

State of South Carolina



Office of the State Auditor

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COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

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September 21, 2004

Mr. Bob Tusler, Chief Financial Officer
Wallace Thomson Hospital
322 West South Street
Union, South Carolina 29379

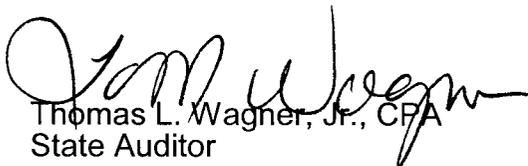
Re: AC# 3-ELS-J2 – Union Hospital District d/b/a Ellen Sagar Nursing Home

Dear Mr. Tusler:

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, 2001 through September 30, 2002. That report was used to set the rate covering the contract period beginning October 1, 2003.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment 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/sag

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

**UNION HOSPITAL DISTRICT
D/B/A ELLEN SAGAR NURSING HOME**

UNION, SOUTH CAROLINA

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2003
AC# 3-ELS-J2**

AGREED-UPON PROCEDURES REPORT

ON CONTRACT

FOR

PURCHASE OF NURSING CARE SERVICES

WITH

STATE OF SOUTH CAROLINA

DEPARTMENT OF HEALTH AND HUMAN SERVICES

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

July 23, 2004

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 Union Hospital District d/b/a Ellen Sagar Nursing Home, for the contract period beginning October 1, 2003, and for the twelve month cost report period ended September 30, 2002, as set forth in the accompanying schedules. The management of Union Hospital District d/b/a Ellen Sagar Nursing Home 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 Union Hospital District d/b/a Ellen Sagar Nursing Home, 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 Union Hospital District d/b/a Ellen Sagar Nursing Home 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
July 23, 2004

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

UNION HOSPITAL DISTRICT D/B/A ELLEN SAGAR NURSING HOME

Computation of Rate Change
For the Contract Period
Beginning October 1, 2003
AC# 3-ELS-J2

	Beginning <u>10/01/03</u>
Interim Reimbursement Rate (1)	\$109.76
Adjusted Reimbursement Rate	<u>108.79</u>
Decrease in Reimbursement Rate	\$ <u><u>.97</u></u>

(1) Interim reimbursement rate as provided by the South Carolina Department of Health and Human Services.

UNION HOSPITAL DISTRICT D/B/A ELLEN SAGAR NURSING HOME
 Computation of Adjusted Reimbursement Rate
 For the Contract Period Beginning October 1, 2003
 AC# 3-ELS-J2

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$53.25	\$ 66.44	
Dietary		10.78	11.55	
Laundry/Housekeeping/Maintenance		<u>9.29</u>	<u>9.83</u>	
Subtotal	\$ <u>6.15</u>	73.32	87.82	\$ 73.32
Administration & Medical Records	\$ <u>-</u>	<u>13.94</u>	<u>13.46</u>	<u>13.46</u>
Subtotal		87.26	<u>\$101.28</u>	86.78
<u>Costs Not Subject to Standards:</u>				
Utilities		2.84		2.84
Special Services		.07		.07
Medical Supplies & Oxygen		4.22		4.22
Taxes and Insurance		1.67		1.67
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$96.06</u>		95.58
Inflation Factor (4.70%)				4.49
Cost of Capital				8.96
Cost of Capital Limitation				(1.99)
Profit Incentive (Max. 3.5% of Allowable Cost)				-
Cost Incentive				6.15
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(4.40)</u>
 ADJUSTED REIMBURSEMENT RATE				 <u>\$108.79</u>

UNION HOSPITAL DISTRICT D/B/A ELLEN SAGAR NURSING HOME
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2002
 AC# 3-ELS-J2

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$2,080,501	\$ -	\$ 1,523 (1) 22 (5)	\$2,078,956
Dietary	421,157	-	181 (5)	420,976
Laundry	159,079	-	68,649 (4)	90,430
Housekeeping	200,559	-	-	200,559
Maintenance	56,457	15,122 (4)	28 (5)	71,551
Administration & Medical Records	527,760	32,161 (4)	15,700 (3)	544,221
Utilities	99,046	11,856 (4)	-	110,902
Special Services	2,614	-	-	2,614
Medical Supplies & Oxygen	169,754	-	4,913 (5)	164,841
Taxes and Insurance	65,285	-	-	65,285
Legal Fees	-	-	-	-
Cost of Capital	258,901	1,401 (2) 38,570 (4) 52,175 (7)	1,049 (6)	349,998
Subtotal	4,041,113	151,285	92,065	4,100,333
Ancillary	48,537	-	-	48,537

UNION HOSPITAL DISTRICT D/B/A ELLEN SAGAR NURSING HOME
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2002
AC# 3-ELS-J2

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		Adjusted <u>Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Nonallowable	(164,272)	15,700 (3)	29,060 (4)	(223,614)
		5,144 (5)	52,175 (7)	
		<u>1,049 (6)</u>		
Total Operating Expenses	<u>\$3,925,378</u>	<u>\$173,178</u>	<u>\$173,300</u>	<u>\$3,925,256</u>
Total Patient Days	<u>39,043</u>	<u>-</u>	<u>-</u>	<u>39,043</u>
Total Beds	<u>108</u>			

UNION HOSPITAL DISTRICT D/B/A ELLEN SAGAR NURSING HOME
Adjustment Report
Cost Report Period Ended September 30, 2002
AC# 3-ELS-J2

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Other Revenue Restorative	\$ 1,523	\$ 1,523
	To properly offset income against expense State Plan, Attachment 4.19D		
2	Cost of Capital Fixed Assets Other Equity Accumulated Depreciation	1,401 13,959 3,875	\$ 19,235
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
3	Nonallowable Administration	15,700	15,700
	To reclassify expense to the proper cost center HIM-15-1, Section 2300 State Plan, Attachment 4.19D		
4	Cost of Capital Maintenance Administration Utilities Nonallowable Laundry	38,570 15,122 32,161 11,856	29,060 68,649
	To record related party laundry expense HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
5	Nonallowable Medical Supplies & Oxygen Dietary Maintenance Nursing	5,144	4,913 181 28 22
	To reclassify expense to the proper cost center HIM-15-1, Section 2300 State Plan, Attachment 4.19D		

UNION HOSPITAL DISTRICT D/B/A ELLEN SAGAR NURSING HOME
Adjustment Report
Cost Report Period Ended September 30, 2002
AC# 3-ELS-J2

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Nonallowable Cost of Capital	1,049	1,049
	To adjust depreciation expense to comply with capital cost policy State Plan, Attachment 4.19D		
7	Cost of Capital Nonallowable	52,175	52,175
	To adjust capital return State Plan, Attachment 4.19D		
	TOTAL ADJUSTMENTS	\$192,535	\$192,535

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.

UNION HOSPITAL DISTRICT D/B/A ELLEN SAGAR NURSING HOME
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2002
 AC# 3-ELS-J2

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.55013</u>	<u>2.55013</u>	<u>2.55013</u>	
Deemed Asset Value (Per Bed)	39,828	39,828	39,828	
Number of Beds	<u>51</u>	<u>44</u>	<u>13</u>	
Deemed Asset Value	2,031,228	1,752,432	517,764	
Improvements Since 1981	891,446	122,138	7,884	
Accumulated Depreciation at 9/30/02	<u>(1,175,796)</u>	<u>(430,673)</u>	<u>(83,148)</u>	
Deemed Depreciated Value	1,746,878	1,443,897	442,500	
Market Rate of Return	<u>.0561</u>	<u>.0561</u>	<u>.0561</u>	
Total Annual Return	98,000	81,003	24,824	
Return Applicable to Non-Reimbursable Cost Centers	-	-	-	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	<u>-</u>	
Allowable Annual Return	98,000	81,003	24,824	
Depreciation Expense	73,856	55,735	19,614	
Amortization Expense	-	-	551	
Capital Related Income Offsets	(1,693)	(1,460)	(432)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	<u>-</u>	<u>Total</u>
Allowable Cost of Capital Expense	170,163	135,278	44,557	\$349,998
Total Patient Days (Actual)	<u>18,435</u>	<u>15,908</u>	<u>4,700</u>	<u>39,043</u>
Cost of Capital Per Diem	\$ <u>9.23</u>	\$ <u>8.50</u>	\$ <u>9.48</u>	\$ <u>8.96</u>

UNION HOSPITAL DISTRICT D/B/A ELLEN SAGAR NURSING HOME
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2002
 AC# 3-ELS-J2

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$1.02	\$ N/A	\$ N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	<u>\$5.01</u>	<u>\$ 8.50</u>	<u>\$9.48</u>
Reimbursable Cost of Capital Per Diem *		\$ 6.97	
Cost of Capital Per Diem		<u>8.96</u>	
Cost of Capital Per Diem Limitation		<u>\$(1.99)</u>	

*[$((18,435 \times 5.01) + 135,278 + 44,557)/39,043]$]

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