STATE OF NEW YORK
OFFICE OF THE MEDICAID INSPECTOR GENERAL
90 Church Street, 14th Floor
New York, New York 10007

ANDREW M. CUOMO
GOVERNOR

JAMES C. COX
MEDICAID INSPECTOR GENERAL

December 3, 2013

[redacted]
Ozanam Hall of Queens Nursing Home, Inc.
42-41 201st Street
Bayside, New York 11361

Re: Medicaid Rate Audit #10-2389
NPI Number: [redacted]
Provider Number: [redacted]

Dear [redacted]

Enclosed is the final audit report of the Office of the Medicaid Inspector General's (the "OMIG") audit of Ozanam Hall of Queens Nursing Home, Inc.'s (the "Facility") Medicaid rates for the rate period January 1, 2005 through December 31, 2008. The audit also included a review of granted Appeal Numbers A00750, A00300, A00252, A30692, 222557, 905552, and 708908. These appeals were effective for the rate period January 1, 2003 through December 31, 2008 and were accepted on audit. In accordance with 18 NYCRR Section 517.6, this audit report represents the OMIG's final determination on issues raised in the draft audit report.

In response to the draft audit report dated December 5, 2012, you identified specific audit findings with which you disagreed. Your comments have been considered (see Attachment A); however, consideration of your comments resulted in no reduction to the Medicaid overpayment shown in the draft audit report. As previously stated in the draft audit report, the Medicare Part B and D offsets were not within the scope of the review and may be examined as part of a future audit. Based on the enclosed audited rates calculated by the Bureau of Long Term Care Reimbursement, the Medicaid overpayment currently due is $119,198. This overpayment is subject to Department of Health (the "DOH") and Division of Budget (the "DOB") final approval. While not anticipated, any difference between the calculated overpayment and the final DOH and DOB approved amount will be resolved with the Facility by the OMIG Bureau of Collections Management.

In accordance with 18 NYCRR Part 518 which regulates the collection of overpayments, your repayment options are described below.

OPTION #1: Make full payment by check or money order within 20 days of the date of the final audit report. The check should be made payable to the New York State Department of Health and be sent with the attached Remittance Advice to:

New York State Department of Health
Medicaid Financial Management
GNARESP Corning Tower, Room 2739
File #10-2389
Albany, New York 12237-0048

OPTION #2: Enter into a repayment agreement with the Office of the Medicaid Inspector General. If your repayment terms exceed 90 days from the date of the final audit report, recoveries of amounts due are subject to interest charges at the prime rate plus 2%. If the process of establishing the repayment agreement exceeds 20 days from the date of the final audit report, the OMIG will impose a 15% withhold after 20 days until the agreement is established. The OMIG may require financial information from you to establish the terms of the repayment agreement. If additional information is requested, the OMIG must receive the information within 30 days of the request or a 50% withhold will be imposed. OMIG acceptance of the repayment agreement is based on your repaying the Medicaid overpayment as agreed. The OMIG will adjust the rate of recovery, or require payment in full, if your unpaid balance is not being repaid as agreed. The OMIG will notify you no later than 5 days after initiating such action. If you wish to enter into a repayment agreement, you must forward your written request within 20 days to the following:

Bureau of Collections Management
New York State Office of the Medicaid Inspector General
800 North Pearl Street
Albany, New York 12204

If within 20 days, you fail to make full payment or contact the OMIG to make repayment arrangements, the OMIG will establish a withhold equal to 50% of your Medicaid billings to secure payment and liquidate the overpayment amount, interest and/or penalty, not barring any other remedy allowed by law. The OMIG will provide notice to you no later than 5 days after the withholding of any funds.

In addition, if you receive an adjustment in your favor while you owe funds to the State, such adjustment will be applied against the amount owed.

You have the right to challenge this action and determination by requesting an administrative hearing within sixty (60) days of the date of this notice. You may not request a hearing to raise issues related to rate setting or rate setting methodology. In addition, you may not raise any issue that was raised or could have been raised at a rate appeal with your rate setting agency. You may only request a hearing to challenge specific audit adjustments which you challenged in a response to the draft audit report.

If you wish to request a hearing, the request must be submitted in writing to:

General Counsel
Office of Counsel
New York State Office of the Medicaid Inspector General
800 North Pearl Street
Albany, New York 12204

Questions regarding the request for a hearing should be directed to the Office of Counsel at

If a hearing is held, you may have a person represent you or you may represent yourself. If you choose to be represented by someone other than an attorney, you must supply a signed authorization permitting that person to represent you along with your hearing request. At the hearing, you may call witnesses and present documentary evidence on your behalf.

Should you have any questions, please contact or through email at Please refer to audit number 10-2389 in all correspondence.

Sincerely,

Bureau of Rate Audit
Division of Medicaid Audit
Office of the Medicaid Inspector General

Attachments:
Attachment A – Facility Draft Report Comments and OMIG Response
EXHIBIT I – Summary of Per Diem Impact and Medicaid Overpayment
EXHIBIT II – Summary of Medicaid Rates Audited
EXHIBIT III – Property Expense Disallowances/(Allowances)

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

NEW YORK STATE
OFFICE OF THE MEDICAID INSPECTOR GENERAL
REMITTANCE ADVICE

NAME AND ADDRESS OF AUDITEE

Ozanam Hall of Queens
Nursing Home, Inc.
42-41 201ST Street
Bayside, New York 11361

AMOUNT DUE: $119,198

NPI #: [redacted]
PROVIDER #: [redacted]

AUDIT #10-2389

AUDIT TYPE	
	[ ] PROVIDER
	[X] RATE
	[ ] PART B
	[ ] OTHER:

CHECKLIST

1. To ensure proper credit, please enclose this form with your check.
2. Make checks payable to: *New York State Department of Health*
3. Record the Audit Number on your check.
4. Mail check to:

[redacted]
New York State Department of Health
Medicaid Financial Management
GNARESP Corning Tower, Room 2739
File #10-2389
Albany, New York 12237-0048

5. If the provider number shown above is incorrect, please enter the correct number below.

CORRECT PROVIDER NUMBER

OZANAM HALL OF QUEENS NURSING HOME, INC. - AUDIT #10-2389
FACILITY DRAFT REPORT COMMENTS AND OMIG RESPONSE

All OMIG adjustments were accepted by the Facility except for those shown below. The following details the disposition of final report adjustments after consideration of the Facility's draft audit report response comments.

EXHIBIT III COMMENTS

Adjustment #1 (a) - Building/Fixed Equipment Depreciation Disallowances

Facility Comment

The facility objects to the disallowances of certain costs which have now been reclassified as repairs and maintenance by this audit. In this regard, the backup documentation supports Ozanam Hall's classification of costs as building improvements as further outlined below.

Initially, it should be noted that the regulations cited within the Draft Audit report actually support Eger's initial classifications. For example, 10 NYCRR 451.230 defines "repair" as "(a) The restoration of a capital asset to its full productive capacity, or a contribution thereto, after damage, accident or prolonged use, **without increase in its previously estimated service life or productive capacity.**" These regulations are consistent with Federal criteria as applicable under 10 NYCRR 86-2.17(a). In this regard, Federal guidelines under PRM 15-1, Chapter 1 entitled "depreciation" state:

> 108. GUIDELINES FOR CAPITALIZATION OF HISTORICAL COSTS
> AND IMPROVEMENT COSTS OF DEPRECIABLE ASSETS
>
> 108.2 Betterments and Improvements.--Betterments and improvements extended the life, **increase the productivity, or significantly improve the safety** (e.g., asbestos removal) of an asset as opposed to repairs and maintenance which either restore the asset to, or maintain it at, its normal or expected service life. Repair and maintenance costs are always allowed in the current accounting period.
>
> For the costs of betterments and improvements, the guidelines established in §108.1 must be followed, i.e., if the cost of a betterment or improvement to an asset is $5,000 or more and the estimated useful life of the asset is extended beyond its original estimated useful life by at least 2 years, or if the productivity of the asset is increased significantly over its original productivity, or the safety of the asset is increased significantly, then this cost must be capitalized and written off ratably over the remaining estimated useful life of the asset as modified by the betterment or improvement. As in the previous section, lower minimum criteria may be used if desired.

Importantly, State regulations allow facilities to establish a capitalization policy which is in line with Medicare principles (See 10 NYCRR §452.3[g][4](i) -"The minimum capitalization policy" a facility must follow is "the guidelines and amounts required in the Medicare regulations.").

As the auditors were informed at the time of audit, Ozanam Hall has a policy of capitalizing individual capital expenditures of $500.00. That policy was followed in respect to the items disallowed by the auditors.

The items that are in issue fall into three categories: individually purchased items of equipment; replacement of major portions of equipment systems; and capital improvements. The enclosed documentation consists of invoices specifying the specific nature of the items capitalized as they relate to each of the appropriate rate years. These documents were provided as available for review at the time of the audit.

The first category includes clearly identified purchase of equipment.

The second category includes a variety of items essential to the operation of larger building and equipment systems. These include motors, pumps, piping and major electronic components, as well as the labor required for installation. The items in issue are nontrivial components essential to the operation of the system and, in many cases, the very heart of the system itself.

The third category includes capital improvements to both the structure and its vital systems. Interior renovation expenses, including spackling, papering and painting undertaken as a major refurbishing of the aging Ozanam Hall facility, clearly fall within the PRM 15-1, §108 definition of capitalizable costs. By preventing and removing friable, airborne particulates, these improvements to the walls of the residents' rooms and general areas "significantly improve the safety" the facility regarding resident health. Because the also improve the appeal and aesthetics of the interior space, these betterments "increase the productivity" of the facility by enabling it to attract and retain residents, in addition to generally improving the residents" experience and overall quality of life while at the home.

As to the equipment and vital systems renovated, including air handling and heating systems, the work done which was capitalized involved extensive renovations or improvements. This included significant efforts involving dismantling, refurbishing and reassembly to the items or systems, resulting in essential fully rebuilt, "new" equipment.

The work in question did not amount to simple repairs. In total, the work went beyond repairing any particular asset and added new, state of the art materials and workmanship which benefited Ozanam Hall's residents and employees over a long period of time.

Based upon the foregoing, we request that the adjustments to the depreciation expenses disallowed be reversed based upon the nature and extent of the work and items capitalized. (See Exhibit A, CY 2003-2006)

OMIG Response

The Facility incorrectly capitalized costs that should have been expensed as operating costs because they were for repairs, maintenance and purchase of supplies. The documentation provided by the Facility during the audit to support the costs were invoices generated by the contractors and suppliers, which described the costs as repairs, maintenance and purchases of supplies. Therefore the related depreciation expense for these costs should have been expensed and not capitalized.

Disposition: The draft audit report disallowances remain the same.

Adjustment #1(b) - Building/Fixed Equipment Depreciation Disallowances

Facility Comment

The disallowance included in this category of adjustment is contested by the Facility.

The building in question, located adjacent to Ozanam Hall, was fact used for patient care related purposes. The building was used in part for the on-site storage of equipment, materials and supplies used both in the on-going operation of the facility as well as in regards to its maintenance and capital improvement efforts. In addition, a portion of the structure was used as on-campus housing for resident alien nursing staff in the employ of the facility.

These uses of the building are clearly related to patient care and therefore are not excludable pursuant to PRM-1, §2102.3. The depreciation expense related to this property is therefore appropriately allowable for reimbursement.

OMIG Response

Based on information obtained from the Facility during the audit, the adjacent building is not considered related to patient care. In addition, the Facility did not provide documentation to establish that the costs of this building were approved by the Department and includable in the Facility's property costs. The historical cost of this building is not included in the Facility's reimbursable costs and neither should any additions.

Disposition: The draft audit report disallowances remain the same.

Adjustment #2 - Real Estate Tax Disallowances

Facility Comment

A review of the disallowances in this category indicate that they are inappropriate based upon the regulations cited and are therefore contested by the facility.

Firstly, the two properties in question were in fact both used for patient care related purposes.

The property that was improved by a building was used in part for the on-site storage of equipment, materials and supplies used both in the on-going operation of the facility as well as in regards to its maintenance and capital improvement efforts. In addition, a portion of the structure was used as on-campus housing for resident alien nursing staff in the employ of the facility, as well as for overnight sleeping accommodations for facility staff when necessary due to emergency staffing needs and weather related issues.

As to the land that was unimproved by buildings, this was initially an improved lot. The facility razed the improvements and utilized the now empty lot as a parking area for staff as well as storage of the facility owned vehicle used for maintenance and snow removal.

All of these uses are clearly related to patient care and therefore are not excludable pursuant to PRM-1, §2102.3. The costs incurred by the facility related to these properties are therefore appropriately allowable for reimbursement. (Exhibit B)

Secondly, while Ozanam Hall is a not-for-profit organization, the properties at issue were only recently acquired by the facility in terms of the audit period. Of paramount significance, the improved lot was lot was acquired just prior to the audit period. The obtaining of an exemption is a time consuming process that is pursued through the local taxing authority. It is not automatic. Therefore, even if the property was potentially subject to an exemption, this should not be used as the basis for a disallowance of the tax as imposed and paid in the initial years of ownership.

OMIG Response

Based on information obtained from the Facility during the audit, the adjacent building is not considered related to patient care. In addition, the Facility did not provide documentation to establish that the costs of these buildings and the now vacant lot were approved by the Department and includable in the Facility's property costs.

Disposition: The draft audit report disallowances remain the same.

Adjustment #3(a) Moveable Equipment Depreciation Disallowances

Facility Comment

The items of expense listed in this category of disallowance were appropriately classified by the facility as capitalized costs, not operating expenses, for the same reasons as noted in response to Adjustment 1 (a).

In this category of disallowance, each of the expenses was incurred to ensure the extended use of the item. Each purchase or labor costs incurred and capitalized was essentially an improvement, using state of the art processes, resulting in assurance of resident safety and/or increase productivity. (See Exhibit A)

OMIG Response

The Facility incorrectly capitalized costs that should have been expensed as operating costs because they were for repairs, maintenance and purchase of supplies. The documentation provided by the Facility during the audit to support the costs were invoices generated by the contractors and suppliers, which described the costs as repairs, maintenance and purchases of supplies. Therefore, the related depreciation expense for these costs should have been expensed and not capitalized.

Disposition: The draft audit report disallowances remain the same.

Adjustment #3(c) Moveable Equipment Depreciation Disallowances

Facility Comment

The disallowance included in this category of adjustment is contested by the Facility.

The equipment in question, mattresses, was used by the facility in the building located adjacent to Ozanam Hall for patient care related purposes. Specifically, they were used by the resident alien nursing staff in the employ of the facility as a part of their on-campus housing and to provide overnight sleeping accommodations for other staff in during emergencies.

These uses of the equipment are clearly related to patient care and therefore are not excludable pursuant to PRM-1, §2102.3. The related depreciation expense is therefore appropriately allowable for reimbursement.

OMIG Response

Based on information obtained from the Facility during the audit, the adjacent building is not considered related to patient care. In addition, the Facility did not provide documentation to establish that the costs of this building were approved by the Department and includable in the Facility's property costs. The historical cost of this building is not included in the Facility's reimbursable costs and neither should the cost of equipment associated with its use.

Disposition: The draft audit report disallowances remain the same.

Adjustment #3(d) Moveable Equipment Depreciation Disallowances – Telephone Equipment

Facility Comment

The facility objects to this disallowance on the basis that there is no regulatory or rational basis for excluding legitimate capital costs simply on the basis of changes in overall telecommunications between the adoption of the 1983 base year and the 2004 to 2006 capital cost reporting periods audited herein. The proper way in which to reimburse such capital costs is pursuant to 10 NYCRR 86-2.10(g), just like all other capital related costs. This section states as follows:

> "Capital component of the rate. The allowable facility-specific capital component of the rate shall include allowable capital costs determined in accordance with sections 86-2.19, 86-2.20, 86-2.21 and 86-2.22 of this Subpart and costs of other allowable items determined by the department to be nontrendable divided by the facility's patient days in the base year determined applicable by the department."
>
> In turn, "capital costs" pursuant to section 86-2.19 are defined as including fixed equipment:
>
> "(a) Reported depreciation based on approved historical cost of buildings, fixed equipment and capital improvements thereto are recognized as a proper element of cost for voluntary and public residential health care facilities. Useful lives shall be the
> higher of the reported useful life or those useful lives from the most recent edition of Estimated Useful Lives of Depreciable Hospital Assets, American Hospital Association.
>
> (b) In the computation of rates effective for voluntary residential health care facilities, depreciation shall be included on a straight line method on plant and nonmovable equipment. (See also section 86-2.20 as to moveable equipment.)"

As noted above, since the telephone depreciation is a capital expense, it belongs in the capital per diem under 10 NYCRR 86-2.10(g). Conversely, if the audit adjustment were to prevail, the costs would not be disallowed but rather, would be reclassified in some way under the indirect component of the rate as defined by 10 NYCRR 86-2.10(d). This section clearly provides that capital costs must be deducted from such operating component before inclusion within the rate:

> "(d) Indirect component of the rate. (1) Allowable costs for the indirect component of the rate shall include costs reported in the following functional cost centers on the facility's annual cost report (RHCF-4) or extracted from a hospital based facility's annual cost report (RHCF-2) and

the institutional cost report of its related hospital, after first deducting for capital costs and allowable items not subject to trending:

(i) fiscal services;

(ii) administrative services;"

Clearly, there is no regulatory basis for this disallowance. No such argument may be made since practically everything within the rate setting regulations is defined. In this regard, even the "administrative services" cost center is defined to include only "operation of the communications system within the facility, including the telephone switchboard and related telephone services". (10 NYCRR §455.5) Moreover, even if it were to include depreciable equipment, section 86-2.10(d)(1) requires that any capital costs be deducted therefrom, no doubt to avoid duplication with sections 86-2.10(g) and 86-2.19-20.

Lastly, any imposition of an adjustment of capital simply on the basis of the nature of the telephone industry and/or based on unpromulgated DOH memoranda violates the New York Constitutional mandate (along with the State Administrative Procedures Act) that all rules of fixed application be promulgated as regulation.

OMIG Response

The Bureau of Long Term Care Reimbursement (BLTCR) has determined the nature of telephone expense to be an operating expense. This position has been upheld in administrative decisions. The Facility has not provided anything to change OMIG's position, or that would result in an exemption from BLTCR's determination regarding this adjustment.

Disposition: The draft audit report disallowances remain the same.

Adjustment #5 - Mortgage Expense Amortization Adjustments

Facility Comment

The adjustments made in this category are not in conformity to appropriate treatment of mortgage expenses where there has been an Article 28-A mortgage defeasance.

Until December 2006, the facility had received capital reimbursement in regards to its Article 28-A mortgage on a rate year basis pursuant to 10 NYCRR §86-2.19(d)(1). In lieu of depreciation and interest, it received reimbursed of its debt service on the mortgage. On December 18, 2006, the Article 28-A mortgage was defeased and the debt was refinanced and Ozanam Hall became entitled thereafter to capital reimbursement based upon depreciation and interest.

Based upon longstanding Department of Health rate setting policy, when a new mortgage resulting in interest and other related finance expense is undertaken, the "two year lag" methodology is commenced. However, this does not result in a facility receiving no reimbursement for the first two years. Rather, the facility receives reimbursement based upon rate costs and expenses for the first two years, going to the base year in the third year.

In this instance, Ozanam Hall should receive the reported expenses related to the new financing for the rate periods December 19, 2006 to December 31, 2006, 2006, 2007 and 2008, with the 2009 period reimbursed based upon 2007 costs.

Therefore, the adjustments should be revised to provide capital reimbursement for the new financing related costs for the end of 2006 and all of 2007. 2008 should also not be based upon the partial year 2006 base costs, as they are not reflective of what the facility was required to payout in that year. (Exhibit C)

OMIG Response

Mortgage expense amortization was determined to be included in reported land/leasehold improvements and reimbursed within the building/fixed equipment depreciation for the appropriate audit period. In addition, no new base year resulted from the new financing arrangement; therefore, the methodology used for reimbursement of rate year costs followed by base year costs does not apply. Allowing these expenses in 2006 and 2007 rates will result in excess reimbursement as the full cost of refinancing was also reported as 2006 leasehold improvements for amortization over the appropriate number of periods beginning with the 2008 rate year.

Disposition: The draft audit report disallowances remain the same.

EXHIBIT I

OZANAM HALL OF QUEENS NURSING HOME, INC. - AUDIT #10-2389
RATE PERIODS JANUARY 1, 2005 THROUGH DECEMBER 31, 2008
SUMMARY OF PER DIEM IMPACT AND MEDICAID OVERPAYMENT

RATE PERIOD	ISSUED PART B & D NON-ELIGIBLE RATES*	FINAL PART B & D NON-ELIGIBLE RATES	RATE DECREASE (INCREASE)	MEDICAID DAYS	MEDICAID OVERPAYMENT
01/01/05 - 01/31/05	$247.65	$247.63	$0.02	9,476	$ 190
02/01/05 - 02/28/05	249.74	249.72	0.02	8,460	169
03/01/05 - 04/30/05	249.74	249.72	0.02	18,428	369
05/01/05 - 06/30/05	246.55	246.53	0.02	18,942	379
07/01/05 - 07/31/05	246.55	246.53	0.02	9,601	192
08/01/05 - 10/31/05	249.05	249.03	0.02	28,549	571
11/01/05 - 12/31/05	246.25	246.23	0.02	18,737	375
01/01/06 - 01/31/06	246.66	246.39	0.27	9,358	2,527
02/01/06 - 03/31/06	248.99	248.72	0.27	17,947	4,846
04/01/06 - 04/30/06	248.43	248.16	0.27	8,888	2,400
05/01/06 - 07/31/06	244.46	244.19	0.27	27,454	7,413
08/01/06 - 10/31/06	247.11	246.84	0.27	27,465	7,416
11/01/06 - 11/16/06	247.85	247.58	0.27	4,492	1,213
11/17/06 - 12/18/06	248.19	247.64	0.55	9,533	5,243
12/19/06 - 12/31/06	254.03	250.40	3.63	3,844	13,954
01/01/07 - 03/31/07	259.51	259.19	0.32	25,417	8,133
04/01/07 - 06/30/07	258.08	257.76	0.32	25,482	8,154
07/01/07 - 12/31/07	255.56	255.24	0.32	52,887	16,924
01/01/08 - 03/31/08	260.48	260.10	0.38	25,406	9,654
04/01/08 - 06/30/08	255.30	254.92	0.38	25,098	9,537
07/01/08 - 12/31/08	261.10	260.72	0.38	51,419	19,539
TOTAL MEDICAID OVERPAYMENT					**$ 119,198**

* Any differences between these rates and the rates listed in Exhibit II of this report represent rate changes made subsequent to OMIG's audit. These changes remain open to future audit by the OMIG. For the purpose of this Exhibit, the Medicare Part B and D rates are not shown. The rate decrease/(increase) for those rates is the same as shown for the Medicare Part B and D non-eligible rates above.

OZANAM HALL OF QUEENS NURSING HOME, INC. - AUDIT #10-2389
RATE PERIODS JANUARY 1, 2005 THROUGH DECEMBER 31, 2008
SUMMARY OF MEDICAID RATES AUDITED

The Facility's Medicaid utilization was approximately 70 percent for the period under audit and the Medicaid per diem rates audited are shown below. Any differences between these rates and the "Issued Rates" listed in Exhibit I of this report represent rate changes made subsequent to our audit. These changes remain open to future audit by the OMIG.

RATE PERIOD	Issued Medicare Part B & D Non-Eligible Rates *
01/01/05 - 01/31/05	$ 247.65
02/01/05 - 02/28/05	249.74
03/01/05 - 04/30/05	249.74
05/01/05 - 06/30/05	246.55
07/01/05 - 07/31/05	246.55
08/01/05 - 10/31/05	249.05
11/01/05 - 12/31/05	246.25
01/01/06 - 01/31/06	246.66
02/01/06 - 03/31/06	248.99
04/01/06 - 04/30/06	248.43
05/01/06 - 07/31/06	244.46
08/01/06 - 10/31/06	247.11
11/01/06 - 11/16/06	247.85
11/17/06 - 12/18/06	248.19
12/19/06 - 12/31/06	245.44
01/01/07 - 03/31/07	253.58
04/01/07 - 06/30/07	252.15
07/01/07 - 12/31/07	249.63
01/01/08 - 03/31/08	255.38
04/01/08 - 06/30/08	250.20
07/01/08 - 12/31/08	255.98

* The Medicare Part B and D rates are not shown for the purpose of this Exhibit. The Medicare Part B and D offsets were not within the scope of this audit and may be examined as part of a future audit.

OZANAM HALL OF QUEENS NURSING HOME, INC. - AUDIT #10-2389
RATE PERIODS JANUARY 1, 2005 THROUGH DECEMBER 31, 2008
PROPERTY EXPENSE DISALLOWANCES/(ALLOWANCES)

	DESCRIPTION	COST CENTER	DISALLOWED (ALLOWED)	TRACE-BACK %	RATE PERIODS 2005	1/1/2006-11/16/2006	11/17/2006-12/18/2006	12/19/2006-12/31/2006	2007	2008
Property Expense Allowed per HE-12B					$ 1,430,927	$ 1,652,976	$ 1,705,308	$ 2,586,960	$ 2,272,999	$ 2,273,355
Less Disallowances/(Allowances):										
1. BUILDING/FIXED EQUIPMENT DEPRECIATION DISALLOWANCES										
a) The provider incorrectly capitalized costs that should have been expensed as operating costs because they were for repairs, inventory, or supplies. These expenditures should have been expensed in accordance with generally accepted accounting principles and the guidelines and definitions included in the RHCF Accounting and Reporting Manual. Accordingly, the depreciation expense applicable to these costs was disallowed. **Regulations: 10 NYCRR Sections 451.168, 451.181, & 451.230, & 86-2.4**	Bldg. Depr.	001	1,131	99.28%	1,123					
	Bldg. Depr.	001	2,753	99.28%		2,733				
	Bldg. Depr.	001	2,753	99.28%			2,733			
	Bldg. Depr.	001	2,753	99.28%				2,733		
	Bldg. Depr.	001	4,041	99.29%					4,012	
	Bldg. Depr.	001	5,650	99.29%						5,610
b) Costs not related to patient care are costs that are not appropriate or necessary and proper in developing and maintaining the operation of patient care facilities and activities. Only costs properly chargeable to necessary patient care are allowable. Costs pertaining to the adjacent buildings owned by the Facility are not related to patient care of the Facility and should not be included in the Facility's rate computation. Consequently, disallowances were necessary. **Regulations: 10 NYCRR Sections 86-2.17(a) & (d), & 86-2.19, PRM-1 Section 2102.3**	Bldg. Depr.	001	195	99.29%						194
c) On December 18, 2006, the Facility refinanced its Article 28-A mortgage. Beginning with the December 19, 2006 rate, 28-A reimbursement is suspended and based upon the defeasance of the 28-A mortgage, a Medicaid Allowable Transfer Price (MATP) was calculated using 20 years remaining useful life of the Facility and included in the rates. The Facility filed an Appeal with the Bureau of Long Term Care Reimbursement (BLTCR) to revise the remaining useful life of 20 years to six years because the Facility's 28-A mortgage began in 1973. This Appeal item was approved and BLTCR adjusted the remaining useful life to six years for the MATP calculation. For the rate period 12/19/2006 to 12/31/2006 MATP in the rates included MATP calculation using six years of useful life as well as 20 years of useful life. This resulted in duplicate reimbursement. Consequently, an adjustment was necessary to correct this error. **Regulations: 10 NYCRR Sections 86-2.17(d) & 86-2.19 (d)**	Bldg. Other	001	392,305	99.28%				389,480			
2. REAL ESTATE TAX DISALLOWANCES										
Costs not related to patient care are costs that are not appropriate or necessary and proper in developing and maintaining the operation of patient care facilities and activities. Only costs properly chargeable to necessary patient care are allowable. Real estate tax pertaining to the adjacent buildings owned by the Facility should not have been included in the Facility's rate since it is not related to patient care at the Facility. In addition, New York State Real Property Tax Law §420-A allows tax exemption for real property owned by a nonprofit organization. Consequently, disallowances were necessary. **Regulations: 10 NYCRR Sections 86-2.17(a) & (d), PRM-1 Sections 2102.3 & 2122.2 D**	Other	006	7,839	99.27%					7,782	
	Other	006	8,565	99.27%						8,502

OZANAM HALL OF QUEENS NURSING HOME, INC. - AUDIT #10-2389
RATE PERIODS JANUARY 1, 2005 THROUGH DECEMBER 31, 2008
PROPERTY EXPENSE DISALLOWANCES/(ALLOWANCES)

	DESCRIPTION	COST CENTER	DISALLOWED (ALLOWED)	TRACE-BACK %	RATE PERIODS 2005	1/1/2006-11/16/2006	11/17/2006-12/18/2006	12/19/2006-12/31/2006	2007	2008
3. MOVABLE EQUIPMENT DEPRECIATION DISALLOWANCES										
a) The Facility incorrectly capitalized costs that should have been expensed as operating costs. These expenditures should have been expensed in accordance with generally accepted accounting principles and the guidelines and definitions included in the RHCF Accounting and Reporting Manual. Accordingly, the depreciation expense applicable to these costs was disallowed. **Regulations: 10 NYCRR Sections 451.168 and 86-2.4**	ME Depr.	002	1,266	99.28%	1,257					
	ME Depr.	002	6,264	99.28%		6,219				
	ME Depr.	002	6,264	99.28%			6,219			
	ME Depr.	002	6,264	99.28%				6,219		
	ME Depr.	002	7,706	99.29%					7,651	
	ME Depr.	002	14,628	99.29%						14,524
b) Depreciation on assets financed by mortgage loans pursuant to Nursing Home Companies Law (Article 28-A), and on assets purchased with operating escrow funds, is not a reimbursable cost. In lieu of depreciation, the Facility is to receive debt service on the mortgage as set forth in the mortgage repayment schedule along with deposits into the operating escrow fund. A disallowance pertaining to movable equipment depreciation was necessary for rate years 2006 and 2008 to account for Article 28-A depreciation erroneously included in the Facility's Medicaid rate. **Regulation: 10 NYCRR Section 86-2.19(d)**	ME Depr.	002	73,948	99.28%		73,416				
	ME Depr.	002	73,948	99.28%			73,416			
	ME Depr.	002	73,948	99.28%				73,416		
	ME Depr.	002	30,959	99.29%						30,739
c) Costs not related to patient care are costs that are not appropriate or necessary and proper in developing and maintaining the operation of patient care facilities and activities. Only costs properly chargeable to necessary patient care are allowable. Depreciation expenses pertaining to the mattresses used in the adjacent building are not related to patient care of the Facility and should not be included in the Facility's rate computation. Consequently, disallowances were necessary. **Regulations: 10 NYCRR Sections 86-2.17(a) & (d), & 86-2.19, PRM-1 Section 2102.3**	ME Depr.	002	500	99.29%						497
d) The BLTCR has determined the nature of telephone expense to be an operating expense. Since the expense is included in the formula to determine the base, mean, and ceiling prices used to establish the indirect expense corridor, the reimbursement of telephone depreciation expense in the property component amounts to duplicate reimbursement. Consequently, a disallowance was necessary. **Regulation: 10 NYCRR Section 86-2.17(d)**	ME Depr.	002	295	99.29%						293
4. MOVABLE EQUIPMENT RENTAL DISALLOWANCES										
Rental expenses associated with maintenance agreements are considered operating expenses and should not be included in the capital component of the rate. Consequently, mail meter maintenance agreement fees were disallowed. **Regulations: 10 NYCRR Sections 86-2.17(d) & 86-2.10(g), PRM-1 Section 2102.2**	Rent C	005	861	99.77%	859					
	Rent C	005	783	99.77%		781				
	Rent C	005	783	99.77%			781			
	Rent C	005	783	99.77%				781		
	Rent B	005	940	99.78%					938	
	Rent B	005	940	99.79%						938

OZANAM HALL OF QUEENS NURSING HOME, INC. - AUDIT #10-2389
RATE PERIODS JANUARY 1, 2005 THROUGH DECEMBER 31, 2008
PROPERTY EXPENSE DISALLOWANCES/(ALLOWANCES)

	DESCRIPTION	COST CENTER	DISALLOWED (ALLOWED)	TRACE-BACK %	RATE PERIODS 2005	1/1/2006-11/16/2006	11/17/2006-12/18/2006	12/19/2006-12/31/2006	2007	2008
5. MORTGAGE EXPENSE AMORTIZATION ADJUSTMENTS										
Mortgage expense amortization was determined to be included in reported land/leasehold improvements and reimbursed within the building/fixed equipment depreciation. Reported mortgage expense amortization was disallowed in rate year 2006 and 2007 since it is being already reimbursed through building and fixed equipment depreciation. In addition, mortgage expense amortization is reimbursed on a two year lag basis. The OMIG audit disclosed that the Facility did not incur any refinancing mortgage expense applicable to cost years 2004 and 2005. The mortgage expense incurred in cost year 2006 was erroneously not included in the rate year 2008. Consequently, an allowance was necessary. **Regulations: 10 NYCRR Sections 86-2.17(a)&(d) & 86-2.22(a)**	Mort. Exp. Amort.	003	26,570	99.28%				26,379		
	Mort. Exp. Amort.	001	27,974	99.29%					27,775	
	Mort. Exp. Amort.	001	(3,496)	99.29%						(3,471)
6. ARTICLE 28-A FEES DISALLOWANCE										
Article 28-A fees (Department of Health Fees) were reimbursed after the Facility exited the Article 28-A status. It is the Commissioner's determination that facilities financed by mortgage loans pursuant to the Nursing Home Companies Law (Article 28-A) are allowed level debt service on the mortgage loan together with certain fixed charges, sinking funds, and reserves in lieu of depreciation and interest. On December 18, 2006, the Facility refinanced its Article 28-A mortgage. Beginning with the December 19, 2006 rate, Article 28-A reimbursement is suspended and based upon the defeasance of the Article 28-A mortgage, the MATP was calculated. Consequently, Article 28-A fees allowed in the rate were disallowed. **Regulation: 10 NYCRR Section 86-2.19(d)**	Hlth. Agen. Fee	005	48,493	99.77%				48,381		
7. REDUCTION OF INVESTMENT INCOME OFFSET										
Reported investment income was offset against expense in the promulgated rates. However, the offset was in excess of interest expense. Consequently, it was necessary to reduce the offset by the amount that it exceeded interest expense. **Regulation: 10 NYCRR Section 86-2.20(c)(2)**	Other Interest	003	(43,671)	99.28%		(43,357)				
Property Expense Disallowances/(Allowances)					$ 3,239	$ 39,792	$ 83,149	$ 547,389	$ 48,158	$ 57,826
AUDITED PROPERTY EXPENSE					**$ 1,427,688**	**$ 1,613,184**	**$ 1,622,159**	**$ 2,039,571**	**$ 2,224,841**	**$ 2,215,529**