

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200  
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA  
STATE AUDITOR

(803) 253-4160  
FAX (803) 343-0723

May 25, 2005

Mr. David Selander, CPA  
Connelly Management, Inc.  
410 Mill Street, Suite 201  
Mt. Pleasant, South Carolina 29464

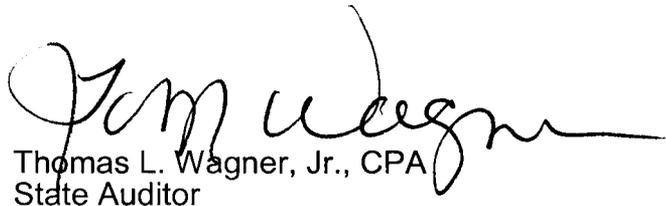
Re: AC# 3-CHS-J1 – Charleston Nursing Center, Inc.

Dear Mr. Selander:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 2000 through September 30, 2001. That report was used to set the rate covering the contract period beginning January 1, 2003.

We are recommending that the Department of Health and Human Services certify an accounts payable for amounts underpaid as a result of the rate changes shown on Exhibit A. You will be notified of settlement terms by that agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

  
Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/cwc

cc: Ms. Brenda L. Hyleman  
Mr. Jeff Saxon  
Ms. Kathleen C. Snider

**CHARLESTON NURSING CENTER, INC.**

**MT. PLEASANT, SOUTH CAROLINA**

**CONTRACT PERIOD  
BEGINNING JANUARY 1, 2003  
AC# 3-CHS-J1**

**AGREED-UPON PROCEDURES REPORT**

**ON CONTRACT**

**FOR**

**PURCHASE OF NURSING CARE SERVICES**

**WITH**

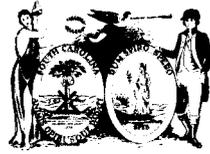
**STATE OF SOUTH CAROLINA**

**DEPARTMENT OF HEALTH AND HUMAN SERVICES**

## CONTENTS

	<u>EXHIBIT OR SCHEDULE</u>	<u>PAGE</u>
INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES		1
COMPUTATION OF RATE CHANGE FOR THE CONTRACT PERIOD BEGINNING JANUARY 1, 2003	A	3
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIOD JANUARY 1, 2003 THROUGH SEPTEMBER 30, 2003	B	4
SUMMARY OF COSTS AND TOTAL PATIENT DAYS FOR THE COST REPORT PERIOD ENDED SEPTEMBER 30, 2001	C	5
ADJUSTMENT REPORT	1	7
COST OF CAPITAL REIMBURSEMENT ANALYSIS	2	10

# State of South Carolina



## Office of the State Auditor

1401 MAIN STREET, SUITE 1200  
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA  
STATE AUDITOR

(803) 253-4160  
FAX (803) 343-0723

### INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

February 24, 2005

Department of Health and Human Services  
State of South Carolina  
Columbia, South Carolina

We have performed the procedures enumerated below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Charleston Nursing Center, Inc., for the contract period beginning January 1, 2003, and for the twelve month cost report period ended September 30, 2001, as set forth in the accompanying schedules. The management of Charleston Nursing Center, Inc. is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the South Carolina Department of Health and Human Services. 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.

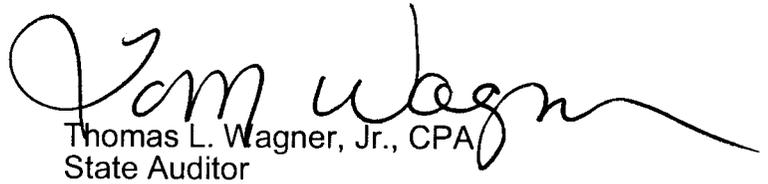
The procedures and the associated findings are as follows:

1. We selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Charleston Nursing Center, Inc., to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the Provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the South Carolina Department of Health and Human Services and Charleston Nursing Center, Inc. dated as of October 1, 2001 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services  
State of South Carolina  
February 24, 2005

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. 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 South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

  
Thomas L. Wagner, Jr., CPA  
State Auditor

**CHARLESTON NURSING CENTER, INC.**  
Computation of Rate Change  
For the Contract Period  
Beginning January 1, 2003  
AC# 3-CHS-J1

	<u>01/01/03-</u> <u>09/30/03</u>
Adjusted Reimbursement Rate	\$90.54
Interim Reimbursement Rate (1)	<u>89.97</u>
Increase in Reimbursement Rate	\$ <u><u>.57</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 6, 2004

**CHARLESTON NURSING CENTER, INC.**  
 Computation of Adjusted Reimbursement Rate  
 For the Contract Period January 1, 2003 Through September 30, 2003  
 AC# 3-CHS-J1

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$43.51	\$58.50	
Dietary		10.59	11.21	
Laundry/Housekeeping/Maintenance		<u>9.36</u>	<u>9.67</u>	
Subtotal	\$ <u>5.56</u>	63.46	79.38	\$63.46
Administration & Medical Records	\$ <u>4.75</u>	<u>8.02</u>	<u>12.77</u>	<u>8.02</u>
Subtotal		71.48	<u>\$92.15</u>	71.48
<u>Costs Not Subject to Standards:</u>				
Utilities		2.88		2.88
Special Services		.04		.04
Medical Supplies & Oxygen		2.56		2.56
Taxes and Insurance		2.42		2.42
Legal Fees		<u>.10</u>		<u>.10</u>
<b>TOTAL</b>		<u>\$79.48</u>		79.48
Inflation Factor (3.70%)				2.94
Cost of Capital				6.37
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				2.78
Cost Incentive				5.56
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(6.59)</u>
<b>ADJUSTED REIMBURSEMENT RATE</b>				<u>\$90.54</u>

**CHARLESTON NURSING CENTER, INC.**  
 Summary of Costs and Total Patient Days  
 For the Cost Report Period Ended September 30, 2001  
 AC# 3-CHS-J1

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$1,986,980	\$ 25,611 (4) 1,662 (4)	\$ 1,556 (3)	\$2,012,697
Dietary	489,129	3,472 (4)	2,607 (8)	489,994
Laundry	37,560	737 (4) 31,395 (6)	-	69,692
Housekeeping	180,498	2,094 (4)	-	182,592
Maintenance	179,634	1,107 (4)	-	180,741
Administration & Medical Records	399,830	589 (3) 1,861 (4) 251 (4)	31,785 (1)	370,746
Utilities	139,011	-	5,935 (2)	133,076
Special Services	1,977	-	-	1,977
Medical Supplies & Oxygen	119,103	1,229 (6)	2,100 (8)	118,232
Taxes and Insurance	107,193	4,892 (9)	-	112,085
Legal Fees	4,740	-	-	4,740
Cost of Capital	299,484	-	3,927 (5) <u>1,084 (7)</u>	294,473
Subtotal	<u>3,945,139</u>	<u>74,900</u>	48,994	<u>3,971,045</u>

**CHARLESTON NURSING CENTER, INC.**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 2001  
AC# 3-CHS-J1

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Ancillary	35,797	1,750 (8)	-	37,547
Nonallowable	208,947	31,785 (1) 185 (2) 1,084 (7) <u>2,957 (8)</u>	589 (3) 36,795 (4) 4,892 (9) <u>          </u>	202,682
Total Operating Expenses	<u>\$4,189,883</u>	<u>\$112,661</u>	<u>\$91,270</u>	<u>\$4,211,274</u>
Total Patient Days	<u>46,253</u>	<u>-</u>	<u>-</u>	<u>46,253</u>
Total Beds	<u>132</u>			

**CHARLESTON NURSING CENTER, INC.**  
Adjustment Report  
Cost Report Period Ended September 30, 2001  
AC# 3-CHS-J1

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Nonallowable Administration	\$ 31,785	\$ 31,785
	To reclassify interest expense HIM-15-1, Sections 202.2 and 202.3 State Plan, Attachment 4.19D		
2	Nonallowable Retained Earnings Utilities	185 5,750	5,935
	To properly charge expenses applicable to the prior period and reclassify late fees HIM-15-1, Section 2302.1 DH&HS Crosswalk		
3	Administration Retained Earnings Nonallowable Restorative	589 1,556	589 1,556
	To properly charge expenses applicable to the prior period and reverse cost report adjustment HIM-15-1, Section 2302.1 State Plan, Attachment 4.19D		
4	Nursing Restorative Dietary Laundry Housekeeping Maintenance Administration Medical Records Nonallowable	25,611 1,662 3,472 737 2,094 1,107 1,861 251	36,795
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

**CHARLESTON NURSING CENTER, INC.**  
Adjustment Report  
Cost Report Period Ended September 30, 2001  
AC# 3-CHS-J1

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Fixed Assets	82,520	
	Other Equity	65,818	
	Accumulated Depreciation		144,411
	Cost of Capital		3,927
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
6	Laundry	31,395	
	Medical Supplies	1,229	
	Other Equity		32,624
	To correct cost report adjustment to offset income HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
7	Nonallowable	1,084	
	Cost of Capital		1,084
	To adjust capital return State Plan, Attachment 4.19D		
8	Nonallowable	2,957	
	Ancillary	1,750	
	Medical Supplies		2,100
	Dietary		2,607
	To adjust ancillary services reimbursed by Medicare State Plan, Attachment 4.19D		

**CHARLESTON NURSING CENTER, INC.**  
Adjustment Report  
Cost Report Period Ended September 30, 2001  
AC# 3-CHS-J1

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
9	Taxes and Insurance Nonallowable	4,892	4,892
	To adjust general and property insurance expense HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
	TOTAL ADJUSTMENTS	<u>\$268,305</u>	<u>\$268,305</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

**CHARLESTON NURSING CENTER, INC.**  
 Cost of Capital Reimbursement Analysis  
 For the Cost Report Period Ended September 30, 2001  
 AC# 3-CHS-J1

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.4607</u>
Deemed Asset Value (Per Bed)	38,431
Number of Beds	<u>132</u>
Deemed Asset Value	5,072,892
Improvements Since 1981	797,652
Accumulated Depreciation at 9/30/01	( <u>1,805,373</u> )
Deemed Depreciated Value	4,065,171
Market Rate of Return	<u>.0577</u>
Total Annual Return	234,560
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	234,560
Depreciation Expense	64,982
Amortization Expense	4,964
Capital Related Income Offsets	(10,033)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	294,473
Total Patient Days (Minimum 96% Occupancy)	<u>46,253</u>
Cost of Capital Per Diem	\$ <u><u>6.37</u></u>

**CHARLESTON NURSING CENTER, INC.**  
 Cost of Capital Reimbursement Analysis  
 For the Cost Report Period Ended September 30, 2001  
 AC# 3-CHS-J1

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$4.66*
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$8.65</u>
Reimbursable Cost of Capital Per Diem	\$6.37
Cost of Capital Per Diem	<u>6.37</u>
Cost of Capital Per Diem Limitation	<u>\$ -</u>

\* Cost of Capital and Return on Equity  
 Capital Per Diem as recalculated by  
 DH&HS, as a result of settlement  
 agreement and communicated to the  
 provider by letter dated January 6, 1995.  
 Previous amount was \$2.60.

2 copies of this document were published at an estimated printing cost of \$1.41 each, and a total printing cost of \$2.82. The FY 2004-05 Appropriation Act requires that this information on printing costs be added to the document.