLEDGMENTS

This report was prepared under the direction of Paul Swanson, Regional Inspector General for Audit Services. Other principal Office of Audit Services staff who contributed include:

Stephen Slamar, *Audit Manager*

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