



January 21, 2004

Report Number A-06-03-00015

Mr. Danny K. Prince
President and Owner
Albuquerque Manor
500 Louisiana Boulevard N.E.
Albuquerque, New Mexico 87108

Dear Mr. Prince:

Enclosed are two copies of the Department of Health and Human Services, Office of Inspector General report entitled "Audit of Albuquerque Manor's Medicaid Nursing Facility Cost Report for the Year Ended December 31, 2000." A copy of this report will be forwarded to the action official noted below for his/her review and any action deemed necessary.

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

In accordance with the principles of the Freedom of Information Act, 5 U.S.C. 552, as amended by Public Law 104-231, Office of Inspector General reports are made available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise. (See 45 CFR Part 5.)

To facilitate identification, please refer to report number A-06-03-00015 in all correspondence relating to this report.

Sincerely,

A handwritten signature in black ink that reads "Gordon L. Sato".

Gordon L. Sato
Regional Inspector General
for Audit Services

Enclosures – as stated

Page 2 – Mr. Danny K. Prince, Owner

Direct Reply to HHS Action Official:

Dr. James R. Farris, MD
Regional Administrator
Centers for Medicare and Medicaid Services
1301 Young Street, Room 714
Dallas, Texas 75202

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**RESULTS OF OUR AUDIT OF
ALBUQUERQUE MANOR'S MEDICAID
NURSING FACILITY COST REPORT
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2000**



Inspector General

**January 2004
A-06-03-00015**

Notices

THIS REPORT MAY CONTAIN SENSITIVE INFORMATION

This report should not be reproduced or released to any other party without specific written approval of the Deputy Inspector General for Office of Audit Services.

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. Final determination on these matters will be made by authorized officials of the HHS divisions.





January 21, 2004

Report Number A-06-03-00015

Mr. Danny K. Prince
President and Owner
Albuquerque Manor
500 Louisiana Boulevard N.E.
Albuquerque, New Mexico 87108

Dear Mr. Prince:

This report provides you with the results of our audit of Albuquerque Manor's Medicaid nursing facility cost report for the fiscal year ended December 31, 2000 (FY 2000). Our audit objective was to determine whether costs reported in Albuquerque Manor's FY 2000 Medicaid cost report, totaling \$13,381,651, were allowable and in accordance with applicable Federal and State requirements.

Our review disclosed that \$518,492 claimed by Albuquerque Manor (Manor) was questionable because: (1) costs totaling \$192,644 were not patient related or supported, (2) charges for services from related companies totaling \$163,158 were not reduced to cost or supported, and (3) costs totaling \$162,690 were not allocable to the Manor as required by the New Mexico Medicaid program. New Mexico's Medicaid program requires costs to be related to patient care and cost information to be accurate, current, and in sufficient detail to support payments for services rendered. It also requires that purchases from related organizations not exceed the costs to the related organization and that costs must be based on an approved cost finding method. As a result of these conditions, the Manor's FY 2000 Medicaid cost report was overstated by \$518,492.

These conditions occurred because the Manor did not have policies, procedures, and controls in place to ensure compliance with the State's Medicaid program requirements.

We are recommending that the Manor:

1. establish and implement policies, procedures, and controls to ensure that New Mexico's Medicaid program requirements are met, including controls that ensure costs claimed on the Medicaid cost report are--
 - a. related to patient care,
 - b. reduced to cost for related party transactions,
 - c. allocable to the Manor; and

2. submit a revised FY 2000 Medicaid cost report that reduces costs by the amounts questioned totaling \$518,492, which will be used by the State Medicaid program to re-compute and adjust Medicaid reimbursement payments.

The Manor, in its response dated January 15, 2004, stated that it agreed with our recommendation concerning record keeping and accounting practices, but did not fully agree with the recommended adjustment of \$518,492. The Manor stated that while it had confirmed as appropriate or did not intend to contest certain adjustments (totaling \$106,384), it was still investigating costs identified as pending in its schedule of adjustments. The Manor stated it believed a substantial amount of our proposed adjustment was due to miscommunication with our staff and that it was overstated.

The Manor's comments were not responsive to the conditions specifically noted in our report. The Manor was provided with the normal 30-day period to respond to our report and was granted two extensions. We continue to believe that the conditions noted in our report are valid and that the full amount of recommended adjustments should be made totaling \$518,492. The complete text of the Manor's response is presented as APPENDIX B to this report.

INTRODUCTION

BACKGROUND

Medicaid Program

Title XIX of the Social Security Act is a program that provides medical assistance for individuals and families with low income and resources. It is known as Medicaid and became law in 1965. The Centers for Medicare & Medicaid Services is the Federal agency within the Department of Health and Human Services that runs the Medicaid program. It is a jointly funded cooperative venture between the Federal and State governments to assist States in the provision of adequate medical care to eligible needy people. The national guidelines are broad and each State administers its own program, establishing its own payment rates, eligibility standards, and types of services. Thus, the program varies considerably from State to State.

New Mexico Rate Setting

Each State providing Medicaid services must have a Medicaid plan that provides for making medical assistance available for nursing facility services. The New Mexico Medicaid State plan (State plan) provides for such services. It provides for reimbursement to nursing facilities at the lower of billed charges or prospective rates as constrained by certain ceilings established by New Mexico's Human Services Department.

The rates are established for each nursing facility and rebased every 3 years using the provider's cost report. The Manor's Medicaid cost report used for the latest rebase was the report covering the Manor's fiscal year ended December 31, 2000. The new (year one) rates for high and low nursing facility service levels were based on this cost report and were in effect for the year ended June 30, 2002. In accordance with the State plan, the Manor's FY 2000 cost report was also to be used to set rates in effect for the years ended June 30, 2003 (year two) and June 30, 2004 (year three).

New Mexico Program Requirements

The Department's Medical Assistance Division (MAD) Medicaid program regulations, at MAD:95-39, Section 731.D (New Mexico regulations), describe the costs that are allowable in determining a provider's actual, allowable, and reasonable costs. The regulations state that costs are subject to all terms stated in the Medicare Provider Reimbursement Manual (manual) that are not modified by the regulations. The regulations describe non-allowable costs and specify that other items identified as unallowable in the manual are also unallowable.

In part, the State regulations require, either directly or indirectly through the manual, that expenses must be related to the provider's operation and rendered in connection with patient care. Purchases from related organizations shall not exceed the lower of the: (1) cost to the related organization, or (2) price of comparable services purchased elsewhere. Cost information must be accurate, current, and in sufficient detail to support payments made for services rendered to beneficiaries. The cost data must be based on an approved method of cost finding and on the accrual basis of accounting.

Organizational and Corporate Structure

The Manor nursing facility is a for-profit S-corporation that conducts business with related corporate companies. These include:

- D&P Management Company (payroll company);
- Albuquerque Manor Medical Clinic, Inc. (medical clinic);
- Albuquerque Manor Pharmacy, Inc. (pharmacy); and
- AM Professional Staffing, Inc. (staffing company).

The same persons own the Manor and its related companies, but none of the companies own or control each other. The related corporations conducted business through contracts.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our audit objective was to determine whether costs reported in the Manor's FY 2000 Medicaid cost report were allowable and in accordance with applicable Federal and State requirements. To meet this objective we:

- reconciled the cost report to the Manor's trial balance and general ledgers;
- gained an understanding of how payroll costs flowed from the related payroll company ledger to the Manor and related company ledgers by: (1) verifying that costs recorded in the payroll company ledger were transferred to the Manor ledger for the month of December 2000, (2) comparing Calendar Year 2000 total payroll company expenses to the balances shown for those accounts in the Manor's FY 2000 ledger at year end, and (3) tracing Manor ledger related company account balances to related company ledgers for December 2000;
- reconciled the Manor's FY 2000 Medicaid cost report salary expenses to the payroll company's earnings distribution reports;
- gained an understanding of the payroll and account payable process;
- tested \$1,438,992 out of \$13,381,651 in the Manor's FY 2000 Medicaid cost report consisting of administrative and general expenses, room and board, direct patient care, and facility costs; and
- computed questioned costs not allocated to related companies for facility, plant operation, housekeeping, and accounting services provided to the related companies by the Manor in accordance with State plan cost finding methodologies, as computed at APPENDIX A.

All items selected for review were judgmentally selected based on the dollar amounts of the transactions or our perceived vulnerability of the transactions. Our audit was conducted in accordance with generally accepted government auditing standards. Fieldwork was conducted at the offices of the Albuquerque Manor nursing facility in Albuquerque, New Mexico, and at our office in Austin, Texas from November 2002 through July 2003.

FINDINGS AND RECOMMENDATIONS

Our review disclosed that \$518,492 claimed by the Manor was questionable because: (1) costs totaling \$192,644 were not patient related or supported, (2) charges for services from related companies totaling \$163,158 were not reduced to cost or supported, and (3) costs totaling \$162,690 were not allocable to the Manor as required by New Mexico's Medicaid program. The program requires costs to be related to patient care and cost information to be accurate, current, and in sufficient detail to support payments for

services rendered. It also requires that purchases from related organizations not exceed the costs to the related organization, and that costs must be based on an approved cost finding method.

These conditions occurred because the Manor did not have policies, procedures, and controls in place to ensure compliance with the State's Medicaid program requirements.

These issues are further discussed below.

COSTS NOT RELATED TO PATIENT CARE OR UNSUPPORTED COSTS

The Manor claimed \$192,644 in expenses that were not patient related or supported by payment and cost documentation. The Manor claimed:

- \$110,924 in salaries for admissions staff who participated in activities aimed at increasing patient utilization that were not related to patient care;
- \$40,970 for contracted nursing services that did not have payment support documentation;
- \$33,250 in duplicated consulting fees that were unsupported; and
- \$7,500 for retail gift certificates that were not patient related and for which distribution listings were not maintained.

Admission Staff Activities Not Related to Patient Care

The Manor claimed \$110,924 in salaries for admissions staff who participated in activities that were not related to patient care. A Manor official stated that the admissions staff visited hospitals to recruit patients. This included visiting patients in hospital rooms and talking to discharge planners. The official also stated that on special occasions, admissions staff delivered chocolates to doctors and discharge planners.

The nature of these activities was further supported by Manor job descriptions for admissions staff, which stated that the staff's job purpose was to develop and maintain optimal occupancy levels and a high quality census mix. The job duties included: (1) building and maintaining the nursing home's patient census count by generating at least 60 inquiries per month; (2) operating marketing programs that included promoting positive facility recognition and good customer relations; and (3) conducting annual environmental analysis of the marketing area.

The manual, Section 2102.2, states that costs related to patient care include necessary and proper costs that are appropriate and helpful in developing and maintaining the operation of patient care facilities and activities. Section 2136 states that the costs of advertising to the general public, which seeks to increase patient utilization of the provider's facilities,

are not allowable. This section also states that general advertising to promote an increase in the patient utilization of services is not properly related to the care of patients.

We believe the actions of the Manor's admissions staff represented unallowable marketing or advertising activities that were aimed at increasing patient utilization of their facilities and were not related to the care of patients. However, according to a Manor official, the admissions salary costs were not treated as unallowable because the staff activities were not viewed as unallowable marketing (or advertising type) activities.

Contracted Labor Cost Payments Unsupported

The Manor claimed \$40,970 in contracted nursing service expenses that lacked payment support. The Manor provided check copies to support payments made to a vendor for several invoices. However, the checks were voided and the Manor did not provide evidence of subsequent payments. According to a Manor official, checks were routinely held after printing and not distributed until funds were available. The official stated that due to cash shortages, checks could be held for months, which would then require the original checks to be voided and replacement checks to be issued. In this case, the Manor did not produce the replacement checks. According to the manual, Section 2304, cost information must be sufficient in detail to support payments made for services rendered to beneficiaries.

Duplicated Related Company Consulting Fees

The Manor claimed \$33,250 in consulting fees that were duplicated within its ledgers. The Manor's staff recorded the same related pharmacy consulting fees in two different general ledger accounts. This occurred when the accounts payable staff recorded fees based on invoices in a contract labor account while a Manor financial officer, with journal entry capability, recorded estimated fees to a purchase service account. Thus, procedures in place did not ensure that transactions processed by both the accounting staff and financial officer were not duplicated. According to Section 2304 of the manual, cost information must be accurate, current, and in sufficient detail to support payments made for services rendered to beneficiaries.

Unallowable and Unsupported Gift Certificates

The Manor claimed \$7,500 in employee benefit expenses for retail gift certificates that were not patient related and for which distribution listings were not maintained. The Manor purchased 300 gift certificates in \$25 increments from a retail store. A Manor official stated that these gift certificates were provided to 300 Manor employees to report to work and perform well during the week that the New Mexico Department of Health surveyed the Manor for its yearly nursing home certification. The official said the certificates were provided as a "thank you" to employees who worked during the survey week, and that the expenses were considered to be for employee morale. This official also stated that he thought small gifts could be given to employees.

We do not believe the gift certificates were appropriate or allowable for employee morale as described in the manual. Section 2105.8 of the manual states that costs incurred by providers for purposes of employee morale, specifically for an annual employee picnic, Christmas or holiday party, employee award ceremony, or for sponsorship of employee athletic programs, are allowable to the extent that they are reasonable. We noted that the expenses were not recorded as employee morale, employee income, or salary bonuses in the Manor ledgers. Also, Section 2102.3 provides that gifts are not related to patient care and are not allowable.

Furthermore, there was no assurance that all gift certificates had been issued to the staff present during the survey because distribution listings were not maintained. Section 2304, states that cost information must be accurate, current, and in sufficient detail to support payments made for services rendered to beneficiaries.

RELATED COMPANY CHARGES NOT REDUCED TO COST

The Manor claimed \$163,158 in related company charges for purchased consulting services and drugs that were not: (1) reduced to cost, and (2) supported by documentation that could be used to determine costs or reliably estimate costs.

Charges Not Reduced to Cost

The Manor: (1) did not make any adjustments to reduce charges to the costs incurred by related companies for purchased consulting services, and (2) incorrectly computed an adjustment for over-the-counter drug purchases. These charges were not reduced to cost:

- \$90,913 in consulting charges recorded as medical director salaries in the Manor's ledger for medical director oversight services provided by a related medical clinic;
- \$19,931 in consulting charges recorded as office supplies in the Manor's ledger for Manor patient drug dosage listings prepared by a related pharmacy;
- \$27,207 in consulting charges recorded as maintenance and repairs contract labor in the Manor's ledger for Manor patient drug usage listings reviewed by a related pharmacy; and
- \$25,107 in drug charges recorded as stock drugs in the Manor's ledger for over-the-counter drugs purchased from a related pharmacy.

With regard to the consulting services, a Manor official stated that he was unaware that charges had not been reduced to cost. Regarding drug purchases, the Manor attempted to adjust over-the-counter drug charges using a cost-to-charge ratio method. However, according to a Manor official, the ratio used was incorrect because it was based on information from a second related pharmacy that did not sell drugs to the Manor. According to the New Mexico regulation, at MAD:95-39, Section 731.D, Subsection

III.H.2, costs applicable to services furnished to the provider by organizations related to the provider by common ownership or control shall not exceed the lower of the cost to the related organization or price of comparable services purchased elsewhere.

These conditions occurred because the Manor did not have procedures to ensure that: (1) purchased consulting services from related companies were identified as such in its ledgers, (2) all related company consulting charges were reduced to cost, and (3) adjustment computations were verified for accuracy. Thus, the related company consulting charges were not adjusted to cost, drug purchase adjustments were incorrect, and costs totaling \$163,158 were overstated in the Manor's ledger and in the Medicaid cost report.

No Documentation to Identify and Allocate Costs

The Manor did not obtain documentation to identify and allocate related company costs associated with charges totaling \$163,158. According to a Manor official, the related companies did not keep timesheets by activity that would show staff time spent providing services to the Manor. In addition, invoices did not show the number of hours billed. Thus, costs incurred by the related medical clinic and pharmacy could not be: (1) allocated to the activities that benefited the Manor, and (2) used to derive an applicable cost-to-charge ratio. According to New Mexico regulations, at MAD:95-39, Section 731.D, Subsection III.A.1, providers receiving payment on the basis of reimbursable cost must provide adequate cost data based on financial and statistical records, which can be verified by qualified auditors.

No Documentation to Reliably Estimate Costs

The Manor did not have documentation to reliably estimate related company costs that could be used to adjust charges to cost, as required by New Mexico's Medicaid program. Section 2304 of the manual states that cost information must be accurate, current, and in sufficient detail to support payments made for services rendered to beneficiaries. Related pharmacy and medical clinic ledgers did not reliably reflect all of their expenses and revenues because transactions between related companies were not always complete and/or accurate in the Manor, pharmacy, and medical clinic ledgers. As a result, cost-to-charge ratios based on this data could not be used to estimate the cost of services and make adjustments.

Three examples that show the ledgers were incomplete and/or inaccurate are as follows:

- Related medical clinic and pharmacy vacation and sick pay costs were--
 - (1) recorded in a related payroll company ledger,
 - (2) transferred to the Manor ledger by the payroll company,
 - (3) incorrectly claimed in the Manor's Medicaid cost report, and
 - (4) not recorded in the related companies' ledgers.

- Related pharmacy payroll costs were--
 - (1) recorded in the related payroll company ledger,
 - (2) transferred to the Manor ledger,
 - (3) not claimed in the Manor's Medicaid cost report, and
 - (4) not recorded in the related pharmacy's ledger.

- Related medical clinic physician salary costs were--
 - (1) recorded in the related payroll company ledger,
 - (2) transferred to the Manor ledger,
 - (3) incorrectly claimed in the Manor's Medicaid cost report as salaries instead of consulting services, and
 - (4) not fully recorded in the related medical clinic's ledger.

We noted that a related payroll company processed these transactions for the Manor, pharmacy, and medical clinic. The payroll company was the employer of record for all staff working at the Manor, pharmacy, and medical clinic. According to a Manor official, employees assigned to work for the Manor prepared all transactions on behalf of the payroll company, which was a paper corporation.

These conditions occurred because the Manor allowed related company payroll expenses to be transferred into its ledger by a related payroll company. The Manor did not have procedures in place to ensure that: (1) the payroll company accurately and separately accounted for Manor expenses, and (2) transferred expenses remaining in the Manor ledger related only to the Manor and excluded related company costs. Manor officials did not provide a reason why transactions were not directly allocated to benefiting companies by the payroll company.

COSTS NOT ALLOCABLE TO THE MANOR

The Manor claimed \$162,690 for costs that were not allocable to the Manor. These costs included:

- \$103,176 for facility (office space), plant operation, housekeeping, and accounting services that did not benefit the Manor; and

- \$59,514 for vacation and sick pay salaries, and employee benefit costs of related pharmacy and medical clinic staff that did not benefit the Manor.

Costs of Service Provided to Related Companies Not Fully Allocated

The Manor claimed \$103,176 for facility, plant operation, housekeeping, and accounting costs that were allocable to related companies and did not benefit the Manor. The Manor provided the related medical clinic and pharmacy with: (1) office space in the Manor's leased building; (2) utilities, repairs, and supplies; (3) housekeeping services; and (4) accounting services for ledger and payroll processing. The Manor charged the related

companies \$58,737 for these services. However, the Manor did not provide documentation to support how charges were derived and to show that they were computed in accordance with New Mexico's Medicaid program requirements. When asked what the basis was for the computations, a Manor official stated the charges were reasonable and based on their prior experience.

According to New Mexico regulation, at MAD:95-39, Section 731.D, Subsection III.A.1-2, providers receiving payment on the basis of reimbursable cost must provide adequate cost data based on financial and statistical records that can be verified by qualified auditors. The cost data must be based on an approved method of cost finding and on the accrual basis of accounting. The regulation states that the cost finding method to be used by nursing facility providers will be the step-down method. This methodology requires that all costs of non-revenue producing centers be allocated to all centers that they serve and that centers serving the greatest number of other centers be apportioned first.

According to our computations using the required methodology, the Manor should have allocated costs totaling \$161,913 for services provided to related companies. The Manor charged the related companies and offset its cost report by \$58,737. As a result, the cost report was overstated by \$103,176. See APPENDIX A, Table 1.

Related Company Salary and Employee Benefit Costs Claimed

The Manor claimed \$59,514 for vacation and sick pay salaries, and employee benefit costs of related pharmacy and medical clinic staff that did not benefit the Manor. The Manor ledger included related medical clinic costs of \$53,109 and pharmacy costs of \$6,405 for vacation and sick pay salaries, 401K administration, and health insurance.

This condition occurred because the Manor allowed related vacation and sick pay salaries, and employee benefit costs to be transferred into its ledger by a related payroll company. The Manor did not have procedures in place to ensure that the payroll company accurately and separately accounted for Manor expenses. For example:

- \$43,492 in ***related medical clinic*** vacation and sick pay costs were included in the ***Manor medical records*** department's vacation and sick pay accounts; and
- \$7,523 in ***related medical clinic*** health insurance costs were included in the employee expense accounts of the ***Manor's medical records*** department.

As a result, related company expenses were not fully identified and excluded from the Manor ledgers. According to the regulations, at MAD:95-39, Section 731.D, Subsection III.G.2.a (12), operating costs for managerial, administrative, professional, and other services are allowable when related to the provider's operation and rendered in connection with patient care.

SUMMARY

Our review disclosed that \$518,492 claimed by the Manor was questionable because: (1) costs totaling \$192,644 were not patient related or supported, (2) charges for services from related companies totaling \$163,158 were not reduced to cost or supported, and (3) costs totaling \$162,690 were not allocable to the Manor as required by New Mexico's Medicaid program. The program requires costs to be related to patient care and cost information to be accurate, current, and in sufficient detail to support payments for services rendered. It also requires that purchases from related organizations not exceed the costs to the related organization, and that costs must be based on an approved cost finding method.

As a result, the Manor's FY 2000 Medicaid cost report was overstated by \$518,492. These conditions occurred because the Manor did not have policies, procedures, and controls in place to ensure compliance with the State's Medicaid program requirements.

RECOMMENDATIONS

We recommend that the Manor:

1. establish and implement policies, procedures, and controls to ensure that New Mexico's Medicaid program requirements are met, including controls that ensure costs claimed on the Medicaid cost report are--
 - a. related to patient care,
 - b. reduced to cost for related party transactions,
 - c. allocable to the Manor; and
2. submit a revised FY 2000 Medicaid cost report that reduces costs by the amounts questioned totaling \$518,492, which will be used by the State Medicaid program to re-compute and adjust Medicaid reimbursement payments.

MANOR'S COMMENTS

The Manor, in its response dated January 15, 2004, stated that it agreed with our recommendation concerning record keeping and accounting practices, but did not fully agree with the recommended adjustment of \$518,492. The Manor stated that while it had confirmed as appropriate or did not intend to contest certain adjustments (totaling \$106,384), it was still investigating costs identified as pending in its schedule of adjustments. The Manor stated it believed a substantial amount of our proposed adjustment was due to miscommunication with our staff and that it was overstated.

OUR RESPONSE

The Manor's comments were not responsive to the conditions specifically noted in our report. The Manor was provided with the normal 30-day period to respond to our report and was granted two extensions. We continue to believe that the conditions noted in our report are valid and that the full amount of recommended adjustments should be made totaling \$518,492.

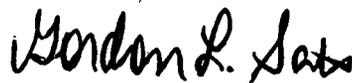
The complete text of the Manor's response is presented as APPENDIX B to this report.

OTHER MATTERS

During the audit, we noted that the Manor and its related medical clinic did not fully record revenue in their ledgers for sales transacted with each other. As a result, we believe the revenue shown in the Manor and medical clinic ledgers was understated and New Mexico gross sales taxes were underpaid. The State of New Mexico imposes State and county taxes on gross sales receipts (or revenue) for entities conducting business in the State. This includes sales between related corporations¹. Two examples are discussed below.

- In one example, the Manor provided accounting services to the related clinic. However, in recording the sales, the Manor debited an inter-company accounts receivable account and credited its expense accounts. No documentation was provided to show that revenue was recorded.
- In a second example, the medical clinic provided the Manor with medical director oversight services. However, in recording these transactions, the medical clinic did not record the revenue received for those services.

Sincerely,



Gordon L. Sato
Regional Inspector General
for Audit Services

¹ While the same persons own the Manor and its related companies, none of the companies own or control each other.

APPENDICES

TABLE 1

**COMPUTATION OF QUESTIONED MANOR COSTS ALLOCABLE TO RELATED COMPANIES
FOR FACILITY, PLANT OPERATION, HOUSEKEEPING, AND ACCOUNTING SERVICES PROVIDED
TO RELATED COMPANIES AND NOT OFFSET IN MEDICAID COST REPORT
FOR THE YEAR ENDED DECEMBER 31, 2000**

<u>DESCRIPTION</u>	<u>RELATED PHARMACY</u>	<u>RELATED MEDICAL CLINIC</u>	<u>TOTAL</u>
FACILITY COSTS	\$27,168	\$28,617	\$55,785
PLANT OPERATION COSTS	10,731	11,302	22,033
HOUSEKEEPING COSTS	9,145	9,632	18,777
ACCOUNTING SERVICE COSTS	21,649	43,669	65,318
TOTAL COSTS ALLOCABLE TO RELATED COMPANIES	<u>\$68,693</u>	<u>\$93,220</u>	<u>\$161,913</u>
LESS: COSTS ADJUSTED BY MANOR - SEE NOTE A/	(29,904)	(28,833)	(58,737)
QUESTIONED COSTS (ALLOCABLE AND NOT ADJUSTED)	<u>\$38,789</u>	<u>\$64,387</u>	<u>\$103,176</u>

NOTES:

A/ Derived from Manor records of amounts charged to related companies for services
See Tables 2 and 3 for other supporting computations

**COMPUTATION OF COSTS ALLOCABLE TO RELATED COMPANIES
FOR FACILITY, PLANT OPERATION, AND HOUSEKEEPING SERVICES PROVIDED**

ALLOCATIONS BASED ON STEP DOWN METHODOLOGY AND SQUARE FOOTAGE

DESCRIPTION	FACILITY SQ FT	PLANT OPERATIONS SQ FT	HOUSE- KEEPING SQ FT
<u>Square Footage Statistics</u>			
Plant Operation	1/ 2,645		
Housekeeping	1/ 264	264	
Administrative & General (A&G)	1/ 6,206	6,206	6,206
Direct Patient Care (Routine Service)	1/ 61,262	61,262	61,262
Remaining Areas (including Ancillary)	1/ 12,588	12,588	12,588
Subtotal - Manor Square Footage	1/ 82,965	80,320	80,056
Add:			
Related Pharmacy	2/ 1,238	1,238	1,238
Related Medical Clinic	3/ 1,304	1,304	1,304
Total Sq Ft, net of common space, for Facility	<u>85,507</u>	<u>82,862</u>	<u>82,598</u>
<u>Computation of Cost Multiplier</u>			
Costs to Allocate (per Step Down)	4/ \$1,876,471	4/ \$718,225	4/ \$610,143
Multiplier (Cost per Square Foot)	21.94523	8.66772	7.38690
<u>Costs Allocable to Related Companies for Facility Plant Operations, and Housekeeping Services</u>			
Pharmacy (Sq Ft x Multiplier)	<u>\$27,168</u>	<u>\$10,731</u>	<u>\$9,145</u>
Clinic (Sq Ft. x Multiplier)	<u>\$28,617</u>	<u>\$11,302 *</u>	<u>\$9,632 *</u>

* Amount rounded down

COMPUTATION OF COSTS ALLOCABLE TO RELATED PHARMACY AND
MEDICAL CLINIC FOR ACCOUNTING SERVICES PROVIDED

ALLOCATIONS BASED ON STEP DOWN METHODOLOGY AND TOTAL SALARIES

<u>DESCRIPTION</u>		<u>A&G DEPARTMENT COSTS</u>		<u>RATIO FOR TWO OFFICES</u>	<u>A&G COSTS FOR ACCOUNTING SERVICES OF TWO OFFICES</u>
<i>Administrative and General (A&G) Costs Allocable to Two Offices Providing Services to Related Companies</i>					
Manor A&G Salary Costs of Two A&G Offices: Administration and Accounting					6/ \$ 502,015
Other A&G Payroll Costs including Fringe Benefits, Net of Questioned Costs	7/	171,164	9/	57.18352%	97,878
Non-Salary A&G Costs including Step Down Costs for A&G	8/	265,848	9/	57.18352%	152,021
Total					<u>\$751,914</u>
<i>Accounting Service Costs Allocable to Related Pharmacy and Medical Clinic</i>					
Total Manor A&G Costs Allocable for Accounting Services (above)		\$751,914			\$751,914
Ratio of Related Company Salaries to Total Salaries (for the Manor and all Related Companies) Recorded in Payroll Company Ledgers	10/	2.87920%	10/	5.80768%	
Total Costs Allocable to Related Pharmacy and Medical Clinic for Accounting Services		<u>\$21,649</u>			<u>\$43,669</u>

TABLE 4 - FOOTNOTES

NOTES:

- 1/ Per footage shown in the Manor's Statistics Summary schedule supporting the FY 2000 Medicaid cost report submitted.
- 2/ Per footage in Manor contract with pharmacy plus 30% for additional space added according to Manor official.
- 3/ Per footage in Manor contract with medical clinic.

4/ Step Down of Manor General Service Costs for Centers that Served Related Companies
(Computation to Fully Cost General Service Costs to be Allocated)

Description of General Service Cost Centers	Direct Costs by Center	Step Down (Full Costing) of General Service Cost Centers			
		Facility Costs	Plant Operation	Housekeeping	
Facility Costs	\$ 1,876,471.00 5(A)/	<u>\$ 1,876,471.00</u>	To Table 2		
Plant Operations	660,179.66 5(B)/	\$ 58,045.13 5(D)/	<u>\$718,224.79</u>	To Table 2	
Housekeeping	602,061.00 5(C)/	5,793.54 5(D)/	\$2,288.28 5(E)/	<u>\$610,142.82</u>	To Table 2
Administrative and General (A&G)		136,192.10 5(D)/	53,791.87 5(E)/	<u>\$45,843.10</u>	5(F)/
Costs Allocated to A&G for Facility Costs, Plant Operations, and Housekeeping	235,827.07	To Note 8			

- 5/ (A) Facility costs per Schedule C of the Manor FY 2000 Medicaid cost report column 6 line 61 for a total of \$1,876,471.00*.
- (B) Plant operations per column 6 lines 9,10 and 11 combined (\$720,637.00*) in the Manor cost report less \$33,250.00 in duplicate costs questioned and \$27,207.34 in contract labor costs questioned for a total of \$660,179.66.
- (C) Housekeeping per column 6 line 4 of the Manor FY 2000 Medicaid cost report.
- (D) Computed by taking the facility cost multiplier (21.94523 - Table 2) times the plant operations (2645), houskeeping (264), and A&G (6206) square footage that are stepped down for facility costs shown on Table 2 to derive \$58,045.13 in plant operation,\$5,793.54 in housekeeping, and \$136,192.10 in A&G costs.
- (E) Computed by taking the plant operations cost multiplier (8.66772 - Table 2) times the houskeeping (264) and A&G (6206) square footage that are stepped down for plant operation costs shown on Table 2 to derive \$2,288.28 in housekeeping and \$53,791.87 in A&G costs.
- (F) Computed by taking the housekeeping cost multiplier (7.38690 - Table 2) times the A&G square footage (6206) shown on Table 2 for a total of \$45,843.10.

* The cost report is rounded to the nearest dollar.

6/ Computation of Salary Costs of Two A&G Offices that Provided Services to Related Companies

Manor A&G Administration Salaries per general ledger (GL)	13/ \$ 378,673.62
Manor A&G Accounting Salaries per GL	13/ <u>123,341.34</u>
Total Salary Costs of Two A&G Offices, net of fringe benefits and other payroll expenses	<u>\$ 502,014.96</u>

7/ Computation of Other Payroll Expenses Allocable to A&G Department

Payroll Taxes for A&G Department	13/ \$ 68,509.04
Vacation and Sick Pay for A&G Department, and Benefits Budgeted and Expensed	11/ 80,249.63
A&G Employee Insurance and Other Employee Benefits	12/ 16,550.88
Worker's Compensation for A&G Department	13/ <u>5,854.50</u>
Total Other Payroll Expenses Allocable to A&G Department	<u>\$ 171,164.05</u>

8/ **Computation of Non-Salary Costs Allocable to A&G Department**

Costs Allocated to A&G Department for Facility, Plant Operations, & Housekeeping per Step Down	5/	\$	235,827.07	
Other A&G Department Costs Used for Accounting Services (Supplies and Forms Accounts)	13/		30,020.88	
Non-Salary Costs (including Step Down Costs) Allocable to A&G Department			265,847.95	

9/ **Ratio of Salaries for Two A&G Offices to Total A&G Department's Salaries (excluding fringe benefits)**

Manor Salaries for Two A&G Offices serving related companies: Accounting & Administration	6/	\$	502,014.96	
Total Salaries of A&G Offices (not including related company salaries)	13/		877,901.52	
Ratio of Manor Salaries for Two A&G Offices serving related companies to total A&G salaries, net of related co. salary & fringe benefits including vacation/sick pay classed as fringes			57.18352%	

10/ **Computation of Ratio of Total Gross Salaries of Related Companies to Total Gross Salaries of Manor and Related Companies Accounted for in the Payroll Company's Payroll Distribution Reports by Manor A&G Staff (Statistic used to allocate effort of Manor accounting services)**

		Gross Salaries Per D&P Payroll Reports		Related Company Salaries Misclassified		Total Salaries As Adjusted by audit	Ratio of Related Co. Salaries to Total Salaries in Payroll Co. GL
Related Pharmacy Salaries	14/	\$ 237,049.99	16/	\$ 5,246.08		\$ 242,296.07	2.87920%
Related Medical Clinic Salaries	14/	445,248.40	17/	43,491.41		488,739.81	5.80768%
Total Salaries Per Payroll Company's Payroll Distribution Report for FY 2000	15/	8,415,402.20					

11/ **Computation of A&G Vacation, Sick, and Budgeted Benefits Costs Allocable to the A&G Department, Net of Disallowed Costs**

Manor A&G vacation/sick pay accounts per Manor GL and trial balance (TB)		\$	72,351.65	
Benefits budgeted and expensed for vacation/sick pay per the Manor GL and TB			13,144.06	
Subtotal			85,495.71	
Less:				
OIG disallowed costs of vacation pay of pharmacy employees		\$	(4,280.96)	
OIG disallowed costs of sick pay of pharmacy employees			(965.12)	
Total A&G Vacation/Sick pay, and budgeted benefits allocable to A&G, net of disallowances		\$	80,249.63	

12/ **Computation of Employee Insurance and Other Employee Benefit Costs Allocable to A&G**

Manor A&G Expense of Employee Insurance and Other Employee Benefits		\$	27,303.80	
Less:				
OIG disallowed costs of insurance of related company employees.		\$	(2,805.00)	
OIG disallowed costs of other benefits of related company employees.			(7,947.92)	
Total Employee Insurance and Other Employee Benefit Costs Allocable to A&G		\$	16,550.88	

- 13/ Per Manor general ledger trial balance.
- 14/ Per payroll company's general ledger for salaries accrued in FY 2000.
- 15/ Per payroll company's earnings distribution reports for salaries accrued in FY 2000.

16/ Identified Pharmacy Costs Not Correctly Recorded In Pharmacy Accounts within the Payroll Company's ledger

Pharmacy staff's vacation pay recorded in Manor A&G accounts	\$	4,280.96
Pharmacy staff's sick pay recorded in Manor A&G accounts		<u>965.12</u>
Total	\$	<u>5,246.08</u>

17/ Identified Medical Clinic Costs Not Correctly Recorded In Clinic Accounts within the Payroll Company's ledger

Medical Clinic staff's vacation pay recorded in Manor medical records accounts	\$	38,037.81
Medical Clinic staff's sick pay recorded in Manor medical records accounts		<u>5,453.60</u>
Total	\$	<u>43,491.41</u>

Mr. Gordon L. Sato
Albuquerque Manor
OIG Audit Ref: A-06-03-00015
January 16, 2004

Page 2 of 2

Review of Recommendations

I have reviewed and concur with the recommendations made in your report concerning record keeping and accounting practices. Most of these recommendations have already been implemented by my staff.

I will keep you apprised of our progress in these matters. Please feel free to call on me if you should have any questions. Mr Jerry Williamson, of my staff, is coordinating our response to this matter. He can be reached at (972)423-7067 and/or jwilliamson@paramounthc.com.

Sincerely,

Albuquerque Manor, Inc.

By: 

Danny K. Prince, President

cc: J Williamson

ALBUQUERQUE MANOR						MCD NO.:	I-0001		
OIG AUDIT REPORT						FYE:	12-31-00		
ADJUSTMENTS TO COST REPORT									
COST REPORT			GENERAL LEDGER			ADJUSTMENTS			
SCH	PG	COL	LINE	ACCT NO	DESCRIPTION	BASIS	OIG	AMENDED	CR LINE
<u>MISSING DOCUMENTATION & NON-ALLOWABLE ADJUSTMENTS</u>									
C	4		39	OIG AUDIT	ADMISSION SALARIES	A	(110,924)	PENDING	45
C	4		39	OIG AUDIT	AIDES PURCH SERVICES	A	(40,970)	(40,970)	23
C	4		39	OIG AUDIT	PHARMACY CONSULTING FEES	A	(33,250)	PENDING	32
C	4		39	OIG AUDIT	EMPLOYEE BENEFITS	A	(7,500)	(7,500)	53
SUBTOTAL - UNSUPPORTED COSTS							(192,644)	(48,470)	
C	4		39	OIG AUDIT	MEDICAL DIRECTOR COSTS	A	(90,913)	PENDING	42
C	4		39	OIG AUDIT	PHARMACY CONSULTING CODING ERROR	A	(19,931)	(19,931)	58
C	4		39	OIG AUDIT	PHARMACY CONSULTING CODING ERROR	A	(27,207)	(27,207)	11
C	4		39	OIG AUDIT	OTC DRUGS	A	(25,107)	PENDING	27
SUBTOTAL - RLTD PARTY COSTS							(163,158)	(47,138)	
<u>RELATED PARTY COSTS REPORTED ON N F LEDGERS</u>									
C	4		39	OIG AUDIT	CLINIC - VAC & SICK PAY COSTS	A	(43,492)	PENDING	53
C	4		39	OIG AUDIT	CLINIC - HLTH INSUR & OTHER BENEFITS	A	(9,617)	(9,617)	53
C	4		39	OIG AUDIT	PHARMACY - VAC & SICK PAY COSTS	A	(5,246)	PENDING	53
C	4		39	OIG AUDIT	PHARMACY - HLTH INSUR & OTHER BENEFITS	A	(1,159)	(1,159)	53
SUBTOTAL OF RELATED PARTY COSTS							(59,514)	(10,776)	
<u>FACILITY, OPER PLT, HSKPG, & ACCTG SERVICE ALLOCATED COSTS</u>									
C	4		39	OIG AUDIT	FACILITY COSTS	A	(55,785)	PENDING	FAC 8
C	4		39	OIG AUDIT	PLANT OPERATIONS COSTS	A	(22,033)	PENDING	14
C	4		39	OIG AUDIT	HOUSEKEEPING COSTS	A	(18,777)	PENDING	14
C	4		39	OIG AUDIT	ACCOUNTING SERVICE COSTS	A	(65,318)	PENDING	56
SUBTOTAL OF ALLOCATED COSTS							(161,913)	0	
<u>ADD BACK COSTS ALLOCATED TO CLINIC & PHARMACY</u>									
C	4		39	OIG AUDIT	ELECTRIC	A	2,400	2,400	7
C	4		39	OIG AUDIT	MAINT SUPPLY	A	720	720	11
C	4		39	OIG AUDIT	HSKPG SUPPLY	A	1,440	1,440	4
C	4		39	OIG AUDIT	ACCTG SALARIES	A	16,200	16,200	45
C	4		39	OIG AUDIT	ADMIN SUPPLIES	A	1,440	1,440	58
C	4		39	OIG AUDIT	RENT - PHARMACY	A	17,904	17,904	FAC 7
C	4		39	OIG AUDIT	RENT - CLINIC	A	18,633	18,633	FAC 7
SUBTOTAL OF ADD BACK COSTS							58,737	58,737	
SUBTOTAL OF ALLOCATED COSTS							(103,176)	58,737	
GRAND TOTAL OF OIG AUDIT ADJUSTMENTS							(518,492)	(47,647)	
<u>ADDITIONAL ADJUSTMENTS NOT INCLUDED ON OIG AUDIT</u>									
C	4		39	AMEND	HELP WANTED ADVERTISING ERROR	A	0	25,625	48
C	4		24	AMEND	REVERSE PHARMACY CONSULTANT RECLASS	A	0	(42,000)	32
C	4		24	AMEND	REVERSE PHARMACY CONSULTANT RECLASS	A	0	42,000	11
G-1	NA		VAR	AMEND	CORRECT SQUARE FEET STATISTICS	NA	0	0	
TOTAL OF ADDITIONAL ADJUSTMENTS							0	25,625	
GRAND TOTAL - ALL ADJUSTMENTS							(518,492)	(22,022)	

ACKNOWLEDGMENTS

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

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