REPORT
ON THE
HOME OFFICE AUDIT

SMITHCARE, INC.
PORTERVILLE, CALIFORNIA

FISCAL PERIOD ENDED
DECEMBER 31, 2007

Audits Section - Fresno
Financial Audits Branch
Audits and Investigations
Department of Health Care Services

Section Chief: Michael Harrold
Audit Supervisor: Kristina Nacino
Auditor: Sandy Feng

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

DAVID MAXWELL-JOLLY
Director

ARNOLD SCHWARZENEGGER
Governor

April 23, 2009

Daniel S. Smith, CFO
SmithCare, Inc.
P.O. Box 1479
Porterville, CA 93258-1479

SMITHCARE, INC.
FISCAL PERIOD ENDED DECEMBER 31, 2007

We have examined the Medi-Cal Home Office Cost Report for the fiscal period ended December 31, 2007. 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 Summary of Audited Home Office Costs to Health Care Facilities 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. Summary of Audited Home Office Costs to Health Care Facilities

2. Audit Adjustments Schedule

Financial Audits Branch / Audits Section – Fresno
1782 East Bullard Avenue, Suite 101, Fresno, CA 93710-5856
Telephone : (559) 446-2458 / Fax : (559) 446-2477
Internet Address: www.dhcs.ca.gov

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. If you have questions regarding this report, you may call the Audits Section-Fresno at (559) 446-2458.

Original Signed by

Michael A. Harrold, Chief
Audits Section—Fresno
Financial Audits Branch

Certified

TABLE OF CONTENTS

SCHEDULES

1 - COMPARISON OF REPORTED AND AUDITED HOME OFFICE COST

2 - SUMMARY OF DIRECT AND ALLOCATED POOL COST

3 - ALLOCATION OF POOLED EXPENSES

4 - DIRECT ALLOCATION OF EXPENSES TO CHAIN COMPONENTS

5 - STATEMENT OF REIMBURSABLE COSTS

STATE OF CALIFORNIA SCHEDULE 1

COMPARISON OF REPORTED AND AUDITED
HOME OFFICE COST

HOME OFFICE:
SMITHCARE, INC.

FISCAL PERIOD ENDED:
DECEMBER 31, 2007

CHAIN COMPONENTS 1	MEDI-CAL NUMBER 2	FISCAL YEAR END 3	REPORTED COST 4	AUDITED COST 5	VARIANCE 6
				(From Sch 2, Col 6)	(Col 5 - Col 4)
1. Valley Care Center	ZZT18820G	12/31/07	$176,762	$166,715	($10,047)
2. Lindsay Gardens	LTC55663F	12/31/07	318,719	300,874	(17,845)
3. Sun Villa	ZZT05551I	12/31/07	300,163	287,525	(12,638)
4.				0	0
5.				0	0
6.				0	0
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			$795,644	$755,114	($40,530)

STATE OF CALIFORNIA SCHEDULE 2

SUMMARY OF DIRECT AND ALLOCATED POOL COST

HOME OFFICE:
SMITHCARE, INC.

FISCAL PERIOD ENDED:
DECEMBER 31, 2007

CHAIN COMPONENTS 1	MEDI-CAL 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. Valley Care Center	ZZT18820G	12/31/07	$25,868	$140,847	$166,715
2. Lindsay Gardens	LTC55663F	12/31/07	45,634	255,240	300,874
3. Sun Villa	ZZT05551I	12/31/07	82,622	204,903	287,525
4.			0	0	0
5.			0	0	0
6.			0	0	0
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			$154,124	$600,990	$755,114
					(To Sch 1)

STATE OF CALIFORNIA SCHEDULE 3

ALLOCATION OF POOLED EXPENSES

HOME OFFICE:
SMITHCARE, INC.

FISCAL PERIOD ENDED:
DECEMBER 31, 2007

PART I - ALLOCATION BETWEEN PROVIDER AND NONPROVIDER COMPONENTS

FACILITY 1	Allocation Statistics Base: Patient Days 2	Percent 3	Allocation Pool Expenses 4
Program Services (Adj)	78,858	100.0000%	$600,990
Nonprogram Services (Adj)		0.0000%	0
TOTAL	78,858	100.0000%	$600,990

(From Sch 5)

PART II - ALLOCATION TO INDIVIDUAL CHAIN COMPONENTS

CHAIN COMPONENTS	MEDI-CAL NUMBER	Audit Adjustment	Allocation Statistic: (Patient Days)	Allocated Pool Expense (Col 3 X UCM)
1. Valley Care Center	ZZT18820G		18,481	$140,847
2. Lindsay Gardens	LTC55663F		33,491	255,240
3. Sun Villa	ZZT05551I		26,886	204,903
4.				0
5.				0
6.				0
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			78,858	$600,990

(To Sch 2)

UNIT COST MULTIPLIER (UCM) (Pooled Expenses/Patient Days)	7.621167

STATE OF CALIFORNIA SCHEDULE 4

DIRECT ALLOCATION OF EXPENSES TO CHAIN COMPONENTS

HOME OFFICE:
SMITHCARE, INC.

FISCAL PERIOD ENDED:
DECEMBER 31, 2007

CHAIN COMPONENTS 1	MEDI-CAL NUMBER	REPORTED TOTAL (Col 6) 2	Expense Directly Allocable to Chain Component: Adm. Salaries 3	Taxes and Licenses 4	specify expense 5	specify expense 6	AUDITED TOTAL 7
			(Adj 1)	(Adj 2)	(Adj)	(Adj)	
1. Valley Care Center	ZZT18820G	$25,868	$0	$0	$0	$0	$25,868
2. Lindsay Gardens	LTC55663F	45,320	0	314	0	0	45,634
3. Sun Villa	ZZT05551I	80,711	1,911	0	0	0	82,622
4.		0	0	0	0	0	0
5.		0	0	0	0	0	0
6.		0	0	0	0	0	0
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		$151,899	$1,911	$314	$0	$0	$154,124
			(To Sch 5)	(To Sch 5)			(To Sch 2)

STATE OF CALIFORNIA SCHEDULE 5

STATEMENT OF REIMBURSABLE COSTS

HOME OFFICE:
SMITHCARE, INC.

FISCAL PERIOD ENDED:
DECEMBER 31, 2007

ACCOUNT DESCRIPTION 1	REPORTED POOLED COSTS 2	COST AUDIT ADJUSTMENTS 3	AUDITED POOLED COSTS 4	DIRECT COST ADJUSTMENT 5
		(Adj 1 - 9)	(Col 2 + Col 3)	(From Sch 4)
1. Salaries/Officers	$187,776		$187,776	
2. Salaries/Others	169,880	(1,911)	167,969	1,911
3. Payroll Taxes	25,593		25,593	
4. Employee Benefits	61,660	(685)	60,975	
5. Profit Sharing/Pension Plan	0		0	
6. Travel/Entertainment	1,881		1,881	
7. Automobile	0		0	
8. Depreciation/Amortization	21,142		21,142	
9. Building Rental	32,000	(4,237)	27,763	
10. Equipment Rental	0		0	
11. Utilities	8,951	(1,434)	7,517	
12. Legal and Accounting	15,085	(5,193)	9,892	
13. Telephone/Telegraph	18,850	(4,851)	13,999	
14. Insurance	2,402		2,402	
15. Taxes and Licenses	1,933	(314)	1,619	314
16. Corporate Maintenance Costs	43		43	
17. Contributions	0		0	
18. Interest Expense	0		0	
19. Outside Services	13,966		13,966	
20. Directors' Fees	48,000	(24,000)	24,000	
21. Supplies	19,911		19,911	
22. Dues & Subscriptions	11,194		11,194	
23. Penalties	0		0	
24. Postage	2,638		2,638	
25. Miscellaneous	840	(130)	710	
26.			0	
27.			0	
28.			0	
29.			0	
30.			0	
31.			0	
32.			0	
33.			0	
34.			0	
TOTAL EXPENSES	$643,745	($42,755)	$600,990	$2,225
			(To Sch 3)	

Provider Name	Fiscal Period	Provider Number	Adjustments
SMITHCARE, INC.	JANUARY 1, 2007 THROUGH DECEMBER 31, 2007	N/A	9

Report References									
	Cost Report			Audit Report					
Adj. No.	DHS 3095 Sch	Line	Col.	Sch	Line	Explanation of Audit Adjustments	As Reported	Increase (Decrease)	As Adjusted
						RECLASSIFICATIONS OF REPORTED POOLED COSTS			
1	2	2	6	5	2.00	Salaries / Other	$169,880	($1,911)	$167,969
	4	3	6	4	3.00	Sun Villa - Salaries	80,711	1,911	82,622
						To directly assign clerical and other wages to the specific facility for proper cost reporting. 42 CFR 413.20, 413.24 and 413.17 CMS Pub. 15-1, Sections 2150.3B, 2300 and 2304			
2	2	15	6	5	15.00	Taxes and Licenses	$1,933	($314)	$1,619
	4	2	6	4	2.00	Lindsay Gardens - Taxes and Licenses	45,320	314	45,634
						To directly assign property taxes expense to the corresponding facility to agree with the provider's invoices. 42 CFR 413.17, 413.20 and 413.24 CMS Pub. 15-1, Sections 2150.3B, 2300 and 2304			

Provider Name	Fiscal Period	Provider Number	Adjustments
SMITHCARE, INC.	JANUARY 1, 2007 THROUGH DECEMBER 31, 2007	N/A	9

Report References									
	Cost Report			Audit Report					
Adj. No.	DHS 3095 Sch	Line	Col.	Sch	Line	Explanation of Audit Adjustments	As Reported	Increase (Decrease)	As Adjusted
						ADJUSTMENTS TO REPORTED POOLED COSTS			
3	2	12	6	5	12.00	Legal and Accounting To eliminate accounting expenses that do not belong to the period under audit and not related to patient care. 42 CFR 413.5, 413.9(c)(3), 413.20 and 413.24 CMS Pub. 15-1, Sections 2102.3, 2300, 2302.1 and 2304	$15,085	($5,193)	$9,892
4	2	13	6	5	13.00	Telephone / Telegraph To eliminate telephone expenses as not proper, reasonable and necessary. 42 CFR 413.9, 413.20 and 413.24 CMS Pub. 15-1, Sections 2102.3, 2103, 2106.1, 2300 and 2304	$18,850	($4,851)	$13,999
5	2	11	6	5	11.00	Utilities To eliminate utilities expenses not related to patient care. 42 CFR 413.9(c)(3), 413.20 and 413.24 CMS Pub. 15-1, Sections 2102.3, 2300 and 2304	$8,951	($1,434)	$7,517
6	2	25	6	5	25.00	Miscellaneous To eliminate state and/or federal income taxes. 42 CFR 413.9, 413.20 and 413.24 CMS Pub. 15-1, Sections 2122.2A, 2122.2B, 2300 and 2304	$840	($130)	$710
7	2	20	6	5	20.00	Directors' Fees To eliminate director fees as not reasonable, necessary and due to lack of supporting documentation. 42 CFR 413.9, 413.20, 413.24 and 413.102 CMS Pub. 15-1, Sections 900, 906.3, 2102.1, 2300 and 2304	$48,000	($24,000)	$24,000

Provider Name	Fiscal Period	Provider Number	Adjustments
SMITHCARE, INC.	JANUARY 1, 2007 THROUGH DECEMBER 31, 2007	N/A	9

Report References									
	Cost Report			Audit Report					
Adj. No.	DHS 3095 Sch	Line	Col.	Sch	Line	Explanation of Audit Adjustments	As Reported	Increase (Decrease)	As Adjusted
						ADJUSTMENTS TO REPORTED POOLED COSTS			
8	2	4	6	5	4.00	Employee Benefits To adjust health insurance expenses to agree with the provider's records. 42 CFR 413.20 and 413.24 CMS Pub. 15-1, Sections 2300 and 2304	$61,660	($685)	$60,975
9	2	9	6	5	9.00	Building Rental To eliminate the excess of related party lease expense over the cost of ownership. 42 CFR 413.17, 413.20, 413.24 and 413.134(h) CMS Pub. 15-1, Sections 104.10, 104.14, 104.17, 1000, 1005 and 1011.5	$32,000	($4,237)	$27,763