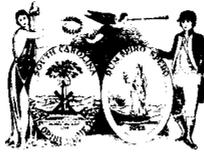


State of South Carolina



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

July 29, 2004

Mr. John Moore, Administrator
Winyah Convalescent Center, Inc.
Post Office Box 8247
Georgetown, South Carolina 29440

Re: AC# 3-WIN-J0 – Winyah Convalescent Center, Inc.

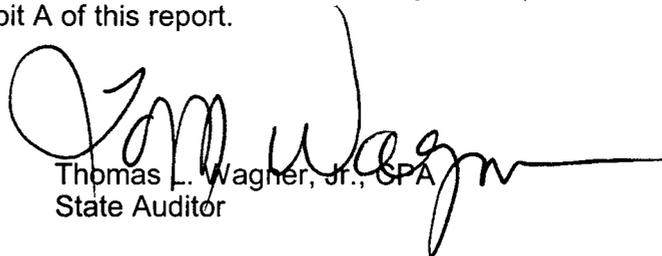
Dear Mr. Moore:

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, 1999 through September 30, 2000. That report was used to set the rate covering the contract period beginning October 1, 2001.

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 Home Health and Nursing Facility 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/cwc

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Joseph P. Hayes

**WINYAH CONVALESCENT CENTER, INC.
GEORGETOWN, SOUTH CAROLINA**

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2001
AC# 3-WIN-J0**

**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

June 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 Winyah Convalescent Center, Inc., for the contract period beginning October 1, 2001, and for the twelve month cost report period ended September 30, 2000, as set forth in the accompanying schedules. The management of Winyah Convalescent 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 Winyah Convalescent 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, 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 Winyah Convalescent 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
June 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

WINYAH CONVALESCENT CENTER, INC.

Computation of Rate Change
For the Contract Period
Beginning October 1, 2001
AC# 3-WIN-J0

	<u>10/01/01-</u> <u>12/31/02</u>
Interim Reimbursement Rate (1)	\$95.50
Adjusted Reimbursement Rate	<u>91.95</u>
Decrease in Reimbursement Rate	<u>\$ 3.55</u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated May 8, 2003

WINYAH CONVALESCENT CENTER, INC.
 Computation of Adjusted Reimbursement Rate
 For the Contract Period October 1, 2001 Through December 31, 2002
 AC# 3-WIN-J0

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$42.44	\$58.68	
Dietary		11.88	11.36	
Laundry/Housekeeping/Maintenance		<u>8.19</u>	<u>9.21</u>	
Subtotal	\$ <u>5.55</u>	62.51	79.25	\$62.51
Administration & Medical Records	\$ <u>3.05</u>	<u>9.33</u>	<u>12.38</u>	<u>9.33</u>
Subtotal		71.84	<u>\$91.63</u>	71.84
<u>Costs Not Subject to Standards:</u>				
Utilities		2.27		2.27
Special Services		.35		.35
Medical Supplies & Oxygen		4.20		4.20
Taxes and Insurance		1.76		1.76
Legal Fees		<u>.01</u>		<u>.01</u>
TOTAL		<u>\$80.43</u>		80.43
Inflation Factor (3.80%)				3.06
Cost of Capital				6.08
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				2.82
Cost Incentive				5.55
Effect of \$1.75 Cap on Cost/Profit Incentives				(6.62)
Nurse Aide Staffing Add-On 10/01/00				<u>.63</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$91.95</u>

WINYAH CONVALESCENT CENTER, INC.
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2000
 AC# 3-WIN-J0

<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	\$1,253,392	\$ 1 (1) 14,040 (8)	\$ 7,113 (9) 439 (9) 7,200 (10)	\$1,252,681
Dietary	354,799	-	2,957 (2) 1,173 (9)	350,669
Laundry	55,172	-	7,654 (11)	47,518
Housekeeping	124,452	26 (9)	-	124,478
Maintenance	56,133	13,641 (8)	144 (9) 12 (12)	69,618
Administration & Medical Records	286,799	-	5,167 (3) 723 (9) 224 (9) 2,716 (12) 2,729 (13)	275,240
Utilities	67,402	-	406 (5) 7 (12)	66,989
Special Services	10,413	2,000 (8)	2,026 (13)	10,387
Medical Supplies & Oxygen	189,407	-	9,519 (7) 55,807 (13)	124,081
Taxes and Insurance	52,959	-	1,084 (6) 16 (12)	51,859

WINYAH CONVALESCENT CENTER, INC.
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2000
 AC# 3-WIN-J0

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	<u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
Legal Fees	23,243	-	13,256 (4) 9,718 (13)	269
Cost of Capital	180,008	811 (1)	34 (12) <u>1,264 (14)</u>	179,521
Subtotal	2,654,179	30,519	131,388	2,553,310
Ancillary	39,624	2,900 (8)	-	42,524
Nonallowable	372,784	2,957 (2) 125 (3) 13,256 (4) 406 (5) 9,790 (9) 7,200 (10) 7,654 (11) 2,785 (12) 70,280 (13) <u>1,264 (14)</u>	812 (1)	487,689
Total Operating Expenses	<u>\$3,066,587</u>	<u>\$149,136</u>	<u>\$132,200</u>	<u>\$3,083,523</u>
Total Patient Days	<u>29,514</u>	<u>-</u>	<u>-</u>	<u>29,514</u>
Total Beds	<u>84</u>			

WINYAH CONVALESCENT CENTER, INC.
Adjustment Report
Cost Report Period Ended September 30, 2000
AC# 3-WIN-J0

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Other Equity	\$ 6,468	
	Restorative	1	
	Cost of Capital	811	
	Fixed Assets		\$ 6,406
	Accumulated Depreciation		62
	Nonallowable		812
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	2,957	
	Dietary		2,957
	To disallow expense due to lack of adequate documentation and reclassify expense to the proper cost center HIM-15-1, Section 2304 DH&HS Expense Crosswalk State Plan, Attachment 4.19D		
3	Retained Earnings	5,042	
	Nonallowable	125	
	Administration		5,167
	To properly charge expense applicable to the prior period and disallow expense due to lack of adequate documentation HIM-15-1, Sections 2302.1 and 2304		
4	Nonallowable	13,256	
	Legal		13,256
	To adjust legal expense HIM-15-1, Sections 2302.1 and 2304 State Plan, Attachment 4.19D		
5	Nonallowable	406	
	Utilities		406
	To remove expense not related to patient care HIM-15-1, Section 2106.1		

WINYAH CONVALESCENT CENTER, INC.
Adjustment Report
Cost Report Period Ended September 30, 2000
AC# 3-WIN-J0

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Accrued Property Taxes	29	
	Retained Earnings	1,055	
	Taxes and Insurance		1,084
	To adjust property taxes and related accrual HIM-15-1, Sections 2302.1 and 2304		
7	Retained Earnings	9,519	
	Medical Supplies		9,519
	To properly charge expense applicable to the prior period HIM-15-1, Section 2302.1		
8	Nursing	14,040	
	Maintenance	13,641	
	Special Services	2,000	
	Ancillary	2,900	
	Retained Earnings		32,581
	To record expense applicable to the current period HIM-15-1, Section 2305		
9	Nonallowable	9,790	
	Housekeeping	26	
	Nursing		7,113
	Restorative		439
	Dietary		1,173
	Maintenance		144
	Administration		723
	Medical Records		224
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
10	Nonallowable	7,200	
	Restorative		7,200
	To adjust owner compensation State Plan, Attachment 4.19D		

WINYAH CONVALESCENT CENTER, INC.
Adjustment Report
Cost Report Period Ended September 30, 2000
AC# 3-WIN-J0

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
11	Nonallowable Laundry	7,654	7,654
	To adjust laundry purchase service cost HIM-15-1, Sections 1005 and 2304		
12	Nonallowable Maintenance Administration Utilities Taxes and Insurance Cost of Capital	2,785	12 2,716 7 16 34
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
13	Nonallowable Administration Legal Medical Supplies Special Services	70,280	2,729 9,718 55,807 2,026
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
14	Nonallowable Cost of Capital	1,264	1,264
	To adjust capital return State Plan, Attachment 4.19D		
	TOTAL ADJUSTMENTS	<u>\$171,249</u>	<u>\$171,249</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.

WINYAH CONVALESCENT CENTER, INC.
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2000
 AC# 3-WIN-J0

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.3848</u>
Deemed Asset Value (Per Bed)	37,246
Number of Beds	<u>84</u>
Deemed Asset Value	3,128,664
Improvements Since 1981	133,133
Accumulated Depreciation at 9/30/00	<u>(611,502)</u>
Deemed Depreciated Value	2,650,295
Market Rate of Return	<u>.058</u>
Total Annual Return	153,717
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	153,717
Depreciation Expense	25,853
Amortization Expense	162
Capital Related Income Offsets	(211)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	179,521
Total Patient Days (Minimum 96% Occupancy)	<u>29,514</u>
Cost of Capital Per Diem	\$ <u><u>6.08</u></u>

WINYAH CONVALESCENT CENTER, INC.
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2000
AC# 3-WIN-J0

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$2.99
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$6.98</u>
Reimbursable Cost of Capital Per Diem	\$6.08
Cost of Capital Per Diem	<u>6.08</u>
Cost of Capital Per Diem Limitation	<u>\$ -</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.

RELATED PARTY TRANSACTION DISCLOSURE

All transactions with related parties were not disclosed by the Provider on the Uniform Financial and Statistical Report.

Article V, Section G of the contract between the South Carolina Department of Health and Human Services (SCDH&HS) and the Provider states in part:

“The Provider agrees that the Uniform Financial and Statistical Report, all statements, reports and claims, financial and otherwise, shall be certified as true, accurate and complete . . . Sections of the Uniform Financial and Statistical Report which require disclosure of related parties and debts must be completed by the Provider in their entirety.”

Provider failure to properly disclose all related party transactions in accordance with contract requirements, prevented the SCDH&HS from identifying non-reimbursable expenditures claimed for reimbursement.

We recommend the Provider implement the necessary controls to ensure that all transactions with related parties are identified and fully disclosed on the Uniform Financial and Statistical Report in accordance with the terms of the contract.

2 copies of this document were published at an estimated printing cost of \$1.44 each, and a total printing cost of \$2.88. The FY 2004-05 Appropriation Act requires that this information on printing costs be added to the document.