

State of South Carolina



Office of the State Auditor

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COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
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September 21, 2004

Ms. Lisa Frierson, Administrator
Ronald E. McNair Nursing Center
Post Office Box 1688
Lake City, South Carolina 29560

Re: AC# 3-RMM-J2 – Dr. Ronald E. McNair Memorial Nursing Center

Dear Ms. Frierson:

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.

By request of the state medicaid agency this letter also serves as an official notice of your requirement to respond with a report of planned corrective actions on the recommendations and deficiencies noted in this report within forty-five (45) days of the date of this letter. Your response should reference the audit control number and be addressed to: Division of Facility Health and Nursing Home Services, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina, 29202-8206. You are also required to simultaneously furnish a copy of your corrective action report to the State Auditor's Office.

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/kss

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

**DR. RONALD E. MCNAIR
MEMORIAL NURSING CENTER
LAKE CITY, SOUTH CAROLINA**

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

August 18, 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 Dr. Ronald E. McNair Memorial Nursing Center, 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 Dr. Ronald E. McNair Memorial Nursing Center 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.

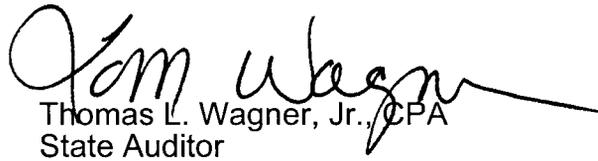
The procedures and the associated findings are as follows:

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 Dr. Ronald E. McNair Memorial Nursing Center, 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, Cost of Capital Reimbursement Analysis and the Comments and Recommendations 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 Dr. Ronald E. McNair Memorial Nursing Center 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
August 18, 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

DR. RONALD E. MCNAIR MEMORIAL NURSING CENTER

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

Beginning
10/01/03

Interim Reimbursement Rate (1)	\$77.89
Adjusted Reimbursement Rate	<u>68.95</u>
Decrease in Reimbursement Rate	\$ <u>8.94</u>

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

DR. RONALD E. MCNAIR MEMORIAL NURSING CENTER
 Computation of Adjusted Reimbursement Rate
 For the Contract Period Beginning October 1, 2003
 AC# 3-RMM-J2

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$30.46	\$ 67.92	
Dietary		6.15	11.76	
Laundry/Housekeeping/Maintenance		<u>6.97</u>	<u>10.49</u>	
Subtotal	<u>\$6.31</u>	43.58	90.17	\$43.58
Administration & Medical Records	<u>\$7.45</u>	<u>5.80</u>	<u>13.25</u>	<u>5.80</u>
Subtotal		49.38	<u>\$103.42</u>	49.38
<u>Costs Not Subject to Standards:</u>				
Utilities		2.32		2.32
Special Services		-		-
Medical Supplies & Oxygen		3.18		3.18
Taxes and Insurance		3.35		3.35
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$58.23</u>		58.23
Inflation Factor (4.70%)				2.74
Cost of Capital				6.23
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				2.04
Cost Incentive				6.31
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(6.60)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$68.95</u>

DR. RONALD E. MCNAIR MEMORIAL NURSING CENTER
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2002
 AC# 3-RMM-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	\$ 956,993	\$ -	\$ 16,175 (4) 1,545 (4)	\$ 939,273
Dietary	191,833	-	2,060 (4)	189,773
Laundry	76,121	-	1,406 (4)	74,715
Housekeeping	66,597	-	1,203 (4)	65,394
Maintenance	75,684	-	931 (4)	74,753
Administration & Medical Records	254,401	-	1,184 (4) 296 (4) 74,042 (6)	178,879
Utilities	71,557	-	-	71,557
Special Services	137,297	-	137,297 (5)	-
Medical Supplies & Oxygen	124,710	-	26,648 (7)	98,062
Taxes and Insurance	103,184	-	-	103,184
Legal Fees	-	-	-	-
Cost of Capital	192,642	721 (2) <u>1,725 (3)</u>	3,119 (1)	191,969
Subtotal	2,251,019	2,446	265,906	1,987,559

DR. RONALD E. MCNAIR MEMORIAL NURSING CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2002
AC# 3-RMM-J2

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	<u>Debit</u>	Adjustments <u>Credit</u>	<u>Adjusted Totals</u>
Ancillary	22,647	-	-	22,647
Nonallowable	(17,760)	24,800 (4)	721 (2)	242,581
		137,297 (5)	1,725 (3)	
		74,042 (6)		
	<u> </u>	<u>26,648 (7)</u>	<u> </u>	<u> </u>
Total Operating Expenses	<u>\$2,255,906</u>	<u>\$265,233</u>	<u>\$268,352</u>	<u>\$2,252,787</u>
Total Patient Days	<u>30,835</u>	<u>-</u>	<u>-</u>	<u>30,835</u>
Total Beds	<u>88</u>			

DR. RONALD E. MCNAIR MEMORIAL NURSING CENTER
Adjustment Report
Cost Report Period Ended September 30, 2002
AC# 3-RMM-J2

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$183,410	
	Cost of Capital		\$ 3,119
	Other Equity		180,291
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304		
2	Cost of Capital	721	
	Nonallowable		721
	To adjust depreciation expense to comply with capital cost policy State Plan, Attachment 4.19D		
3	Cost of Capital	1,725	
	Nonallowable		1,725
	To adjust capital return State Plan, Attachment 4.19D		
4	Nonallowable	24,800	
	Nursing		16,175
	Restorative		1,545
	Dietary		2,060
	Laundry		1,406
	Housekeeping		1,203
	Maintenance		931
	Administration		1,184
	Medical Records		296
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
5	Nonallowable	137,297	
	Special Services		137,297
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		

DR. RONALD E. MCNAIR MEMORIAL NURSING CENTER
Adjustment Report
Cost Report Period Ended September 30, 2002
AC# 3-RMM-J2

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Nonallowable Administration	74,042	74,042
	To remove expense not adequately documented HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
7	Nonallowable Medical Supplies	26,648	26,648
	To remove expense not adequately documented HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
	TOTAL ADJUSTMENTS	\$ <u>448,643</u>	\$ <u>448,643</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.

DR. RONALD E. MCNAIR MEMORIAL NURSING CENTER
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2002
 AC# 3-RMM-J2

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.55013</u>	<u>2.55013</u>	
Deemed Asset Value (Per Bed)	39,828	39,828	
Number of Beds	<u>44</u>	<u>44</u>	
Deemed Asset Value	1,752,432	1,752,432	
Improvements Since 1981	308	323	
Accumulated Depreciation at 9/30/02	<u>(440,088)</u>	<u>(462,092)</u>	
Deemed Depreciated Value	1,312,652	1,290,663	
Market Rate of Return	<u>.0561</u>	<u>.0561</u>	
Total Annual Return	73,640	72,406	
Return Applicable to Non-Reimbursable Cost Centers	-	-	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	
Allowable Annual Return	73,640	72,406	
Depreciation Expense	22,402	23,521	
Amortization Expense	-	-	
Capital Related Income Offsets	-	-	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	<u>Total</u>
Allowable Cost of Capital Expense	96,042	95,927	\$191,969
Total Patient Days (Minimum 96% Occupancy)	<u>15,418</u>	<u>15,417</u>	<u>30,835</u>
Cost of Capital Per Diem	\$ <u>6.23</u>	\$ <u>6.22</u>	\$ <u>6.23</u>

COMMENTS AND RECOMMENDATIONS

Our agreed-upon procedures identified a condition that we have determined to be subject to correction or improvement. We believe this condition should be brought to your attention.

I. Owner/Relatives

During our review of payroll records we determined that not all owner/relative compensation was reported on the Medicaid cost report as required by Department of Health and Human Services Medicaid guidelines. This is a repeat finding from our prior engagement.

We recommend that all owner/relative compensation be reported/identified on the Medicaid cost report.

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