

**Memorandum**

Date JUL 26 1994

From June Gibbs Brown
Inspector General *June G Brown*

Subject Review of Medicaid Payments by the Nebraska Department of Social Services to Rivendell of Nebraska (A-07-93-00635)

To Bruce C. Vladeck
Administrator
Health Care Financing Administration

This memorandum is to alert you to the issuance on July 27, 1994 of our final audit report. A copy is attached.

Our review, requested by the State of Nebraska, showed that the Nebraska Department of Social Services (DSS) made overpayments for services made to Medicaid recipients at Rivendell of Nebraska, a psychiatric hospital for children and adolescents in the amount of \$2,163,243. The overpayments were for Medicaid services provided from January 1, 1987 to June 30, 1992. Federal financial participation (FFP) on the overpayments was \$1,319,490. The overpayments occurred because DSS based their payments on Rivendell's unaudited cost reports which contained costs not allowed by Health Care Financing Administration (HCFA) regulations.

Nebraska's Medicaid State plan provides that psychiatric hospitals will be paid prospective per diem rates for services rendered to Medicaid patients. The prospective per diem rates are calculated using Medicare cost reports. Normally, hospitals' cost reports are audited by a Medicare fiscal intermediary (intermediary) and DSS uses the results in determining hospitals' prospective per diem rates for Medicaid payments. Since Rivendell did not have any Medicare patients, their cost reports were not submitted to the intermediary (and therefore subject to audit) but directly to DSS for Medicaid payment. When DSS became aware of the situation, it requested the Office of Inspector General to audit Rivendell's cost reports.

Our audit of the cost reports showed that Rivendell had overstated allowable costs by \$4,087,352. Since the prospective per diem rates included unallowable costs, the DSS overpaid Rivendell \$2,856,692. We also found that DSS paid Rivendell \$104,160 for unallowable Medicaid days. Thus, Medicaid overpayments

Page 2 - Mr. Bruce C. Vladeck

totalled \$2,960,852. Rivendell refunded \$797,609 for Fiscal Year 1992 overpayments which reduced the outstanding overpayments to \$2,163,243 (FFP of \$1,319,490).

We recommend that DSS: (1) adjust allowable costs in the cost reports to exclude unallowable costs identified in our audit, (2) ensure that similar adjustments are made in subsequent years' cost reports, and (3) use prospective per diem rates based on the adjusted cost reports. These actions should result in a refund of \$1,319,490 FFP to the Federal Government. In addition, DSS should ensure that an intermediary is assigned to audit Rivendell's cost reports.

The DSS agreed with the findings and calculations as contained in the draft report. However, because of the potential for litigation, DSS reserved comment on the financial impact of the audit. The HCFA regional office agreed with our draft report.

For further information contact:

Barbara A. Bennett
Regional Inspector General for
Audit Services, Region VII
(816) 426-3591

Attachment

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF MEDICAID PAYMENTS BY
THE NEBRASKA DEPARTMENT OF
SOCIAL SERVICES TO
RIVENDELL OF NEBRASKA**



JUNE GIBBS BROWN
Inspector General

JULY 1994
A-07-93-00635



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Office of Audit Services

Region VII
601 East 12th Street
Room 284A
Kansas City, Missouri 64106

CIN: A-07-93-00635

Mrs. Mary Dean Harvey, Director
Nebraska Department of Social Services
P. O. Box 95026
Lincoln, Nebraska 68509-5026

Dear Mrs. Harvey:

Enclosed for your information and use are two copies of a Department of Health and Human Services (HHS), Office of Inspector General (OIG), Office of Audit Services (OAS) report, "REVIEW OF MEDICAID PAYMENTS BY THE NEBRASKA DEPARTMENT OF SOCIAL SERVICES TO RIVENDELL OF NEBRASKA." Your attention is directed to the audit findings and recommendations in the report.

Final determinations on all matters reported will be made by the HHS action official named below. We request that you respond to him within 30 days from the date of this report. You should present comments or additional information that you believe could affect the final determination.

In accordance with the principles of the Freedom of Information Act (Public Law 90-23), OIG, OAS reports issued to the Department's grantees and contractors are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to the exemptions in the Act which the Department chooses to exercise. (See 45 CFR part 5.)

Thank you for the courtesy extended to our auditors during the review. Please refer to the above Common Identification Number (CIN) in correspondence about this report.

Sincerely,

Barbara A. Bennett
Regional Inspector General
for Audit Services, Region VII

Enclosures

Direct Reply to HHS Action Official:

Mr. Joe L. Tilghman
Acting Regional Administrator
Health Care Financing Administration
601 E. 12th Street, Room 235
Kansas City, Missouri 64106

SUMMARY

The Nebraska Department of Social Services (DSS) made \$2,163,243 in outstanding Medicaid overpayments for services to Medicaid recipients at Rivendell of Nebraska, a psychiatric hospital for children and adolescents. The overpayments were for Medicaid services provided from January 1, 1987 through June 30, 1992. Federal financial participation (FFP) on the overpayments was \$1,319,490. The overpayments occurred because DSS based their payments on Rivendell's unaudited cost reports which contained costs not allowed by Health Care Financing Administration (HCFA) regulations.

Nebraska's Medicaid State Plan (State Plan) provides that psychiatric hospitals will be paid by prospective per diem rates for services rendered to Medicaid patients. The prospective per diem rates are calculated using Medicare cost reports. Normally, hospitals' cost reports are audited by a Medicare fiscal intermediary (intermediary), and DSS uses the results in determining hospitals' prospective per diem rates for Medicaid payments. Since Rivendell had no Medicare patients, an intermediary had never audited its Medicare cost reports. When DSS became aware of the situation, it requested the Office of Inspector General (OIG), Office of Audit Services (OAS) audit Rivendell's cost reports.

Our audit of the cost reports showed that Rivendell had overstated allowable costs by \$4,087,352 (APPENDIX B). The DSS paid Rivendell \$10,876,392 and third parties (insurers) paid Rivendell \$196,632 for Medicaid services provided from January 1, 1987 through June 30, 1992. Since the prospective per diem rates included unallowable costs, the DSS Medicaid payments included \$2,856,692 in overpayments. We also found that DSS paid Rivendell \$104,160 for unallowable Medicaid days. Thus, Medicaid overpayments totalled \$2,960,852. The DSS refunds to the Federal Government have reduced the outstanding overpayments to \$2,163,243 (FFP of \$1,319,490).

We recommend that DSS (1) adjust allowable costs in the cost reports to exclude unallowable costs identified by us in our audit, (2) ensure that similar adjustments are made in subsequent year cost reports, and (3) use prospective per diem rates based on the adjusted cost reports. These actions should result in a refund of \$1,319,490 FFP to the Federal Government. In addition, DSS should ensure that an intermediary is assigned to audit Rivendell's cost reports. The DSS agreed with the findings and calculations as contained in the report. However, because of the potential for litigation, DSS reserved comment on the financial impact of the audit. A copy of DSS's comments appears in its entirety as APPENDIX X.

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INTRODUCTION

BACKGROUND

The Medicaid program, enacted in 1965 under title XIX of the Social Security Act, is a medical assistance program financed by the Federal and State Governments. State governments administer Medicaid under federally approved state plans. In Nebraska, DSS is the single State agency that administers the Medicaid program under their State Plan.

The DSS pays providers of medical services for inpatient hospital services rendered to Medicaid clients. Payments to providers are based on prospective per diem rates. The State Plan states that Medicaid allowable costs are to be determined according to Medicare cost principles. Therefore, the per diem rates are computed using data in the Medicare cost reports. Data on the cost reports is to be in accordance with HCFA regulations on the allowability and allocability of costs as codified in the Code of Federal Regulations. More specific guidance is provided in HCFA's Provider Reimbursement Manual.

Normally, hospitals submit their Medicare cost reports to an intermediary. The intermediary performs audits of the cost reports to determine the allowable costs which can be claimed and reimbursed by the Medicare program. States, if their Medicaid payments are based on Medicare cost principles, often utilize the Medicare cost reports and intermediary's audits of them in determining the amount of allowable Medicaid reimbursement.

Rivendell, a provider of medical services to Medicaid recipients, is a 48-bed private psychiatric hospital for children and adolescents. Rivendell is a wholly-owned subsidiary of Vendell Healthcare, Inc., formerly Rivendell of America, Inc. Headquartered in Nashville, Tennessee, Vendell Healthcare, Inc. owns and operates eight hospitals in seven states.

On October 6, 1986 Rivendell admitted its first patient. Rivendell became Medicaid certified on December 30, 1986, and it received Medicaid payments for services beginning January 1, 1987.

Rivendell submitted its cost reports directly to DSS for Medicaid payments. Since it had no Medicare patients, Rivendell did not submit its cost reports to an intermediary as is the normal practice. As a result, the cost reports used by DSS to determine Medicaid payments to Rivendell were unaudited.

The DSS receives Medicaid FFP from the Federal Government by filing quarterly reports with HCFA titled "Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program," Form HCFA-64. The DSS included the payments to Rivendell in its quarterly reports to HCFA.

SCOPE OF AUDIT

Our audit was made in accordance with generally accepted government auditing standards. Our objectives were to determine if (1) Rivendell's cost reports for the period January 1, 1987 through June 30, 1991 contained unallowable costs, and (2) DSS paid Rivendell correctly for services to Medicaid patients through June 30, 1992. The DSS requested we audit the cost reports through June 30, 1991. We also determined correct per diem rates through June 30, 1992.

Rivendell of America, Inc. filed home office cost reports for the period January 1, 1987 through June 30, 1991 to allocate home office costs to its facilities. We reviewed the 1987 home office cost report and supporting working papers to determine how costs were allocated to Rivendell. Subsequently, we used the cost reports we audited and some as-filed to determine costs allocable to Rivendell.

We reviewed Rivendell's accounting records and working papers used to prepare the cost reports. We reviewed the independently audited financial statements and working papers to determine Rivendell's accounting policies. Achieving our objectives did not require a review of the internal control structure at Rivendell. We limited our review at DSS to its calculation of Medicaid per diem rates and lump-sum payments.

During our audit, Rivendell obtained from its former physicians estimated time spent on professional and provider activities for the period January 1, 1987 through June 30, 1989. We used these estimates to allocate provider-based physician pay to the provider part of the cost report. We did not review Rivendell's billings for provider-based physician professional services.

We discussed with Rivendell employees their responsibilities and services provided to the residents of the facility. We observed and listened to Rivendell's television and radio advertising.

We judgmentally selected costs from the cost reports to determine whether the costs were allowable according to the reimbursement principles contained in the Provider Reimbursement Manual issued by HCFA and the Code of Federal Regulations. We reviewed Rivendell records, including vouchers and supporting documentation, job descriptions, depreciation calculations and fixed asset records, minutes of meetings, corporate objectives and goals, and departmental manuals.

We reviewed the total and Medicaid patient days included in the cost reports. We reviewed the supporting documentation, including Rivendell's admission, discharge, and leave-of-absence (LOA) records. We determined whether DSS had paid the correct Medicaid patient days through June 30, 1991.

We reviewed ancillary services used by patients. The DSS provided us with the Medicaid ancillary charges, and Rivendell provided us with schedules of the charges by reporting period.

Our proposed adjustments to the cost reports were discussed with DSS, Rivendell, and Mutual of Omaha, an intermediary. We prepared revised cost reports using Mutual's software, and we provided the revised cost reports to DSS and Rivendell.

We calculated revised Medicaid per diem rates prospectively through June 30, 1992. We determined allowable payments for Medicaid days through June 30, 1991 based on audited Medicaid days and allowable per diem rates.

We did not review the cost report for services rendered by Rivendell from July 1, 1991 through June 30, 1992. However, we determined the allowable Medicaid payments for this period based on the Medicaid days paid by DSS multiplied by the allowable per diem rate. We were not provided sufficient information to determine the allowable Medicaid payments for the period July 1, 1992 through June 30, 1993.

The DSS provided us records of Medicaid and third-party payments for Medicaid days through June 30, 1992. We subtracted allowable Medicaid payments from actual Medicaid payments to determine the Medicaid overpayments. The DSS did not have information on payments for Medicaid days from July 1, 1992 through June 30, 1993.

We conducted our audit from July 1992 through November 1992 at the DSS office in Lincoln, Nebraska, and at Rivendell in Seward, Nebraska. In March 1993, we prepared revised Medicare cost reports at Mutual of Omaha. The DSS provided us with adjustments to Medicaid and third party payments for the audited period in August 1993. In October 1993, DSS provided us with refunds it had made to the Federal Government on its quarterly reports with HCFA so that final computations of the net overpayment could be made. The field work ended in November 1993.

FINDINGS AND RECOMMENDATIONS

ALLOWABILITY OF CLAIMED COSTS, PATIENT DAYS, AND ANCILLARY CHARGES ON RIVENDELL'S COST REPORTS

Educational Costs

Rivendell operated an elementary and secondary school for patients within its Educational Department. The primary responsibility of Departmental employees, according to their job descriptions, was to provide classroom education. In addition to salaries, Rivendell incurred costs for textbooks and classroom materials. Rivendell claimed all costs of the Educational Department as allowable costs.

The Provider Reimbursement Manual, Part I (PRM-I), section 2104.5, states that costs incurred by a psychiatric facility to provide classroom education to patients are unallowable.

We determined that educational costs of \$1,850,320 were unallowable. Rivendell should have included these costs in a nonreimbursable cost center in its cost reports. In 1991, Rivendell reduced total costs of the Educational Department by revenue of \$82,114 from the State of Nebraska. Because of this reduction, we reduced unallowable costs by \$82,114 to a net of \$1,768,206.

Recommendations

We recommend that DSS:

- o Disallow educational costs of \$1,768,206 (APPENDIX C).
- o Ensure that Rivendell includes costs of classroom education in a nonreimbursable cost center.

Advertising Costs

Rivendell had a Community Services Department which, through advertising and public relations, had responsibility for marketing Rivendell's facilities and bolstering patient occupancy.

According to its Master Manual, which documented corporate strategy, Rivendell sought an increase of 50 percent in patient census from December 1986 to February 1987 through referral development. In April 1987, Rivendell stated that referral development had satisfied this goal by achieving 100 percent occupancy. As of July 1987, the Community Services Department was given responsibility to conduct 60 referral contacts monthly.

The Master Manual stated, "On a monthly basis, the Community Services Supervisor will analyze the compilation of Referral Development Contact Sheets and prepare a Referral Development Report***." We requested the individual contact sheets and monthly reports. However, Rivendell officials stated these records were not kept.

According to PRM-I, section 2136.2, costs of media advertising which seeks to increase patient usage of the provider's facilities are unallowable. Similarly, costs of public relations efforts to boost usage, rather than to educate the public about medical matters, are unallowable.

From costs of the Community Services Department, we allowed the salary and related costs of the intake coordinator, whose main responsibility was preparing documentation for patient admissions. We also allowed costs of yellow pages advertising. The remainder of the costs, or \$1,217,768 for services during the period January 1, 1987 through June 30, 1991, were unallowable. Rivendell should have included these costs in a nonreimbursable cost center. Rivendell had removed media advertising costs of \$393,493 from the cost reports; therefore, our net reduction to allowable costs was \$824,275.

Recommendations

We recommend that DSS:

- o Disallow advertising and public relations costs of \$824,275 (APPENDIX D).
- o Ensure that Rivendell includes public relations and advertising costs to increase patient census in a nonreimbursable cost center.

Building Depreciation

Crow-Wright, Ltd., a Texas limited partnership, constructed and leased the hospital to Rivendell. By October 1986, the building was operational. Rivendell capitalized total building costs of \$4,574,215 and this amount became the basis of the building for depreciation purposes. For cost report purposes, Rivendell used the straight-line method of depreciation and a 40-year useful life.

We found that the basis included land of \$239,900 and equipment of \$160,598. The amount for equipment was a duplication of a purchase of kitchen equipment costing \$80,299.

The PRM-I, section 104.6, states that land is not depreciable. Therefore, we removed this cost from the depreciable basis. We also removed the equipment from the building's basis. We allowed

depreciation on the equipment over a shorter useful life, as discussed in a later section of this report.

The basis also included a development fee of \$250,000 paid to Crow-Wright, Ltd. Rivendell also paid a development fee of \$250,000 to Rivendell of America, Inc., but did not include this payment in the basis of the property. However, Rivendell capitalized interest of \$47,500 on both development fees. Rivendell officials were unable to provide us with substantiation of the services provided for the development fees.

At the time the development fees were incurred, Crow-Wright, Ltd. owned 19 percent of Rivendell of America, Inc., and Rivendell of America, Inc. owned 100 percent of Rivendell. Crow-Wright's ownership increased to 23 percent in December 1986 and to 80 percent in February 1989. Also, Crow-Wright, Ltd. had two of the seven members of the Board of Directors of Rivendell of America, Inc. In addition, the lease agreement between the entities provided that revenues would be shared.

Title 42, Code of Federal Regulations, section 413.17, states costs applicable to services furnished by related organizations are includable in the allowable cost of the provider at the related organization's cost. However, such cost must not exceed the price of comparable services, facilities, or supplies that could be purchased elsewhere. The PRM-I, section 1002, states a related organization is a provider, who to a significant extent, is associated or affiliated with, or has control of, or is controlled by, the organization furnishing the services, facilities, or supplies.

We believe Crow-Wright, Ltd. and Rivendell of America, Inc. were related parties due to ownership, Board of Directors presence, and the lease agreement provisions on revenue sharing. Therefore, we removed the development fees from the basis and determined the allowable basis was:

Basis Per Books	\$4,574,215
Less: Land	(239,900)
Less: Equipment	(160,598)
Less: Development Fee	(250,000)
Less: Interest on Development Fees	(47,500)
Allowable Basis	<u>\$3,876,217</u>

Based on the revised allowable basis, we computed annual depreciation of \$96,905 using the straight-line method and a 40-year useful life. ($\$3,876,217 \times 1/40$).

Rivendell claimed building depreciation of \$534,627 in its 1987 through 1991 cost reports. Allowable Medicare depreciation after the audit adjustments was \$436,073. Therefore, Rivendell claimed \$98,554 in unallowable building depreciation.

Recommendations

We recommend that DSS:

- o Disallow building depreciation of \$98,554 (APPENDIX E).
- o Ensure that Rivendell uses \$3,876,217 as a basis for calculating building depreciation.

Building Interest and Other Interest

Crow-Wright, Ltd. financed the construction costs of Rivendell. Rivendell was operational in October 1986; it admitted the first patient on October 6, 1986. Crow-Wright, Ltd. capitalized interest and other costs through July 1987 as part of their financing costs. Thus, the capitalized financing costs were greater than the capitalized building costs. The capitalized financing costs included:

Building Costs (Basis)	\$4,574,215
Less: Equipment Duplicated in Building Costs	(80,299)
Plus: Development Fee	250,000
Plus: Rent Paid to Crow Wright, Ltd.	100,002
Plus: Interest After Building Completion	194,699
Plus: Other Costs After Building Completion	<u>47,246</u>
Total Capitalized Financing Costs	<u>\$5,085,863</u>

The PRM-I, section 202.2, states that allowable interest may not include interest on unallowable borrowing, and section 1011.5 states that rent paid by a provider to a related party is an unallowable cost. We reduced the capitalized costs for the development fees and associated interest. These costs were not allowable Medicare costs, as stated before. We allowed interest on the land and equipment. Since Rivendell and Crow-Wright, Ltd. were related parties, we disallowed the rental payments and interest on the rental payments.

We determined the allowable capitalized financing costs were:

Rivendell's Basis	\$5,085,863
Less: Development Fees	(500,000)
Less: Rent Paid to Crow-Wright, Ltd.	(100,002)
Less: Capitalized Interest Expense on Development Fees and Rent	<u>(71,052)</u>
Allowable Capitalized Financing Costs	<u>\$4,414,809</u>

In 1989, Rivendell of America, Inc. bought eight hospitals which had been under capital lease with Crow-Wright, Ltd. As part of this reorganization, Rivendell of America, Inc. refinanced the mortgage debt (refunded debt) with Citibank.

Rivendell determined the interest rate on the refunded debt was 13.30 percent for the period January through June 1989.

Rivendell applied this interest rate to the entire refunded debt to determine maximum annual interest as of July 1, 1989.

We found the actual interest rate was 12.78 percent on the refunded debt from January through June 1989. As stated earlier, we determined the refunded debt included unallowable development fees, rent, and interest.

The PRM-I, section 233.4, limits allowable interest on new debt to interest the provider would have incurred on the refunded debt.

We applied the 1989 interest rate on the refunded debt, 12.78 percent, to the allowable refunded debt of \$4,414,809. The maximum annual interest as of July 1, 1989 was \$564,213 ($\$4,414,809 \times .1278$).

Rivendell claimed \$2,717,605 in interest on the building loan during the audited period. The allowable interest was \$2,288,606. Therefore, the unallowable interest was \$428,999.

In 1987, Rivendell paid interest expense of \$1,745 for late lease payments to Crow-Wright, Ltd. According to PRM-I, section 202.3, interest paid to a related party is unallowable. Therefore, interest of \$1,745 paid to Crow-Wright, Ltd. was unallowable. Total unallowable interest expense was \$430,744 ($\$428,999 + \$1,745$).

Recommendations

We recommend that DSS:

- o Disallow interest expense of \$430,744 (APPENDIX F).
- o Ensure that the maximum principal of \$4,414,809 be used by Rivendell to calculate building interest.

Provider-Based Physician Pay

Through June 30, 1989, Rivendell used three different methodologies to determine the provider part of provider-based physician pay. In 1987, Rivendell claimed net pay of \$120,000, which it considered the reasonable pay for a Medical Director. In 1988, Rivendell claimed all pay to the Medical Director, plus \$120,000 paid to other psychiatrists. In 1989, Rivendell claimed all pay to the Medical Director and Pediatrician, plus 75 percent of its pay to other psychiatrists.

The PRM-I, section 2108.1, states a provider must distinguish between a physician's professional and provider services and document any allocation of these services. Professional services are those given to individual patients. Provider services include administration, supervision of technical personnel, and

committee work. Sufficient documentation includes written agreements between a provider and physicians or time studies. Only the costs of provider services are reimbursable through the cost report.

From January 1, 1987 through June 30, 1989 Rivendell did not have documentation to support the allocation of physician time between the professional and provider parts of the cost report. During our audit, Rivendell asked its former physicians to estimate their time spent on professional and provider services.

We used the time estimates to allocate provider-based physician pay, since Rivendell had no other records available. Our application of these time estimates to physician pay resulted in a lesser allocation to the provider part than Rivendell had claimed.

From January 1, 1987 through June 30, 1989, Rivendell claimed provider-based physician pay of \$368,008 which was not allocable to the provider part. This amount exceeded the provider part based on the physicians' time estimates. For the 1990 and 1991 cost reports, Rivendell based the provider part of provider-based physician pay on physicians' time estimates. During this period, Rivendell also billed for professional services.

Recommendations

We recommend that DSS:

- o Disallow provider-based physician pay of \$368,008 (APPENDIX G).
- o Ensure that provider-based physician pay allocated to the provider part of the cost report from July 1, 1989 through June 30, 1991 was not also billed as patient services.
- o Require supporting documentation for the provider part of provider-based physician pay included in the cost reports.

Start-up Costs

Rivendell capitalized start-up costs of \$578,951 in 1986 and amortized \$26,180 of that amount in 1986. Rivendell claimed the remaining balance of start-up costs, \$552,771, in the 1987 cost report. Rivendell claimed an additional \$27,995 in start-up costs in the 1988 through 1991 cost reports. Thus, Rivendell claimed total start-up costs of \$580,566 during the cost reporting periods.

In 1987, Rivendell determined that the start-up activities would not benefit future periods and expended the unamortized balance of \$552,771. Rivendell was unable to explain the \$27,995 claimed in the 1988 through 1991 cost reports.

Rivendell indicated the entire facility was ready for patient occupancy at the time of its first patient admission, which was October 6, 1986. Further, Rivendell's records show that an additional 15 patients were admitted during October 1986. According to PRM-I, section 2132.1, a provider must capitalize start-up costs. According to PRM-I, section 2132.2, the start-up period runs until the first patient is admitted. Also, when a provider's facility becomes operational at one given date, rather than piecemeal, it must amortize start-up costs ratably over 5 years beginning with the date of first patient admission.

Rivendell had no supporting documentation for \$55,783 in start-up costs claimed on the 1987 cost report nor \$27,995 claimed on the 1988 through 1991 cost reports. Rivendell also improperly capitalized 1986 operating costs of \$217,454 as start-up costs. Capitalization of these costs was improper because they were incurred after the first patient admission. Also, Rivendell capitalized \$38,199 of Educational Department costs and \$14,669 of Community Services Department costs which were unallowable.

Rivendell reduced the capitalized start-up costs by estimated patient revenue of \$45,937. Since Rivendell would have earned this revenue after the first patient admission, we reversed their adjustment.

We determined the allowable start-up costs were:

Total Costs Capitalized by Rivendell	\$578,951
Plus: Reversal of Rivendell Revenue Offset	45,937
Less: Unsupported Costs	(55,783)
Less: Costs Incurred After 1st Admission	(217,454)
Less: Unallowable Educational Dept. Costs	(38,199)
Less: Unallowable Community Services Dept. Costs	(14,669)
Allowable Start-up Costs	<u>\$298,783</u>

In accordance with PRM-I, section 2132.2, we amortized the allowable start-up costs ratably over 5 years and computed annual amortization costs of \$59,757.

Rivendell was Medicaid certified on December 30, 1986, which was within 60 months after its first patient admission. The PRM-I, section 2132.3, specifies the treatment of start-up costs when a provider enters the program within 60 months after its first patient admission. According to PRM-I, section 2132.3, only the unamortized balance of allowable start-up costs is allocable to the program.

Start-up costs of \$14,080 were applicable for the period from first patient admission, October 6, 1986, to Rivendell's entrance into the Medicaid program, December 30, 1986. Allowable start-up costs Rivendell should have claimed during the audited period were \$268,906. Thus, a balance of \$15,797 in allowable start-up costs may be claimed by Rivendell on its 1992 cost report.

Rivendell overclaimed start-up costs of \$311,660 (\$580,566 - \$268,906) during the audited period.

Recommendations

We recommend that DSS:

- o Disallow unallowable start-up costs of \$311,660 (APPENDIX H).
- o Allow amortized start-up costs of \$15,797 if claimed in 1992.

Home Office Costs

Rivendell of America, Inc. filed home office cost reports for the same periods as Rivendell's cost reports. The home office cost reports allocated a portion of the home office costs to Rivendell. Our analysis of the home office cost reports involved the 1987 through 1989 reports reviewed by Blue Cross and Blue Shield of Montana (BCBS of Montana), and the 1990 report reviewed by Blue Cross and Blue Shield of Tennessee. Neither intermediary had completed a review of the 1991 home office cost report.

In reviewing the 1987 home office cost report, as revised by BCBS of Montana, we found the home office cost pool allocated to all facilities contained: duplicated costs of \$395,214; educational costs of \$91,649; advertising costs of \$172,700; and costs of \$395,214 assignable to a psychiatric unit at St. Joseph Hospital, an acute care hospital in Memphis, Tennessee. We also found the home office had directly allocated educational costs of \$2,459 and advertising costs of \$2,378 to Rivendell.

Rivendell of America, Inc. had also pooled salary costs for several employees assigned to St. Joseph Hospital for part of 1987. Rivendell would not provide us with information about its financial relationship with St. Joseph Hospital.

According to PRM-I, section 2150.2, home office costs that are not otherwise allowable costs when incurred directly by the provider cannot be allowable as home office costs to be allocated to providers. Section 2150.3 provides the home office must directly allocate costs that are directly attributable to a specific provider.

For 1987, we removed duplicated costs and unallowable educational and advertising costs totalling \$659,563 from the home office cost pool. Additionally, we removed costs of \$395,214 directly allocable to St. Joseph Hospital. We also removed educational and advertising costs of \$4,837 which were directly allocated to Rivendell.

For 1987 through 1991, Rivendell of America, Inc. allocated home office costs to its facilities based on patient days. We found that Rivendell had overstated its patient days, as discussed later. As a result, home office costs allocated to Rivendell were overstated for 1987 through 1991.

For 1987 through 1989, Rivendell improperly classified home office capital costs as administrative costs. According to Title 42, Code of Federal Regulations, section 413.130, the costs of depreciation, taxes, leases and rentals, and interest on land or depreciable assets are capital costs. Home office costs we reclassified as capital costs included: depreciation and amortization; building rental; equipment rental; and interest expense on depreciable assets.

After all of our adjustments, we determined that Rivendell reported unallowable home office costs of \$290,386 in their cost reports.

Recommendation

We recommend that DSS:

- o Disallow home office costs of \$290,386 (APPENDIX I).

Fixed Asset Depreciation

Through June 30, 1989, Rivendell claimed depreciation on fixed assets, except the building and leasehold improvements, equal to depreciation per the financial statements. In calculating depreciation, Rivendell used a useful life for the assets which was less than allowed by Medicare.

The PRM-I, section 104.17, states that a provider should determine the useful life of an asset according to American Hospital Association guidelines. For assets acquired after 1982, providers should use the Association's 1983 edition of "Estimated Useful Lives of Depreciable Hospital Assets."

Rivendell had a fixed asset listing which contained the useful life for each asset according to American Hospital Association guidelines. However, the guidelines were not used for determining allowable depreciation costs. We determined allowable Medicare depreciation from this listing.

We found that Rivendell claimed unallowable depreciation of \$107,900 from 1987 through 1989 due to their use of the shorter useful lives for the assets.

Recommendations

We recommend that DSS:

- o Disallow depreciation of \$107,900 (APPENDIX J).
- o Ensure that Rivendell claims depreciation based on the useful life guidelines of the American Hospital Association.

Malpractice Insurance

Rivendell removed most of the malpractice insurance costs from their cost reports. However, the HCFA Administrator, in Ruling 91-1 effective September 30, 1991, made malpractice insurance costs allowable and claimable on the cost reports. The ruling is applicable to cost reports for which an intermediary has not issued a notice of program reimbursement.

We added malpractice insurance costs of \$112,381 to Rivendell's allowable costs which can be claimed on their cost reports.

Recommendation

We recommend that DSS:

- o Allow additional malpractice insurance costs of \$112,381 (APPENDIX K).

Reclassifications

For 1987 through 1989, Rivendell improperly classified (1) taxes, insurance, and rentals of depreciable assets as operating or administrative costs, (2) general liability insurance and telephone expense as operating costs, and (3) malpractice insurance as malpractice premiums and paid loss.

According to Title 42, Code of Federal Regulations, section 413.130, the costs of taxes, insurance, and rentals on depreciable assets are capital costs. Rivendell classified general liability insurance and telephone expense as administrative costs in 1990 and 1991. HCFA Ruling 91-1 made malpractice insurance an allowable administrative cost.

For 1987 through 1989, we reclassified (1) \$392,814 in taxes, insurance and rentals of depreciable assets as capital costs, (2) \$125,606 in general liability insurance and telephone expense as administrative costs, and (3) \$46,700 in malpractice insurance as administrative costs.

Recommendations

We recommend that DSS:

- o Reclassify administrative costs of \$392,814 as capital costs.
- o Reclassify operating costs of \$172,306 as administrative costs.
- o Ensure that Rivendell classify costs in accordance with applicable cost principles.

Patient Days

Rivendell was unable to provide supporting documentation for the total patient days included in the cost reports. We obtained Rivendell's admission and discharge records, and LOA records. We determined net patient days by subtracting LOA, discharge, and duplicated days from total days.

The DSS had records of paid Medicaid days. We determined net Medicaid patient days by subtracting LOA, discharge, and duplicated days from total Medicaid days. We found that DSS had paid for some LOA, discharge, and duplicated days. The State Plan states that these days are not payable.

The DSS paid Rivendell \$104,160 for 266 Medicaid LOA, discharge, and duplicated days from January 1, 1987 through June 30, 1990. We found that DSS did not pay Rivendell for unallowable Medicaid days in 1991. We have shown the payable Medicaid patient days in APPENDIX L. We have shown the net patient days for each cost reporting period in APPENDIX M. The overpaid Medicaid LOA, discharge, and duplicated days are shown in APPENDIX N. We used the patient days we calculated for each reporting period in computing Medicaid costs and the resultant Medicaid per diem rates. Therefore, overpayments involving unallowable days are included as a part of the total Medicaid overpayments in this report.

Recommendation

We recommend that DSS:

- o Exclude LOA, discharge, and duplicated days from total and Medicaid patient days reported in the cost reports.

Ancillary Charges

Through 1990, Rivendell did not have records of the use of ancillary services by Medicaid and non-Medicaid patients. However, Rivendell officials stated that usage was similar for all patients. In 1991, Rivendell used logs to record the usage

of ancillary services. These logs supported the ancillary charges for Medicaid and non-Medicaid patients included in the cost report.

During our audit, Rivendell calculated Medicaid ancillary charges through 1990 from DSS payment reports. We approximated total charges by multiplying the Medicaid charges by the ratio of total patient days to Medicaid patient days. Our calculations identified Medicaid ancillary charges of \$506,764 out of total ancillary charges of \$1,629,985.

Medicaid ancillary charges for speech therapy and drugs supplied to patients were not available. For these services, we did not make any cost report adjustments.

Recommendations

We recommend that DSS:

- o Base total ancillary charges for the 1987 through 1990 cost reports on Medicaid charges multiplied by the ratio of total patient days to Medicaid patient days (APPENDIX O).
- o Require Rivendell to document patient usage of ancillary services.

Auditee Comments

"***the Department agrees with the calculations as presented in the report. We, of course, cannot address issues dealing specifically with Rivendell's actions. Those items may result in litigation before a final resolution can be determined. In that regard, we reserve our comments on the financial impact of the audit."

CORRECTNESS OF MEDICAID PER DIEM RATES AND MEDICAID PAYMENTS

Medicaid Per Diem Rates

As a result of using Rivendell's unaudited cost reports, DSS calculated incorrect Medicaid per diem rates. The total payable Medicaid per diem rate is comprised of three individual rates: operating, capital, and disproportionate share. The State Plan prescribes a separate methodology for determining each part of the total payable Medicaid per diem rate.

The total payable Medicaid per diem rate for the base year is allowable costs divided by payable Medicaid days. The State Plan limits the payable operating per diem rate to the lesser of: (1) the base year per diem rate plus inflation factors through the current period, or (2) the prior period per diem rate plus the current period inflation factor.

The payable capital per diem rate is the actual capital per diem rate from the cost reporting period that ended the previous calendar year.

The State Plan states that DSS will make disproportionate share payments after July 1, 1988 to providers with a low-income inpatient usage rate exceeding 25 percent. Rivendell's rate exceeded 25 percent. The disproportionate share payment for rural providers, including Rivendell, is 4 percent of the allowable per diem rate. The DSS must pay: 1/3 of the disproportionate share amount from July 1, 1988 to June 30, 1989; 2/3 of the disproportionate share amount from July 1, 1989 through June 30, 1990; and, the full disproportionate share amount after June 30, 1990.

We calculated total payable Medicaid per diem rates based on the adjusted cost reports (APPENDIX P). We also calculated the capital part of the total per diem rate for the period of our review (APPENDICES Q, R, S, and T).

The following page contains our calculations of the total payable Medicaid per diem rates from January 1, 1987 through June 30, 1992. These rates are also shown in APPENDIX U.

<u>Period</u>	<u>Operating Per Diem Rate</u>	<u>Capital Per Diem Rate</u>	<u>DS Per Diem Rate</u>	<u>Total Payable Per Diem Rate</u>	<u>Total Per Diem Rate Paid By DSS</u>
01/01/87 - 12/31/87	\$210.01	\$51.41	\$ 0.00	\$261.42	\$372.15
01/01/88 - 06/30/88	\$210.01	\$51.41	\$ 0.00	\$261.42	\$372.15
07/01/88 - 06/30/89	\$219.88	\$51.41	\$ 3.62	\$274.91	\$377.11
07/01/89 - 06/30/90	\$232.63	\$73.45	\$ 8.16	\$314.24	\$398.02
07/01/90 - 06/30/91	\$244.73	\$73.45	\$12.73	\$330.91	\$416.45
07/01/91 - 06/30/92	\$254.03	\$97.79	\$14.07	\$365.89	\$513.64

Recommendation

We recommend that DSS:

- o Base Medicaid payments on the above total payable Medicaid per diem rates for the applicable periods.

Medicaid Payments

As a result of using unaudited cost reports and the resultant overstated per diem rates, DSS has a net balance of \$2,163,243 in outstanding Medicaid overpayments made to Rivendell. According

to DSS records, Rivendell received total payments of \$11,073,024 from January 1, 1987 through June 30, 1992 for its Medicaid patient days (APPENDIX V). Medicaid paid Rivendell \$10,876,392, and third-parties (i.e. insurers) paid Rivendell \$196,632. The \$10,876,392 was claimed for FFP on quarterly expenditure reports filed with HCFA by DSS.

For the audited period, we multiplied the allowable Medicaid per diem rate by net Medicaid days to determine total allowable payments, which were \$8,112,172 (APPENDIX W). Since Rivendell had received \$196,632 from third parties, the allowable DSS payments were \$7,915,540.

The DSS overpaid \$2,960,852 (FFP \$1,827,692) for the period January 1, 1987 through June 30, 1992 (APPENDIX A). This was the difference between total DSS payments of \$10,876,392 and allowable DSS payments of \$7,915,540.

Rivendell refunded \$797,609 for FY 1992 overpayments. Then, DSS refunded FFP of \$508,202 to the Federal Government. Therefore, the outstanding overpayments received by Rivendell are \$2,163,243 (\$2,960,852 - \$797,609). The outstanding overpaid FFP received by DSS is \$1,319,490 (\$1,827,692 - \$508,202).

Recommendations

We recommend that DSS:

- o Refund FFP of \$1,319,490 to the Federal Government for Medicaid overpayments for services provided from January 1, 1987 through June 30, 1992 (APPENDIX A).
- o Take steps to provide audit coverage of Rivendell's cost reports in determining prospective per diem rates.

Auditee Comments

***the Department agrees with the calculations as presented in the report. We, of course, cannot address issues dealing specifically with Rivendell's actions. Those items may result in litigation before a final resolution can be determined. In that regard, we reserve our comments on the financial impact of the audit."

OTHER MATTERS

We were apprised of two issues that may affect the Medicaid per diem rates payable by DSS after June 30, 1992. Even though these issues affect time periods outside the scope of our audit, we are presenting them below for DSS's consideration in making Medicaid payments to Rivendell subsequent to our audit period.

Rivendell Refund to DSS For FY 1993

Rivendell asked DSS to reduce its Medicaid per diem rate for the period July 1, 1992 through June 30, 1993 because Rivendell refinanced its capital debt at a lower interest rate. Also, Rivendell had increased its patient days, so its capital costs per patient day were less. In December 1992, Rivendell estimated it had received Medicaid overpayments of \$292,067 through October 1992 and Rivendell refunded this amount to DSS.

Building Componentization

For Medicare cost reporting, Rivendell calculated building depreciation using a 40-year useful life. On June 30, 1992, Rivendell requested that DSS allow a shorter useful life based on a componentization of the building.

In 1989, Rivendell obtained a cost segregation analysis of its building. The analysis calculated the average useful life of the building components as 30.24 years based on 1983 American Hospital Association useful life guidelines. On March 18, 1993, Rivendell requested that we reduce the useful life of the building to 30.24 years.

Originally, Rivendell chose a 40-year useful life for the entire building. According to PRM-I, section 104.17, a provider may initially select a useful life based on the Association's useful life guidelines for an entire building. Or, the provider may initially select a composite useful life based on the Association's useful life guidelines for the building components.

The PRM-I, section 122, states that a change in the useful life of an asset may only be made with intermediary approval. The intermediary must approve the change in writing. Upon approval, the change is effective with the reporting period immediately following the provider's request. A change in the useful life based on building componentization is permitted.

On June 30, 1992, Rivendell submitted a request to DSS for a change in the useful life of the building. Rivendell based its request on evidence that supported a redetermination. However, an intermediary must approve this change. If the request is approved, the change in the useful life of the building would be effective July 1, 1992.

APPENDICES

RIVENDELL OF NEBRASKA
SEWARD, NEBRASKA

Medicaid Overpayments
January 1, 1987 Through June 30, 1992

Period	Total Payments For Medicaid Days	Total Allowable Payments	Medicaid Overpayments	* Federal Medical Assistance Percentage	FFP Portion Of Medicaid Overpayments
01/01/87 - 12/31/87	\$1,717,899	\$1,126,982	\$590,917	58.4775%	\$345,553
01/01/88 - 06/30/88	\$588,458	\$377,229	\$211,229	59.7300%	\$126,167
07/01/88 - 06/30/89	\$1,046,485	\$762,325	\$284,160	60.2100%	\$171,093
07/01/89 - 06/30/90	\$1,130,377	\$873,587	\$256,790	60.9325%	\$156,469
07/01/90 - 06/30/91	\$2,210,568	\$1,762,096	\$448,472	62.3125%	\$279,454
07/01/91 - 06/30/92	\$4,379,237	\$3,209,953	\$1,169,284	64.0525%	\$748,956
TOTALS	<u>\$11,073,024</u>	<u>\$8,112,172</u>	<u>\$2,960,852</u>		<u>\$1,827,692</u>
LESS: RIVENDELL REFUNDS FOR FY 1992			<u>(\$797,609)</u>		<u>(\$508,202)</u>
OUTSTANDING OVERPAYMENTS			<u>\$2,163,243</u>		<u>\$1,319,490</u>

* - We used the weighted average FMAP that was in effect during each period.

RIVENDELL OF NEBRASKA
SEWARD, NEBRASKAOverstated Costs
January 1, 1987 Through June 30, 1991

<u>Cost Category</u>	<u>Direct</u>	<u>Overhead</u>	<u>Total</u>
Education	\$ 698,404	\$1,069,802	\$1,768,206
Advertising	474,380	349,895	824,275
Building Depreciation	98,554	0	98,554
Interest	430,744	0	430,744
Physician Pay	368,008	0	368,008
Start-Up	311,660	0	311,660
Home Office	290,386	0	290,386
Fixed Asset Depreciation	107,900	0	107,900
Malpractice Insurance	<u>(112,381)</u>	<u>0</u>	<u>(112,381)</u>
TOTALS	<u>\$ 2,667,655</u>	<u>\$1,419,697</u>	<u>\$4,087,352</u>

RIVENDELL OF NEBRASKA
SEWARD, NEBRASKA

Unallowable Education Costs
January 1, 1987 Through June 30, 1991

Period	Direct	Overhead	Total Unallowable Costs	Less: Rivendell Adjustments	Net Unallowable Costs
01/01/87 - 12/31/87	\$278,005	\$245,837	\$523,842	\$0	\$523,842
01/01/88 - 12/31/88	\$206,231	\$235,039	\$441,270	\$0	\$441,270
01/01/89 - 06/30/89	\$95,804	\$129,307	\$225,111	\$0	\$225,111
07/01/89 - 06/30/90	\$85,091	\$219,440	\$304,531	\$0	\$304,531
07/01/90 - 06/30/91	\$115,387	\$240,179	\$355,566	\$82,114	\$273,452
TOTALS	\$780,518	\$1,069,802	\$1,850,320	\$82,114	\$1,768,206

RIVENDELL OF NEBRASKA
SEWARD, NEBRASKA

Unallowable Advertising Costs
January 1, 1987 Through June 30, 1991

Period	Direct	Overhead	Total Unallowable Costs	Less: Rivendell Adjustments	Net Unallowable Costs
01/01/87 - 12/31/87	\$111,438	\$33,749	\$145,187	\$0	\$145,187
01/01/88 - 12/31/88	\$82,808	\$27,482	\$110,290	\$0	\$110,290
01/01/89 - 06/30/89	\$50,947	\$18,555	\$69,502	\$200	\$69,302
07/01/89 - 06/30/90	\$328,227	\$144,237	\$472,464	\$260,421	\$212,043
07/01/90 - 06/30/91	\$294,453	\$125,872	\$420,325	\$132,872	\$287,453
TOTALS	\$867,873	\$349,895	\$1,217,768	\$393,493	\$824,275

RIVENDELL OF NEBRASKA
SEWARD, NEBRASKA

Unallowable Building Depreciation
January 1, 1987 Through June 30, 1991

<u>Period</u>	<u>Building Depreciation Claimed</u>	<u>Less: Allowable Building Depreciation</u>	<u>Unallowable Building Depreciation</u>
01/01/87 - 12/31/87	\$ 114,355	\$ 96,905	\$ 17,450
01/01/88 - 12/31/88	114,370	96,905	17,465
01/01/89 - 06/30/89	57,178	48,453	8,725
07/01/89 - 06/30/90	123,891	96,905	26,986
07/01/90 - 06/30/91	<u>124,833</u>	<u>96,905</u>	<u>27,928</u>
TOTALS	<u>\$ 534,627</u>	<u>\$ 436,073</u>	<u>\$ 98,554</u>

RIVENDELL OF NEBRASKA
SEWARD, NEBRASKA

Unallowable Interest Expense
January 1, 1987 Through June 30, 1991

<u>Period</u>	<u>Building Interest Expense Claimed</u>	<u>Less: Allowable Building Interest Expense</u>	<u>Unallowable Building Interest Expense</u>
01/01/87 - 12/31/87	\$ 484,699	\$ 419,555	\$ 65,144
01/01/88 - 12/31/88	476,228	471,709	4,519
01/01/89 - 06/30/89	411,319	268,916	142,403
07/01/89 - 06/30/90	665,335	564,213	101,122
07/01/90 - 06/30/91	<u>680,024</u>	<u>564,213</u>	<u>115,811</u>
TOTALS	<u>\$2,717,605</u>	<u>\$2,288,606</u>	<u>\$ 428,999</u>
Plus: Unallowable Interest Paid To A Related Party in 1987			<u>1,745</u>
Total Unallowable Interest Expense			<u>\$ 430,744</u>

RIVENDELL OF NEBRASKA
SEWARD, NEBRASKA

Overstated Physician Pay
January 1, 1987 Through June 30, 1989

<u>Period</u>	<u>Physician Pay Claimed</u>	<u>Less: Physician Pay Allocable To Provider Part</u>	<u>Overstated Provider Part Of Physician Pay</u>
01/01/87 - 12/31/87	\$ 120,000	\$ 35,372	\$ 84,628
01/01/88 - 12/31/88	211,144	33,723	177,421
01/01/89 - 06/30/89	<u>120,959</u>	<u>15,000</u>	<u>105,959</u>
TOTALS	<u>\$ 452,103</u>	<u>\$ 84,095</u>	<u>\$ 368,008</u>

RIVENDELL OF NEBRASKA
SEWARD, NEBRASKA

Unallowable Start-Up Costs
January 1, 1987 Through June 30, 1991

<u>Period</u>	<u>Start-Up Costs Claimed</u>	<u>Less: Allowable Start-Up Costs</u>	<u>Unallowable Start-Up Costs</u>
01/01/87 - 12/31/87	\$552,771	\$ 59,757	\$ 493,014
01/01/88 - 12/31/88	6,949	59,757	(52,808)
01/01/89 - 06/30/89	6,949	29,878	(22,929)
07/01/89 - 06/30/90	6,949	59,757	(52,808)
07/01/90 - 06/30/91	<u>6,948</u>	<u>59,757</u>	<u>(52,809)</u>
TOTALS	<u>\$580,566</u>	<u>\$ 268,906</u>	<u>\$ 311,660</u>

RIVENDELL OF NEBRASKA
SEWARD, NEBRASKA

Unallowable Home Office Costs
January 1, 1987 Through June 30, 1991

<u>Period</u>	<u>Home Office Costs Claimed</u>	<u>Less: Allowable Home Office Costs</u>	<u>Unallowable Home Office Costs</u>
01/01/87 - 12/31/87	\$ 655,849	\$ 399,540	\$ 256,309
01/01/88 - 12/31/88	353,853	341,298	12,555
01/01/89 - 06/30/89	121,237	158,192	(36,955)
07/01/89 - 06/30/90	221,805	181,964	39,841
07/01/90 - 06/30/91	<u>256,673</u>	<u>238,037</u>	<u>18,636</u>
TOTALS	<u>\$1,609,417</u>	<u>\$1,319,031</u>	<u>\$ 290,386</u>

RIVENDELL OF NEBRASKA
SEWARD, NEBRASKA

Unallowable Fixed Asset Depreciation
January 1, 1987 Through June 30, 1989

<u>Period</u>	<u>Fixed Asset Depreciation Claimed</u>	<u>Less: Allowable Fixed Asset Depreciation</u>	<u>Unallowable Fixed Asset Depreciation</u>
01/01/87 - 12/31/87	\$ 99,251	\$ 66,540	\$ 32,711
01/01/88 - 12/31/88	115,787	68,803	46,984
01/01/89 - 06/30/89	<u>62,784</u>	<u>34,579</u>	<u>28,205</u>
TOTALS	<u>\$ 277,822</u>	<u>\$ 169,922</u>	<u>\$ 107,900</u>

RIVENDELL OF NEBRASKA
SEWARD, NEBRASKA

Allowable Malpractice Insurance Costs
January 1, 1987 Through June 30, 1991

<u>Period</u>	<u>Total Allowable Malpractice Insurance Costs</u>	<u>Less: Malpractice Insurance Costs Claimed</u>	<u>Addition To Allowable Malpractice Insurance Costs</u>
01/01/87 - 12/31/87	\$ 18,680	\$ 0	\$ 18,680
01/01/88 - 12/31/88	18,680	1,588	17,092
01/01/89 - 06/30/89	9,340	794	8,546
07/01/89 - 06/30/90	32,560	2,768	29,792
07/01/90 - 06/30/91	<u>41,826</u>	<u>3,555</u>	<u>38,271</u>
TOTALS	<u>\$ 121,086</u>	<u>\$ 8,705</u>	<u>\$ 112,381</u>

RIVENDELL OF NEBRASKA
SEWARD, NEBRASKAMedicaid Patient Days
January 1, 1987 Through June 30, 1992

<u>Period</u>	<u>Medicaid Patient Days</u>
01/01/87 - 12/31/87	4,311
01/01/88 - 06/30/88	1,443
07/01/88 - 06/30/89	2,773
07/01/89 - 06/30/90	2,780
07/01/90 - 06/30/91	5,325
07/01/91 - 06/30/92	8,773

RIVENDELL OF NEBRASKA
SEWARD, NEBRASKANet Total Patient Days
January 1, 1987 Through June 30, 1991

<u>Period</u>	<u>Net Patient Days</u>
01/01/87 - 12/31/87	14,149
01/01/88 - 12/31/88	10,494
01/01/89 - 06/30/89	3,916
07/01/89 - 06/30/90	7,751
07/01/90 - 06/30/91	8,842

RIVENDELL OF NEBRASKA
SEWARD, NEBRASKA

Paid Medicaid Leave of Absence, Discharge, and Duplicated Days
January 1, 1987 Through June 30, 1990

<u>Period</u>	<u>Paid Medicaid Leave Of Absence Discharge And Duplicated Days</u>	<u>Medicaid Overpayment</u>	<u>Federal Medical Assistance Percentage</u>	<u>FFP Portion Of Medicaid Overpayment</u>
01/01/87 - 12/31/87	74 days	\$ 28,161	58.4775%	\$ 16,468
01/01/88 - 06/30/88	59 days	23,243	59.7300%	13,883
07/01/88 - 06/30/89	72 days	28,027	60.2100%	16,875
07/01/89 - 06/30/90	<u>61 days</u>	<u>24,729</u>	60.9325%	<u>15,068</u>
TOTALS	<u>266 days</u>	<u>\$ 104,160</u>		<u>\$ 62,294</u>

RIVENDELL OF NEBRASKA
SEWARD, NEBRASKAMedicaid and Total Ancillary Charges
January 1, 1987 Through June 30, 1990

<u>Period</u>	<u>Medicaid Ancillary Charges</u>	<u>Total Ancillary Charges</u>
01/01/87 - 12/31/87	\$ 111,519	\$ 366,013
01/01/88 - 12/31/88	139,253	556,990
01/01/89 - 06/30/89	97,345	221,801
07/01/89 - 06/30/90	158,647	485,181

RIVENDELL OF NEBRASKA
SEWARD, NEBRASKA

MEDICAID PER DIEM RATES CALCULATED FROM REVISED COST REPORTS
January 1, 1987 Through June 30, 1991

SUMMARY OF ALLOWABLE COSTS	COST REPORTING PERIOD				
	01/01/87 - 12/31/87	01/01/88 - 12/31/88	01/01/89 - 06/30/89	07/01/89 - 06/30/90	07/01/90 - 06/30/91
1. Total costs (WKST A Col 5 Line 101)	\$5,425,602	\$4,500,520	\$2,040,510	\$4,456,198	\$5,050,632
2. Less Offsets (WKST A Col 6 Line 101)	(\$1,057,762)	(\$647,026)	(\$167,724)	(\$820,664)	(\$840,409)
3. Allowable Costs (Line 1 minus or plus Line 2 (WKST A Col 7 Line 101))	\$4,367,840	\$3,853,494	\$1,872,786	\$3,635,534	\$4,210,223
ALLOCATION OF ALLOWABLE ROUTINE COSTS (WKST B)					
4. Adult and Pediatrics (WKST B Part I Col 25 Line 25)	\$3,490,677	\$2,999,842	\$1,439,191	\$2,603,543	\$3,186,273
5. Intensive and Conary Care (WKST B Part I Col 25 Line 26)	\$0	\$0	\$0	\$0	\$0
6. Nursery (WKST B Line 33)	\$0	\$0	\$0	\$0	\$0
7. Skilled Nursing & Other (Line 34)	\$0	\$0	\$0	\$0	\$0
8. Subtotal (Lines 4 thru 7)	\$3,490,677	\$2,999,842	\$1,439,191	\$2,603,543	\$3,186,273
ALLOCATION OF ANCILLARY COSTS					
9. Inpatient (WKST B Part I Col 37 thru 62 and minus ambulance WKST B Part I Col 25 Line 64)	\$208,134	\$302,092	\$138,982	\$254,996	\$288,259
10. Other	\$0	\$0	\$0	\$0	\$0
11. Subtotal	\$208,134	\$302,092	\$138,982	\$254,996	\$288,259
12. Nonreimbursable costs center (WKST B Lines 63-82 and 92 and 96-102)	\$669,029	\$551,560	\$294,613	\$776,995	\$775,891
13. Total (must agree with Line 3)	\$4,367,840	\$3,853,494	\$1,872,786	\$3,635,534	\$4,210,223
ROUTINE SERVICES					
14. General inpatient routine service cost (WKST D-1 Part I Line 37)	\$3,490,677	\$2,999,842	\$1,439,191	\$2,603,543	\$3,186,273
15. Inpatient days (WKST D-1 Part I Line 2)	14149	10494	3916	7751	8842
16. Allowable routine service cost per diem rate (Line 14 divided by Line 15)	\$246.71	\$285.86	\$367.52	\$335.90	\$360.36
17. Medicaid - Adult & Pediatric Days (SUR 692)	4311	2617	1599	2780	5325
18. Medicaid routine service cost (Line 16 times Line 17)	\$1,063,567	\$748,102	\$587,657	\$933,796	\$1,918,899
SPECIAL CARE (WKST D-1 Lines 43-47)					
19. Special Care Cost A	\$0	\$0	\$0	\$0	\$0
20. Special Care Days B.	0	0	0	0	0
21. Cost per patient day C.	\$0	\$0	\$0	\$0	\$0
22. Medicaid special care days	0	0	0	0	0
23. Medicaid special care cost A.	\$0	\$0	\$0	\$0	\$0
24. Total routine service and special care cost (Line 18 plus lines 23a and 23b)	\$1,063,567	\$748,102	\$587,657	\$933,796	\$1,918,899
ANCILLARY (WKST C)					
25. Total ancillary cost (Line 101 Col 5 total minus Lines 25 thru 36 and Line 64)	\$208,134	\$302,092	\$138,982	\$254,996	\$288,259
26. Total ancillary charges (Col 6 Line 101 minus ambulance Line 64)	\$366,013	\$556,990	\$221,801	\$485,181	\$228,914
27. Charge converter (Line 25 divided by Line 26)	0.5685193313	0.54236521302	0.62660673306	0.52556880834	1.25924583031
28. Medicaid inpatient ancillary charges (SUR 692)	\$111,519	\$139,253	\$97,345	\$158,647	\$142,362
29. Medicaid inpatient ancillary costs (Line 27 times Line 28)	\$63,415	\$75,526	\$60,997	\$83,380	\$179,269
SUMMARY OF MEDICAID REIMBURSABLE COSTS					
30. Medicaid routine reimbursable costs (Line 24)	\$1,063,567	\$748,102	\$587,657	\$933,796	\$1,918,899
31. Medicaid ancillary reimbursable costs (Line 29)	\$63,415	\$75,526	\$60,997	\$83,380	\$179,269
32. Medicaid - Malpractice Insurance (WKST D-8 Part III & IV Col 2 Line 60)	\$0	\$0	\$0	\$0	\$0
33. Total Medicaid Reimbursable Costs (Lines 30, 31 and 32)	\$1,126,982	\$823,628	\$648,654	\$1,017,176	\$2,098,168
34. Total Gross Inpatient Medicaid Charges routine and ancillary (Lines 28 and accommodations from MRS-217-A)	N/A	N/A	N/A	N/A	N/A
35. Lesser of lines 33 or 34	\$1,126,982	\$823,628	\$648,654	\$1,017,176	\$2,098,168
36. Medicaid Days (SUR 692)	4311	2617	1599	2780	5325
37. Medicaid per diem rate (Line 35 divided by Line 36)	\$261.42	\$314.72	\$405.66	\$365.89	\$394.02
NURSERY					
1. Allowable costs (WKST D-1 Part II Line 42a)	\$0	\$0	\$0	\$0	\$0
2. Nursery patient days (Line 42b)	0	0	0	0	0
3. Nursery per diem rate (Line 42c)	\$0	\$0	\$0	\$0	\$0

RIVENDELL OF NEBRASKA
SEWARD, NEBRASKA

Capital Per Diem Rate Calculated From Revised Cost Report
January 1, 1987 Through December 31, 1987

COST CENTER	1.	2.	3.	4.	5.	6.
	WKST B Part II CAPITAL COSTS	WKST D-1 Part I & II TOTAL DAYS	(1./2.) TOTAL INP.C.R COST PER DAY	SUR 692 MEDICAID DAYS	(3. x 4.) MEDICAID INPATIENT CAPITAL COSTS	(5./4.) MEDICAID INPATIENT CAPITAL PER DIEM RATE
1. Adults & Pediatrics (Line 25)	\$649,144	14149	\$45.88	4311	\$197,789	\$45.88
2. Intensive Care (Line 26)	\$0	0	\$0.00	0	\$0	\$0.00
3. Coronary Care (Line 27)	\$0	0	\$0.00	0	\$0	\$0.00
4. ICU Nursery	\$0	0	\$0.00	0	\$0	\$0.00
5. Nursery (Line 33)	\$0	0	\$0.00	0	\$0	\$0.00
6. Other	\$0	0	\$0.00	0	\$0	\$0.00
7. Ancillaries (Lines 37-95 minus ambulance)	\$78,305	0	\$0.00	0	\$23,858	\$0.00
8. Total hospital inpatient capital related	\$727,449	14149	\$51.41	4311	\$221,647	\$51.41

CALCULATION FOR MEDICAID ANCILLARY

INPATIENT CAPITAL COSTS (Col 5 Line 7)	Amount
1. Ancillary (capital related) WKST B Part II Col 1 Line 101	\$78,305
2. Total ancillary charges (WKST C Col 6 Line 101)	\$366,013
3. Charge convertor (divide 1 by 2)	0.2139405
4. Medicaid ancillary charges (comp sheet line 28)	\$111,519
5. Line 3 - X's line 4 equals total amount of Medicaid inpatient capital costs (enter in Col 5 Line 7 for ancillaries)	\$23,858

MEDICAL EDUCATION (WKST D-1 Part I Line 52)	Amount
1. Medical education cost	\$0
2. Total days	0
3. Total cost per day (1 divided by 2)	\$0

RIVENDELL OF NEBRASKA
SEWARD, NEBRASKA

Capital Per Diem Rate Calculated From Revised Cost Report
January 1, 1988 Through December 31, 1988

COST CENTER	1.	2.	3.	4.	5.	6.
	WKST B Part II CAPITAL COSTS	WKST D-1 Part I & II TOTAL DAYS	(1./2.) TOTAL INP.C.R COST PER DAY	SUR 692 MEDICAID DAYS	(3. x 4.) MEDICAID INPATIENT CAPITAL COSTS	(5./4.) MEDICAID INPATIENT CAPITAL PER DIEM RATE
1. Adults & Pediatrics (Line 25)	\$685,919	10494	\$65.36	2617	\$171,055	\$65.36
2. Intensive Care (Line 26)	\$0	0	\$0.00	0	\$0	\$0.00
3. Coronary Care (Line 27)	\$0	0	\$0.00	0	\$0	\$0.00
4. ICU Nursery	\$0	0	\$0.00	0	\$0	\$0.00
5. Nursery (Line 33)	\$0	0	\$0.00	0	\$0	\$0.00
6. Other	\$0	0	\$0.00	0	\$0	\$0.00
7. Ancillaries (Lines 37-95 minus ambulance)	\$84,673	0	\$0.00	0	\$21,169	\$0.00
8. Total hospital inpatient capital related	\$770,592	10494	\$73.43	2617	\$192,224	\$73.45

CALCULATION FOR MEDICAID ANCILLARY

INPATIENT CAPITAL COSTS (Col 5 Line 7)	Amount
1. Ancillary (capital related) WKST D Part II Col 1 Line 101	\$84,673
2. Total ancillary charges (WKST C Col 6 Line 101)	\$556,990
3. Charge convertor (divide 1 by 2)	0.1520189
4. Medicaid ancillary charges (comp sheet line 28)	\$139,253
5. Line 3 - X's line 4 equals total amount of Medicaid inpatient capital costs (enter in Col 5 Line 7 for ancillaries)	\$21,169

MEDICAL EDUCATION (WKST D-1 Part I Line 52)	Amount
1. Medical education cost	\$0
2. Total days	0
3. Total cost per day (1 divided by 2)	\$0

RIVENDELL OF NEBRASKA
SEWARD, NEBRASKA

Capital Per Diem Rate Calculated From Revised Cost Report
July 1, 1989 Through June 30, 1990

COST CENTER	1.	2.	3.	4.	5.	6.
	WKST B Part II CAPITAL COSTS	WKST D-1 Part I & II TOTAL DAYS	(1./2.) TOTAL INP.C.R COST PER DAY	SUR 692 MEDICAID DAYS	(3. x 4.) MEDICAID INPATIENT CAPITAL COSTS	(5./4.) MEDICAID INPATIENT CAPITAL PER DIEM RATE
1. Adults & Pediatrics (Line 25)	\$581,381	7751	\$87.91	2780	\$244,390	\$87.91
2. Intensive Care (Line 26)	\$0	0	\$0.00	0	\$0	\$0.00
3. Coronary Care (Line 27)	\$0	0	\$0.00	0	\$0	\$0.00
4. ICU Nursery	\$0	0	\$0.00	0	\$0	\$0.00
5. Nursery (Line 33)	\$0	0	\$0.00	0	\$0	\$0.00
6. Other	\$0	0	\$0.00	0	\$0	\$0.00
7. Ancillaries (Lines 37-95 minus ambulance)	\$83,991	0	\$0.00	0	\$27,464	\$0.00
8. Total hospital inpatient capital related	\$765,372	7751	\$98.74	2780	\$271,854	\$97.79

CALCULATION FOR MEDICAID ANCILLARY

INPATIENT CAPITAL COSTS (Col 5 Line 7)	Amount
1. Ancillary (capital related) WKST D Part II Col 1 Line 101	\$83,991
2. Total ancillary charges (WKST C Col 6 Line 101)	\$485,181
3. Charge convertor (divide 1 by 2)	0.1731127
4. Medicaid ancillary charges (comp sheet line 28)	\$158,647
5. Line 3 - X's line 4 equals total amount of Medicaid inpatient capital costs (enter in Col 5 Line 7 for ancillaries)	\$27,464

MEDICAL EDUCATION (WKST D-1 Part I Line 52)	Amount
1. Medical education cost	\$0
2. Total days	0
3. Total cost per day (1 divided by 2)	\$0

RIVENDELL OF NEBRASKA
SEWARD, NEBRASKA

Capital Per Diem Rate Calculated From Revised Cost Report
July 1, 1990 Through June 30, 1991

COST CENTER	1.	2.	3.	4.	5.	6.
	WKST B Part II CAPITAL COSTS	WKST D-1 Part I & II TOTAL DAYS	(1./2.) TOTAL INP.C.R COST PER DAY	SUR 692 MEDICAID DAYS	(3. x 4.) MEDICAID INPATIENT CAPITAL COSTS	(5./4.) MEDICAID INPATIENT CAPITAL PER DIEM RATE
1. Adults & Pediatrics (Line 25)	\$719,395	8842	\$81.36	5325	\$433,242	\$81.36
2. Intensive Care (Line 26)	\$0	0	\$0.00	0	\$0	\$0.00
3. Coronary Care (Line 27)	\$0	0	\$0.00	0	\$0	\$0.00
4. ICU Nursery	\$0	0	\$0.00	0	\$0	\$0.00
5. Nursery (Line 33)	\$0	0	\$0.00	0	\$0	\$0.00
6. Other	\$0	0	\$0.00	0	\$0	\$0.00
7. Ancillaries (Lines 37-95 minus ambulance)	\$87,207	0	\$0.00	0	\$54,234	\$0.00
8. Total hospital inpatient capital related	\$806,602	8842	\$91.22	5325	\$487,476	\$91.54

CALCULATION FOR MEDICAID ANCILLARY

INPATIENT CAPITAL COSTS (Col 5 Line 7)	Amount
1. Ancillary (capital related) WKST D Part II Col 1 Line 101	\$87,207
2. Total ancillary charges (WKST C Col 6 Line 101)	\$228,914
3. Charge convertor (divide 1 by 2)	0.3809597
4. Medicaid ancillary charges (comp sheet line 28)	\$142,362
5. Line 3 - X's line 4 equals total amount of Medicaid inpatient capital costs (enter in Col 5 Line 7 for ancillaries)	\$54,234

MEDICAL EDUCATION (WKST D-1 Part I Line 52)	Amount
1. Medical education cost	\$0
2. Total days	0
3. Total cost per day (1 divided by 2)	\$0

RIVENDELL OF NEBRASKA
SEWARD, NEBRASKA

Payable Medicaid Per Diem Rates
January 1, 1987 Through June 30, 1992

COL 1	COL 2	COL 3	COL 4	COL 5	COL 6	COL 7	COL 8
Period	Base Year Operating Per Diem Rate	Composite EMBI Factor (1)	Payable Operating Per Diem Rate (COL 2 * COL 3)	Prior Year Capital Per Diem Rate	Total Per Diem Rate Before DS Per Diem Rate (COL 4 + COL 5)	DS Per Diem Rate	Total Payable Per Diem Rate (COL 6 + COL 7)
01/01/87 - 12/31/87	\$210.01	1.000000	\$210.01	\$91.41 (2)	\$261.42	\$0.00	\$261.42
01/01/88 - 06/30/88	\$210.01	1.000000	\$210.01	\$51.41	\$261.42	\$0.00	\$261.42
07/01/88 - 06/30/89	\$210.01	1.047000	\$219.88	\$51.41	\$271.29	\$3.62 (3)	\$274.91
07/01/89 - 06/30/90	\$210.01	1.107726	\$232.63	\$73.45	\$306.08	\$8.16 (4)	\$314.24
07/01/90 - 06/30/91	\$210.01	1.165328	\$244.73	\$73.45	\$318.18	\$12.73 (5)	\$330.91
07/01/91 - 06/30/92	\$210.01	1.209610	\$254.03	\$97.79	\$351.82	\$14.07 (5)	\$365.89

(1) - The EMBI Factors Were:

$$07/01/88 - 06/30/89 = 4.7\%$$

$$07/01/89 - 06/30/90 = 5.8\%$$

$$07/01/90 - 06/30/91 = 5.2\%$$

$$07/01/91 - 06/30/92 = 3.8\%$$

The Composite Multiplier To the Base Year Rate Was:

$$07/01/88 - 06/30/89 = 1.047$$

$$07/01/89 - 06/30/90 = 1.047 * 1.058 = 1.107726$$

$$07/01/90 - 06/30/91 = 1.047 * 1.058 * 1.052 = 1.165328$$

$$07/01/91 - 06/30/92 = 1.047 * 1.058 * 1.052 * 1.038 = 1.209610$$

(2) - According to the Plan, the payable capital per diem rate for the base year is the actual capital per diem from the audited cost report.

(3) - According to the Plan, the payable disproportionate share per diem rate from July 1, 1988 through June 30, 1989 was one-third of four percent.

(4) - According to the Plan, the payable disproportionate share per diem rate from July 1, 1989 through June 30, 1990 was two-thirds of four percent.

(5) - According to the Plan, the payable disproportionate share per diem rate after June 30, 1990 was four percent.

RIVENDELL OF NEBRASKA *
SEWARD, NEBRASKA

Total Payments for Medicaid Days
January 1, 1987 Through June 30, 1992

Period	DSS Medicaid Payments	Third Party Payments	Total Payments
January 1, 1987 through December 31, 1987	\$1,711,292	\$6,607	\$1,717,899
January 1, 1988 through June 30, 1988	\$567,770	\$20,688	\$588,458
July 1, 1988 through June 30, 1989	\$1,016,928	\$29,557	\$1,046,485
July 1, 1989 through June 30, 1990	\$1,120,034	\$10,343	\$1,130,377
July 1, 1990 through June 30, 1991	\$2,164,518	\$46,050	\$2,210,568
July 1, 1991 through June 30, 1992	\$4,295,850	\$83,387	\$4,379,237
TOTALS	<u>\$10,876,392</u>	<u>\$196,632</u>	<u>\$11,073,024</u>

RIVENDELL OF NEBRASKA
SEWARD, NEBRASKA

Allowable Medicaid Payments
January 1, 1987 Through June 30, 1992

Period	Payable Medicaid Days	Payable Medicaid Per Diem Rate	Total Allowable Payments	Less: Amounts Paid By Third Parties	Allowable Medicaid Payments
January 1, 1987 through December 31, 1987	4,311	\$261.42	\$1,126,982	\$6,607	\$1,120,375
January 1, 1988 through June 30, 1988	1,443	\$261.42	\$377,229	\$20,688	\$356,541
July 1, 1988 through June 30, 1989	2,773	\$274.91	\$762,325	\$29,557	\$732,768
July 1, 1989 through June 30, 1990	2,780	\$314.24	\$873,587	\$10,343	\$863,244
July 1, 1990 through June 30, 1991	5,325	\$330.91	\$1,762,096	\$46,050	\$1,716,046
July 1, 1991 through June 30, 1992	<u>8,773</u>	\$365.89	<u>\$3,209,953</u>	<u>\$83,387</u>	<u>\$3,126,566</u>
TOTALS	<u>25,405</u>		<u>\$8,112,172</u>	<u>\$196,632</u>	<u>\$7,915,540</u>

STATE OF NEBRASKA

APPENDIX X

DEPARTMENT OF SOCIAL SERVICES
Mary Dean Harvey
Director



E. Benjamin Nelson
Governor

April 1, 1994

Vincent R. Imbriani
Regional Inspector General
for Audit Services, Region VII
601 East 12th Street
Room 284A
Kansas City, MO 64106

RE: CIN: A-07-93-00635

Dear Mr. Imbriani:

After reviewing the draft audit report titled "REVIEW OF MEDICAID PAYMENTS BY THE NEBRASKA DEPARTMENT OF SOCIAL SERVICES TO RIVENDELL OF NEBRASKA" and clarifying some issues with Jim Aasmundstad of your staff, the Department agrees with the calculations as presented in the report. We, of course, cannot address issues dealing specifically with Rivendell's actions. Those items may result in litigation before a final resolution can be determined. In that regard, we reserve our comments on the financial impact of the audit.

We look forward to receiving the final audit, so that we can issue a report to Rivendell.

Thank you and your auditors for doing an excellent job with this audit.

Sincerely,

A handwritten signature in cursive script that reads "Mary Dean Harvey".

Mary Dean Harvey, Director
Nebraska Department of Social Services

KL:KK4090E