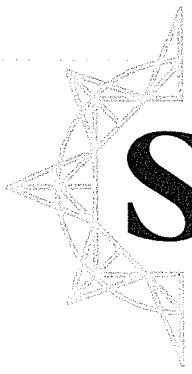


Report of Independent
Accountant's on Maryland
Health Services Cost
Review Commission
Compliance Audit
Procedures on the Rate
Review System
For the Base Year Ended

June 30, 2018

BROOK LANE HEALTH SERVICES, INC.



SEK

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**INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED UPON PROCEDURES**

Board of Directors
Brook Lane Health Services, Inc.
Hagerstown, Maryland

And

State of Maryland
Department of Health
Health Services Cost Review Commission
4160 Patterson Avenue
Baltimore Maryland 21215

We have performed the procedures enumerated below, which were agreed to by the Maryland Health Services Cost Review Commission ("HSCRC") and Brook Lane Health Services, Inc. ("BLHS"), solely to assist you with the reporting requirements of the HSCRC as outlined in its Special Audit Procedures dated June 18, 2018. We applied these procedures to the accounting and statistical records of specific departments for the periods described in the following paragraphs and to specified schedules included in the Rate Review System for the base year ended June 30, 2018 submitted by BLHS to the HSCRC. BLHS' management is responsible for the accuracy of the information submitted to the HSCRC and evaluated as a result of these procedures. The sufficiency of these procedures is solely the responsibility of the HSCRC and BLHS. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and associated findings are as follows:

A. Expenses

1. We compared the reconciliation of the base year actual expenses on Schedules DP1, UA, P2I, P3I, P4I, P5I, C1 through C14, D20 through D80, E1 through E9, F1 through F4, and UR1 through UR9 of the annual report submitted to the HSCRC to the year-end trial balance used to prepare the audited financial statements. See Exhibit I for a reconciliation between the annual report and the June 30, 2018 audited financial statements.
2. We applied nonstatistical sampling as stipulated by the HSCRC to BLHS' cash disbursements and payroll systems to test the departmental classification of expenses. The results of our samples determined that there is a 95% probability that the sample will be indicative of the overall population. A sample of 80 cash disbursement and payroll items were randomly selected from BLHS voucher distribution and payroll registers, with supporting documentation required to determine if the items were charged to the proper departmental expense classification. We noted no exceptions during this testing.

B. Revenue

1. We compared the reconciliation of the base year actual revenue for the year by department as reported on monthly Experience Report to BLHS' year-end trial balance. We inquired of BLHS' management and were informed that only regulated revenues were reported on the Monthly Experience report.

See Exhibit II for a reconciliation between the departmental revenue reported on the monthly submissions and the year-end trial balance and the related reclassifications.

2. Exhibit III shows the reconciliation of line items on Schedule RS identified by the HSCRC and the audited financial statements. We verified through inquiry that the reconciliation is complete and accurate, and that the classification of revenue and the allocation of expenses are in conformance with HSCRC regulation and policy.

C. Statistics

1. The two departments stipulated by the HSCRC is as follows (BLHS does not have separate statistics for Family therapies):

Department	Unit of Measure
Individual Therapies (ITH)	Hours of Service
Radiology – Diagnostic (RAD)	Units of Service (Provided by Other Providers)

- a. We determined through inquiry of appropriate personnel and reference to departmental source data that BLHS is using the above standard unit of measure for the individual therapies and radiology.
- b. We verified the summarization of the monthly department base year statistics from the departmental statistical reports for the individual therapies department and radiology department by reconciling those statistics to the amounts on the Experience Reports of the monthly submissions and to the appropriate Schedule V3 (see Exhibit IV) in the annual report. We verified the accumulation of the statistics of the individual therapies and radiology for the months of August and November 2017, comparing units per source documents to the monthly report. See Exhibit V for the reconciliation.
- c. We obtained a letter of representation from the Director of Patient Accounting and the Chief Executive Officer that the hospital has reviewed its Charge Master as of June 30, 2018, and processes are in place to regularly review the hospital's Charge Master each month.

D. Case Mix Data

1. Using a sample of BLHS patient data supplied by the HSCRC, we verified the following information:
 - a. The major third-party payor classification on the HSCRC's listing agrees with BLHS' billing records.
 - b. We did not identify any issues related to the zip codes in the hospital's billing records.
 - c. The total patient charges for regulated services per the HSCRC listing agrees with BLHS records.
 - d. The total daily charges and admission service charges per the HSCRC agrees with BLHS' billing records.
 - e. The total therapy charges per the HSCRC agree with BLHS' billing records.
2. See Exhibit VI for the data compiled and the description of the results of this work.

E. Uncompensated Care and Denials Reconciliation

1.
 - a. We performed an analysis of bad debt write-off activity in excess of \$ 1,000, but not less than 50% of the total dollars written off, for the month of October 2017. We determined that accounts unpaid by third-party payers for medically unnecessary care are not included. We obtained a letter of representation from the Director of Patient Accounting and the Chief Executive Officer that bad debt expense does not include medically unnecessary care, or other courtesy discounts provided to police, fire or hospital employees, etc.
 - b. BLHS informed us there were no denials due to inability to pay.
 - c. It is the policy of BLHS to exhaust all collection efforts, including the resolution of appeals, prior to writing off revenues to bad debts. Thus, BLHS does not maintain a separate account for pending appeals.
2. We performed a reconciliation of the amount of uncompensated care per the hospital's audited financial statements and the trial balance for fiscal year 2018. See Exhibit VII for the Uncompensated Care Reconciliation.
3. We reconciled the amount of uncompensated care per the hospital's trial balance to that reported on Schedule PDA of the Annual Report of Revenues, Expenses and Volumes for fiscal year 2018. See Exhibit VII for the Uncompensated Care Reconciliation.

4. We performed a reconciliation of the amount of charity care per the hospital's audited financial statements with the trial balance for fiscal year 2018. The charity care per the trial balance includes the change in the charity care allowance of \$ 2,400. See Exhibit VII for the Uncompensated Care Reconciliation.
5. We performed a reconciliation between the amount of denials per the hospital's trial balance and that reported on Schedule RE of the Annual Report of Revenues, Expenses and Volumes and the Quarterly Denials Reports. The denials per the trial balance is \$ 97,270. See Exhibit VIII for the Denials Reconciliation.
6. We determined, through inquiry of appropriate BLHS personnel, that bad debt write-offs do not include denials, collection agencies or attorneys' expenses.

F. Financial Assistance, Credit & Collection Policies and Recoveries

1. a. BLHS did have the notices posted in the hospital during our agreed upon procedures process.
b. We determined through inquiry that patients are informed of the availability of financial assistance. This is communicated to patients during the pre-admission evaluation or screening.
2. We examined the information sheets that are given to patients before discharge. Patients are given two forms – "Assistance Programs" and "Financial Agreement" handouts. These forms describe the hospital's financial assistance policy, description of patient's rights and obligations with regard to hospital billing and collection, contact information for Maryland Medical Assistance Program and various other items in regard to financial aid and patient rights.
3. We reviewed the hospital's Financial Assistance Policy and tested 9 cases in which individuals applied for financial assistance from April 1, 2018 through June 30, 2018, this represents all individuals who applied for financial assistance during this time period. The policy was followed in all cases.
4. The hospital does not follow the Hospital Presumptive Eligibility provision of the Affordable Care Act since this applies to acute care hospitals and BLHS is a psychiatric hospital.
5. We reviewed the hospital's Credit and Collection Policy and selected a representative sample of 50 cases that have required a collection effort within the last twelve months. In all 50 cases, the policy was followed 100%.
6. We selected a representative sample of 50 cases from April 1, 2018 through June 30, 2018 of which recoveries of bad debts were made. In all 50 cases, or 100% of the sample, the recovery was applied to the hospital's bad debt expense or reserve. In all 50 cases, or 100% of the sample, the gross amount of the bill recovered was applied to the hospital's bad debt expense or reserve. In no cases, or 0% of the sample, was the gross amount of the bill recovered not applied to the hospital's bad debt expense or reserve.

7. We verified the names of the collection agencies against hospital records. Through inquiry, we determined there were no liens listed against hospital records as of June 30, 2018. There were 305 extended payment plans as of June 30, 2018. During the year ended June 30, 2018, there were 2 financial assistance applications that were denied. During the year ended June 30, 2018, there were 74 applications approved for financial assistance.

G. Hospice General Inpatient Services

This is not applicable to BLHS.

H. Outpatient Plastic/Cosmetic Surgery

This is not applicable to BLHS.

I. Audit of Trauma Costs

This is not applicable to BLHS.

J. Community Benefit Report

BLHS does not file this report. The amount on Schedule RE for year end 2017 does match the Federal Form 990, Schedule H, Part I, Line 7(a) of \$ 429,600.

K. Admissions Denied for Medical Necessity

1. There were 3 cases denied due to medical necessity during the period July 1, 2017 through March 31, 2018. We reconciled the data from the hospital's records to the hospital's quarterly reports without any exceptions.
2. We obtained a letter of representation from the Director of Patient Accounting and the Chief Executive Officer that all admissions written off after final adjudication during the year ended June 30, 2018 have been reported on the hospital's quarterly reports.

L. Supplemental Schedule UR6-A Physician Part B Services

This is not applicable to BLHS.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the reporting requirements of the HSCRC as outlined in its Special Audit Procedures dated June 18, 2018. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified users listed above and is not intended to be and should not be used by anyone other than those specified parties.

Smith Elliott Keams & Company, LLC

Carlisle, Pennsylvania
January 3, 2019

Exhibits I through VII

Brook Lane Health Services, Inc.
Exhibit I
Reconciliation of Base Year Actual Expenses per the Annual Report to the
Audited Financial Statements
For the Base Year Ended June 30, 2018

Balances per annual report:

Description	Source	Amount (in thousands)
Data processing	DP1, Line A, Col. 3	\$ 770.5
Unassigned expense	UA, Line A, Col. 9	1,484.5
Medical staff services	P2I, Line A, Col. 7	0.0
Physician support services	P3I, Line A, Col. 7	0.0
Resident and intern services - Eligible	P4I, Line A, Col. 7	0.0
Resident and intern services - Ineligible	P5I, Line A, Col. 7	0.0
General service center	C1-C14, Line 9, Col. 4	6,974.8
Patient care centers	D, Line 20-80, Col. 5	9,271.7
Auxiliary enterprises	E1-E9, Line B, Col. 3	50.4
Other institutional programs	F1-F4, Line B, Col. 3	0.0
Unregulated services	UR1-UR9, Line B, Col. 3	<u>2,245.1</u>
HSCRC total operating expenses		<u>\$ 20,797.0</u>

Balance per audited financial statements:

Description	Amount (in thousands)
Salaries and wages	\$ 12,079.9
Employee benefits	2,966.1
Supplies and other expenses	1,383.3
Contractual services	1,315.8
Facility expenses	900.2
Depreciation and amortization	900.8
Interest	253.6
General and administrative	<u>997.2</u>
Total operating expenses per audited financial statements	<u>\$ 20,796.9</u>
Difference-Rounding	<u>\$ 0.1</u>

Brook Lane Health Services, Inc.
Exhibit II
Reconciliation of Operating Revenues Per Schedule RS
For the Base Year Ended June 30, 2018
(in thousands)

	Revenue Per Schedule RS	Revenue Per Year-End Trial Balance	Variance	Explanation
Psychiatric adult	\$ 5,017.8	\$ 5,017.8	\$ -	
Psychiatric child and adolescent	11,903.4	11,903.4	-	
Admissions	267.7	267.7	-	
Laboratory	159.7	159.7	-	
EKG	38.4	38.4	-	
Radiology diagnostic	4.2	4.2	-	
EEG	1.3	1.3	-	
Group therapy	498.3	498.3	-	
Individual therapy	2,669.7	2,669.7	-	
Psychiatric day care	687.4	687.4	-	
Drugs	1,327.2	1,327.2	-	
Electroconvulsive therapy	271.2	271.2	-	
Cat scanner	-	0.5	0.5	(1)
MRI	-	4.9	4.9	(1)
Emergency services	-	0.8	0.8	(1)
	<u>\$ 22,846.3</u>	<u>\$ 22,852.5</u>	<u>6.2</u>	

Explanation of Variances:

(1) Revenue not submitted to HSCRC - no rate

Brook Lane Health Services, Inc.
Exhibit III
Reconciliation of Schedule RE
For the Base Year Ended June 30, 2018
(in thousands)

Line	Audited Financial Statements	Schedule RE	Variance
E. Gross patient revenue	\$ 25,083.6	\$25,083.6	\$ -
J. Deductions from revenue	4,436.7	4,436.7	-
L. Other operating revenue	266.0	266.0	-
S. Total operating expenses	20,796.9	20,796.9	-
U. Non-operating revenue	673.7	673.7	-
V. Non-operating expenses	(327.9)	(327.9)	-
W. Excess (deficit) of revenues over expenses	1,117.6	1,117.6	-

Brook Lane Health Services, Inc.

Exhibit IV

Summarization of Departmental Statistics

For the Base Year Ended June 30, 2018

(in thousands)

Departments	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter		Total		Schedules V3 Total	
	Inpatient	Outpatient	Inpatient	Outpatient	Inpatient	Outpatient	Inpatient	Outpatient	Inpatient	Outpatient	Inpatient	Outpatient
Individual Therapies (ITH)	3,489	485	3,014	649	3,176	626	3,549	619	13,228	2,379	13,228	2,379
Radiology (RAD)	56	-	324	-	-	-	-	-	380	-	380	-

Brook Lane Health Services, Inc.
Exhibit V
Summarization of Departmental Statistics
For the Base Year Ended June 30, 2018
(Amounts are in Standard Units of Measure)

Departments	Month Tested	Source Document		Units Per Monthly Report		Differences	
		Inpatient	Outpatient	Inpatient	Outpatient	Inpatient	Outpatient
Individual Therapies (ITH)	August 2017	1,164	167	1,164	167	0	0
	November 2017	990	223	990	223	0	0
Radiology-Diagnostic (RAD)	August 2017	25	25	25	25	0	0
	November 2017	169	0	169	0	0	0

Source Document:

Recalculated the units reported by dividing the trial balance revenue by the unit rate.

Brook Lane Health Services, Inc.
Exhibit VI
Case Mix Data Verification
For the Base Year Ended June 30, 2018

Total Charges Per HSCRC Computer Listing	Verified Final Charges	Difference Over (Under)	Percentage Variance		
\$ 448,889.89	\$ 448,889.89	\$ 0	0.00%		
Case Mix Sample Size	Variances in Charges Reported	Error Rate	Number of Variances in Payor Sources	Error Rate	
50	0	0.00%	0	0.00%	
Case Mix Sample Size	Number of Variances in Daily Services and Administrative Charges	Error Rate	Number of Variances in Therapy Charges	Error Rate	
50	0	0.00%	0	0.00%	

Brook Lane Health Services, Inc.
Exhibit VII
Uncompensated Care Reconciliation
For the Base Year Ended June 30, 2018

2018
(in
thousands)

Audited Financial Statements

Bad debts	\$ 628.8
Charity care	<u>383.2</u>
Uncompensated care per statements	<u>\$ 1,012.0</u>

Trial Balance

Bad debt write-off	\$ 526.0
Charity write-offs	385.6
Change in balance sheet reserve	186.3
Rounding	0.1
Bad debt recoveries	(85.8)
Uncompensated care pre-trial balance	<u>\$ 1,012.0</u>

Annual Report of Revenues, Expenses, and Volumes

Uncompensated care - Schedule PDA	\$ 948.6
Unregulated charity and bad debts	<u>63.4</u>
Uncompensated care trial balance	<u>\$ 1,012.0</u>

Brook Lane Health Services, Inc.
Exhibit VIII
Denial Reconciliation
For the Base Year Ended June 30, 2018
(in thousands)

Denials:

Denials per trial balance	<u>\$ 97.2</u>
Schedule RE line H2 column 3 Annual amount of Revenue, Expense, and Volumes	<u>\$ 97.2</u>
Quarterly Denial Report	<u>\$ 97.2</u>
 Denial variance	 <u>\$ -</u>