

**REPORT
ON THE
RATE SETTING AUDIT**

**HERITAGE ESTATES, INC.
MANTECA, CALIFORNIA**

**FISCAL PERIOD ENDED
MARCH 31, 2012**

**Audits Section—Sacramento
Financial Audits Branch
Audits and Investigations
Department of Health Care Services**

**Section Chief: Robert G. Kwick
Audit Supervisor: Kelly Ostrom
Auditor: Valentina Lukovtseva**



TOBY DOUGLAS
DIRECTOR

State of California—Health and Human Services Agency
Department of Health Care Services



EDMUND G. BROWN JR.
GOVERNOR

July 8, 2013

Mary Perry
Secretary/Treasurer
Heritage Estates, Inc.
P.O. Box 293
Manteca, CA 95336

HERITAGE ESTATES, INC.
FISCAL PERIOD ENDED MARCH 31, 2012

We have examined the Medi-Cal Home Office Cost Report for the fiscal period ended March 31, 2012. Our examination was made under the authority of Section 14170 of the Welfare and Institutions Code and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the data presented in the Comparison of Reported and Audited Home Office Cost represents a proper determination of home office allowable costs for the above fiscal period in accordance with Medi-Cal reimbursement principles. The audited home office cost will be incorporated, by separate adjustment, into each applicable facility audit report.

This audit report includes the:

1. Comparison of Reported and Audited Home Office Cost and supporting schedules
2. Audit Adjustments Schedule

If you disagree with the decision of the Department, the results of the home office audit may only be appealed through each individual facility's audit report. Please refer to the appeal instructions in each facility's audit report.

Mary Perry
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If you have questions regarding this report, you may call the Audits Section—
Sacramento at (916) 650-6994.

Original Signed By

Robert G. Kvick, Chief
Audits Section—Sacramento
Financial Audits Branch

Certified

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**COMPARISON OF REPORTED AND AUDITED
HOME OFFICE COST**

HOME OFFICE:
HERITAGE ESTATES, INC

FISCAL PERIOD ENDED:
MARCH 31, 2012

CHAIN COMPONENTS 1	NPI NUMBER 2	FISCAL YEAR END 3	REPORTED COST 4	AUDITED COST 5	VARIANCE 6
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(From Sch 2, Col 6) (Col 5 - Col 4)

1. Locust Home	1710171749	03/31/12	\$822,553	\$653,669	(\$168,884)
2. Navajo Home	1356535389	03/31/12	353,656	262,297	(91,359)
3. Sunny Road Home	1083808018	03/31/12	73,251	46,472	(26,779)
4. Tahoe Home	1629263231	03/31/12	374,244	283,320	(90,924)
5. Wawona Home	1356536965	03/31/12	325,336	251,234	(74,102)
6. Other	N/A	N/A	732,635	558,318	(174,317)
7.				0	0
8.				0	0
9.				0	0
10.				0	0
11.				0	0
12.				0	0
13.				0	0
14.				0	0
15.				0	0
16.				0	0
17.				0	0
18.				0	0
19.				0	0
20.				0	0
21.				0	0
22.				0	0
23.				0	0
24.				0	0
25.				0	0

TOTALS

\$2,681,675	\$2,055,309	(\$626,366)
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SUMMARY OF DIRECT AND ALLOCATED POOL COST

HOME OFFICE:
HERITAGE ESTATES, INCFISCAL PERIOD ENDED:
MARCH 31, 2012

CHAIN COMPONENTS 1	NPI NUMBER 2	FISCAL YEAR END 3	DIRECT EXPENSES 4	POOLED EXPENSES 5	TOTAL DIRECT & POOLED FACILITY EXPENSE 6
			(From Sch 4)	(From Sch 3)	(Col 4 + Col 5)
1. Locust Home	1710171749	03/31/12	\$536,548	\$117,121	\$653,669
2. Navajo Home	1356535389	03/31/12	214,981	47,316	262,297
3. Sunny Road Home	1083808018	03/31/12	43,776	2,696	46,472
4. Tahoe Home	1629263231	03/31/12	233,982	49,338	283,320
5. Wawona Home	1356536965	03/31/12	204,008	47,226	251,234
6. Other	N/A	N/A	464,450	93,868	558,318
7.			0	0	0
8.			0	0	0
9.			0	0	0
10.			0	0	0
11.			0	0	0
12.			0	0	0
13.			0	0	0
14.			0	0	0
15.			0	0	0
16.			0	0	0
17.			0	0	0
18.			0	0	0
19.			0	0	0
20.			0	0	0
21.			0	0	0
22.			0	0	0
23.			0	0	0
24.			0	0	0
25.			0	0	0
TOTALS			\$1,697,745	\$357,564	\$2,055,309

(To Sch 1)

ALLOCATION OF POOLED EXPENSES

HOME OFFICE:
HERITAGE ESTATES, INC

FISCAL PERIOD ENDED:
MARCH 31, 2012

PART I - ALLOCATION BETWEEN PROVIDER AND NONPROVIDER COMPONENTS

FACILITY	Allocation Statistics Base:		Allocation Pool Expenses 3
	Accumulated Cost 1	Percent 2	
Program Services (Adj)	\$873,192	100.0000%	\$357,564
Nonprogram Services (Adj)		0.0000%	0
TOTAL	\$873,192	100.0000%	\$357,564

(From Sch 5)

PART II - ALLOCATION TO INDIVIDUAL CHAIN COMPONENTS

CHAIN COMPONENTS	NPI NUMBER	Audit Adjustment	Allocation Statistic: (Patient Days)	Allocated Pool Expense (Col 2 X UCM)
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1. Locust Home	1710171749		5,213	\$117,121
2. Navajo Home	1356535389		2,106	47,316
3. Sunny Road Home	1083808018		120	2,696
4. Tahoe Home	1629263231		2,196	49,338
5. Wawona Home	1356536965		2,102	47,226
6. Other	N/A		4,178	93,868
7.				0
8.				0
9.				0
10.				0
11.				0
12.				0
13.				0
14.				0
15.				0
16.				0
17.				0
18.				0
19.				0
20.				0
21.				0
22.				0
23.				0
24.				0
25.				0

TOTALS

15,915 \$357,564

(To Sch 2)

UNIT COST MULTIPLIER (UCM) (Pooled Expenses/Patient Days)	22.467107
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DIRECT ALLOCATION OF EXPENSES TO CHAIN COMPONENTS

HOME OFFICE:
HERITAGE ESTATES, INCFISCAL PERIOD ENDED:
MARCH 31, 2012

CHAIN COMPONENTS 1	NPI NUMBER	REPORTED TOTAL (Col F) 2	Expense Directly Allocable to Chain Component				AUDITED TOTAL 7
			Depreciation expense 3 (Adj 14) (Adj)	Interest expense 4 (Adj 15) (Adj)	Ins, Tax and Clothing 5 (Adj 16 - 18) (Adj)	Consultant expense 6 (Adj 19) (Adj)	
1. Locust Home	1710171749	\$536,877	\$0	\$0	(\$266)	(\$63)	\$536,548
2. Navajo Home	1356535389	241,279	(4,072)	(20,824)	(1,339)	(63)	214,981
3. Sunny Road Home	1083808018	64,518	0	(20,742)	0	0	43,776
4. Tahoe Home	1629263231	253,136	0	(18,180)	(911)	(63)	233,982
5. Wawona Home	1356536965	212,959	0	(8,501)	(387)	(63)	204,008
6. Other	N/A	499,714	0	(35,264)	0	0	464,450
7.		0	0	0	0	0	0
8.		0	0	0	0	0	0
9.		0	0	0	0	0	0
10.		0	0	0	0	0	0
11.		0	0	0	0	0	0
12.		0	0	0	0	0	0
13.		0	0	0	0	0	0
14.		0	0	0	0	0	0
15.		0	0	0	0	0	0
16.		0	0	0	0	0	0
17.		0	0	0	0	0	0
18.		0	0	0	0	0	0
19.		0	0	0	0	0	0
20.		0	0	0	0	0	0
21.		0	0	0	0	0	0
22.		0	0	0	0	0	0
23.		0	0	0	0	0	0
24.		0	0	0	0	0	0
25.		0	0	0	0	0	0
TOTALS		\$1,808,483	(\$4,072)	(\$103,511)	(\$2,903)	(\$252)	\$1,697,745

(To Sch 2)

STATEMENT OF REIMBURSABLE COSTS

HOME OFFICE:
HERITAGE ESTATES, INCFISCAL PERIOD ENDED:
MARCH 31, 2012

ACCOUNT DESCRIPTION 1	REPORTED COSTS 2	COST AUDIT ADJUSTMENTS 3	AUDITED COSTS 4	DIRECT COST 5	AUDITED POOLED COSTS 6
		(Adj 2-13) (Adj)	(Col 2 + Col 3)	(Adj) (Adj)	(Col 4 - Col 5)
1. Salaries-Officers	\$243,674	(\$243,674)	\$0		\$0
2. Salaries-Other	244,000	(129,945)	114,055		114,055
3. Payroll Taxes	126,795	(97,141)	29,654		29,654
7. Automobile	89,025		89,025		89,025
8. Depreciation-Building	12,631	(7,502)	5,129		5,129
9. Depreciation-Equipment	1,165		1,165		1,165
10. Other Depreciation & Amortization	0		0		0
11. Leases and Rentals	43,317		43,317		43,317
12. Interest - Mortgage	26,310	(26,310)	0		0
13. Interest - Other	660		660		660
14. Taxes and Licenses	4,072		4,072		4,072
15. Legal and Accounting	7,265		7,265		7,265
16. Insurance	10,720	(493)	10,227		10,227
17. Telephone			0		0
18. Utilities	35,043	(4,900)	30,143		30,143
19. Office Supplies	12,830		12,830		12,830
20. Nonprogram			0		0
21. Other			0		0
22. Advertising	603		603		603
23. Client Clothing/Personal	0		0		0
24. Dietician	0		0		0
25. Dues & Subscriptions	1,400	(754)	646		646
26. Groceries	0		0		0
27. Medical & Pharmacist	0		0		0
28. Recreational Therapist	0		0		0
29. Repairs & Maintenance-Homes	7,919	(2,278)	5,641		5,641
30. Supplies	0		0		0
31. Furniture	478		478		478
32. Fingerprinting	0		0		0
33. Staff Training	1,767		1,767		1,767
34. Real Property Tax	3,518	(2,631)	887		887
35. QA Fees	0		0		0
36. Psychiatrist	0		0		0
37.			0		0
TOTAL EXPENSES	\$873,192	(\$515,628)	\$357,564	\$0	\$357,564
				(To Sch 4)	(To Sch 3)

Provider Name							Fiscal Period			Provider NPI		Adjustments
HERITAGE ESTATES, INC.							APRIL 1, 2011 THROUGH MARCH 31, 2012			N/A		19
Report References							Explanation of Audit Adjustments	As Reported	Increase (Decrease)	As Adjusted		
Cost Report				Audit Report								
Adj. No.	Page or Exhibit	Line	Col.	Sch.	Line	Col						
<u>MEMORANDUM ADJUSTMENTS</u>												
1A							Some variances were noted that were caused by rounding of the provider's statistics. The variances are not significant and reported expenses will be accepted as filed.					
1B							All adjustments disclosed on this audit report will be made on the individual facilities audit reports. All costs reported on the home office report were directly assigned by the provider.					

Provider Name							Fiscal Period	Provider NPI		Adjustments
HERITAGE ESTATES, INC.							APRIL 1, 2011 THROUGH MARCH 31, 2012	N/A		19
Report References							Explanation of Audit Adjustments	As Reported	Increase (Decrease)	As Adjusted
Cost Report			Audit Report							
Adj. No.	Page or Exhibit	Line	Col.	Sch.	Line	Col				
<u>ADJUSTMENTS TO REPORTED POOLED COSTS</u>										
2	2	1	6	5	1	Salaries - Officers	\$243,674	(\$243,674)	\$0	
	2	2	6	5	2	Salaries - Other	244,000	(129,945)	114,055	
	2	3	6	5	3	Payroll Taxes	126,795	(97,141)	29,654	
To eliminate home office salaries and benefit expense due to insufficient documentation supporting provider's allocation of salaries between Heritage Estates, Inc. and TP partnership, and also due to insufficient documentation supporting actual services provided and relationship to patient care. 42 CFR 413.20 and 413.24 CMS Pub. 15-1, Sections 2102.2, 2102.3, 2150, 2150.3, 2300, 2304, 2304.1, and 2313.2										
3	2	8	6	5	8	Depreciation - Building	\$12,631	(\$7,502)	\$5,129	
To eliminate Main Street depreciation - building expense related to the portion of the building that is unused and therefore not related to patient care. 42 CFR 413.9(c)(3) / CMS Pub. 15-1, Sections 2102.1, 2102.2, and 2102.3										
4	2	12	6	5	12	Interest - Mortgage	\$26,310	(\$26,310)	\$0	
To eliminate interest expense due to insufficient documentation the borrowing is necessary, proper, and related to patient care. 42 CFR 413.9(c)(3), 413.20, and 413.24 CMS Pub. 15-1, Sections 2102.2, 2102.3, 2300, and 2304										
5	2	16	6	5	16	Insurance	\$10,720	(\$493)	\$10,227	
To eliminate Main Street property insurance expense related to the portion of the building that is unused and therefore not related to patient care. 42 CFR 413.9(c)(3) / CMS Pub. 15-1, Sections 2102.1, 2102.2, and 2102.3										

Provider Name				Fiscal Period			Provider NPI		Adjustments	
HERITAGE ESTATES, INC.				APRIL 1, 2011 THROUGH MARCH 31, 2012			N/A		19	
Report References							Explanation of Audit Adjustments	As Reported	Increase (Decrease)	As Adjusted
Cost Report			Audit Report							
Adj. No.	Page or Exhibit	Line	Col.	Sch.	Line	Col				
<u>ADJUSTMENTS TO REPORTED POOLED COSTS</u>										
6	2	18	6	5	18	Utilities	\$35,043			
						To eliminate Main Street water and sewer expense related to the portion of the building that is unused and therefore not related to patient care. 42 CFR 413.9(c)(3) / CMS Pub. 15-1, Sections 2102.1, 2102.2, and 2102.3		(\$1,059)		
7						To eliminate Main Street gas and electric expense related to the portion of the building that is unused and therefore not related to patient care. 42 CFR 413.9(c)(3) / CMS Pub. 15-1, Sections 2102.1, 2102.2, and 2102.3		(3,841)		\$30,143
								(\$4,900)		
8	2	25	6	5	25	Dues and Subscriptions	\$1,400			
						To eliminate California Chamber of Commerce membership expense not related to patient care. 42 CFR 413.9(c)(3) / CMS Pub. 15-1, Sections 2102.3 and 2105		(\$699)		
9						To eliminate Sirius XM radio subscription expense not related to patient care. 42 CFR 413.9(c)(3) / CMS Pub. 15-1, Sections 2102.3 and 2105		(55)		\$646
								(\$754)		
10	2	29	6	5	29	Repairs and Maintenance - Homes	\$7,919			
						To eliminate Main Street repairs and maintenance expenses related to the portion of the building that is unused and therefore not related to patient care. 42 CFR 413.9(c)(3) / CMS Pub. 15-1, Sections 2102.1, 2102.2, and 2102.3		(\$1,328)		
11						To eliminate a portion of repairs and maintenance expenses not related to patient care. 42 CFR 413.9(c)(3) / CMS Pub. 15-1, Sections 2102.2 and 2102.3		(950)		\$5,641
								(\$2,278)		

Provider Name				Fiscal Period				Provider NPI		Adjustments
HERITAGE ESTATES, INC.				APRIL 1, 2011 THROUGH MARCH 31, 2012				N/A		19
Report References							Explanation of Audit Adjustments	As Reported	Increase (Decrease)	As Adjusted
Cost Report			Audit Report							
Adj. No.	Page or Exhibit	Line	Col.	Sch.	Line	Col				
<u>ADJUSTMENTS TO REPORTED POOLED COSTS</u>										
12	2	34	6	5	34	Real Property Taxes	\$3,518			
						To eliminate a portion of Main Street property tax expense related to the portion of the building that is unused and therefore not related to patient care. 42 CFR 413.9(c)(3) / CMS Pub. 15-1, Sections 2102.1, 2102.2, and 2102.3			(\$1,303)	
13						To eliminate a portion of property tax expense not related to patient care. 42 CFR 413.9(c)(3) / CMS Pub. 15-1, Sections 2102.2 and 2102.3			(1,328)	\$887
									(\$2,631)	

Provider Name				Fiscal Period				Provider NPI		Adjustments
HERITAGE ESTATES, INC.				APRIL 1, 2011 THROUGH MARCH 31, 2012				N/A		19
Report References							Explanation of Audit Adjustments	As Reported	Increase (Decrease)	As Adjusted
Cost Report			Audit Report							
Adj. No.	Page or Exhibit	Line	Col.	Sch.	Line	Col				
ADJUSTMENTS TO REPORTED DIRECT COSTS										
14	4	1	7	4	2	Navajo Home To eliminate a portion of depreciation expense not related to patient care. 42 CFR 413.9(c)(3) / CMS Pub. 15-1, Sections 2102.2 and 2102.3	\$241,279	(\$4,072)	\$237,207 *	
15	4	1	7	4	2	Navajo Home	*	\$237,207	(\$20,824)	\$216,383 *
	4	1	7	4	3	Sunny Road Home		64,518	(20,742)	43,776
	4	1	7	4	4	Tahoe Home		253,136	(18,180)	234,956 *
	4	1	7	4	5	Wawoma Home		212,959	(8,501)	204,458 *
	4	1	7	4	6	Others To eliminate interest expense due to insufficient documentation the borrowing is necessary, proper, and related to patient care. 42 CFR 413.9(c)(3), 413.20, and 413.24 CMS Pub. 15-1, Sections 2102.2, 2102.3, 2300, and 2304		499,714	(35,264)	464,450
16	4	1	7	4	2	Navajo Home To eliminate Main Street property insurance expense related to the portion of the building that is unused and therefore not related to patient care. 42 CFR 413.9(c)(3) / CMS Pub. 15-1, Sections 2102.1, 2102.2, and 2102.3	*	\$216,383	(\$241)	\$216,142 *
17	4	1	7	4	1	Locust House		\$536,877	(\$266)	\$536,611 *
	4	1	7	4	2	Navajo Home	*	216,142	(214)	215,928 *
	4	1	7	4	4	Tahoe Home	*	234,956	(911)	234,045 *
	4	1	7	4	5	Wawoma Home To eliminate clients' personal clothing items not reimbursable by Medi-Cal program. 42 CFR 413.9(c)(3) / CMW Pub. 15-1, Sections 2102.3 and 2105 CCR Title 22 Section 51510.2	*	204,458	(387)	204,071 *

*Balance carried forward from prior/to subsequent adjustments

Provider Name				Fiscal Period			Provider NPI		Adjustments	
HERITAGE ESTATES, INC.				APRIL 1, 2011 THROUGH MARCH 31, 2012			N/A		19	
Report References							Explanation of Audit Adjustments	As Reported	Increase (Decrease)	As Adjusted
Cost Report			Audit Report							
Adj. No.	Page or Exhibit	Line	Col.	Sch.	Line	Col				
ADJUSTMENTS TO REPORTED DIRECT COSTS										
18	4	1	7	4	2	Navajo Home To eliminate a portion of property tax expense not related to patient care. 42 CFR 413.9(c)(3) / CMS Pub. 15-1, Sections 2102.2 and 2102.3	*	\$215,928	(\$884)	\$215,044 *
19	4	1	7	4	1	Locust House	*	\$536,611	(\$63)	\$536,548
	4	1	7	4	2	Navajo Home	*	215,044	(63)	214,981
	4	1	7	4	4	Tahoe Home	*	234,045	(63)	233,982
	4	1	7	4	5	Wawoma Home To adjust psychiatrist expense to agree with expense applicable to the audit period. 42 CFR 413.24 and 413.5 CMS Pub. 15-1, Sections 2300, 2302.1, 2304, and 2306	*	204,071	(63)	204,008

*Balance carried forward from prior/to subsequent adjustments