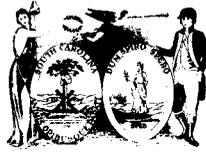


State of South Carolina



Office of the State Auditor

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

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
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July 1, 2005

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

Re: AC# 3-BAY-J1 – Bayview 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 change 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

BAYVIEW NURSING CENTER, INC.

BEAUFORT, SOUTH CAROLINA

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

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

February 23, 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 Bayview 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 Bayview 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.

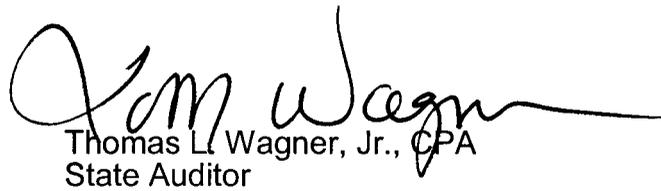
The procedures and the associated findings are as follows:

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 Bayview 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 Bayview 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 23, 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

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

	<u>01/01/03-</u> <u>09/30/03</u>
Adjusted Reimbursement Rate	\$82.73
Interim Reimbursement Rate (1)	<u>81.50</u>
Increase in Reimbursement Rate	\$ <u><u>1.23</u></u>

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

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

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$37.10	\$62.89	
Dietary		9.56	11.21	
Laundry/Housekeeping/Maintenance		<u>8.13</u>	<u>9.67</u>	
Subtotal	\$ <u>5.86</u>	54.79	83.77	\$54.79
Administration & Medical Records	\$ <u>5.31</u>	<u>7.46</u>	<u>12.77</u>	<u>7.46</u>
Subtotal		62.25	<u>\$96.54</u>	62.25
<u>Costs Not Subject to Standards:</u>				
Utilities		2.53		2.53
Special Services		.02		.02
Medical Supplies & Oxygen		3.57		3.57
Taxes and Insurance		2.90		2.90
Legal Fees		<u>.13</u>		<u>.13</u>
TOTAL		<u>\$71.40</u>		71.40
Inflation Factor (3.70%)				2.64
Cost of Capital				6.94
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				2.50
Cost Incentive				5.86
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(6.61)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$82.73</u>

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

<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	\$2,383,943	\$ 3,831 (10) 181 (10)	\$ -	\$2,387,955
Dietary	616,974	471 (10)	2,125 (9)	615,320
Laundry	38,776	38,214 (8) 107 (10)	-	77,097
Housekeeping	265,533	427 (10) 12,838 (11)	-	278,798
Maintenance	159,483	108 (10) 7,640 (11)	-	167,231
Administration & Medical Records	488,839	1,525 (5) 328 (10) 62 (10) 4,137 (11)	3,000 (4) 10,000 (6) 1,643 (8)	480,248
Utilities	155,259	7,433 (11)	-	162,692
Special Services	1,255	-	-	1,255
Medical Supplies & Oxygen	228,976	586 (9) 32 (10)	-	229,594
Taxes and Insurance	185,553	9,033 (3) 8,724 (11)	16,449 (1)	186,861

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

<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>	
Legal Fees	8,313	86 (11)	-	8,399
Cost of Capital	431,247	1,431 (7) 17,609 (11) <u>5,517 (13)</u>	4,987 (2) 4,027 (12)	446,790
Subtotal	4,964,151	120,320	42,231	5,042,240
Ancillary	77,684	-	-	77,684
Nonallowable	493,870	16,449 (1) 4,987 (2) 3,000 (4) 10,000 (6) 1,539 (9) <u>4,027 (12)</u>	9,033 (3) 1,525 (5) 5,547 (10) 58,467 (11) 5,517 (13)	453,783
Total Operating Expenses	<u>\$5,535,705</u>	<u>\$160,322</u>	<u>\$122,320</u>	<u>\$5,573,707</u>
Total Patient Days	<u>64,358</u>	<u>-</u>	<u>-</u>	<u>64,358</u>
Total Beds	<u>182</u>			

BAYVIEW NURSING CENTER, INC.
Adjustment Report
Cost Report Period Ended September 30, 2001
AC# 3-BAY-J1

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Nonallowable Taxes and Insurance	\$ 16,449	\$ 16,449
	To adjust mortgage insurance HIM-15-1, Sections 202.2 and 2304 State Plan, Attachment 4.19D		
2	Nonallowable Cost of Capital	4,987	4,987
	To adjust loan cost amortization HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
3	Taxes and Insurance Nonallowable	9,033	9,033
	To adjust general and property insurance expense HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
4	Nonallowable Medical Records	3,000	3,000
	To reclassify expense to the proper cost center HIM-15-1, Section 2304 DH&HS Expense Crosswalk		
5	Administration Nonallowable	1,525	1,525
	To reverse cost report adjustment HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
6	Nonallowable Administration	10,000	10,000
	To remove cost not related to patient care HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

BAYVIEW NURSING CENTER, INC.
Adjustment Report
Cost Report Period Ended September 30, 2001
AC# 3-BAY-J1

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
7	Fixed Assets	115,341	
	Cost of Capital	1,431	
	Other Equity		11,846
	Accumulated Depreciation		104,926
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
8	Laundry	38,214	
	Administration		1,643
	Other Equity		36,571
	To correct cost report income offset adjustment HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
9	Nonallowable	1,539	
	Medical Supplies	586	
	Dietary		2,125
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
10	Nursing	3,831	
	Restorative	181	
	Dietary	471	
	Laundry	107	
	Housekeeping	427	
	Maintenance	108	
	Administration	328	
	Medical Records	62	
	Medical Supplies	32	
	Nonallowable		5,547
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

BAYVIEW NURSING CENTER, INC.
Adjustment Report
Cost Report Period Ended September 30, 2001
AC# 3-BAY-J1

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
11	Cost of Capital	17,609	
	Taxes and Insurance	8,724	
	Administration	4,137	
	Legal	86	
	Maintenance	7,640	
	Utilities	7,433	
	Housekeeping	12,838	
	Nonallowable		58,467
	To revise adjustment to remove indirect costs applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
12	Nonallowable	4,027	
	Cost of Capital		4,027
	To adjust depreciation and amortization expense to comply with capital cost policy State Plan, Attachment 4.19D		
13	Cost of Capital	5,517	
	Nonallowable		5,517
	To adjust capital return State Plan, Attachment 4.19D		
	TOTAL ADJUSTMENTS	<u>\$275,663</u>	<u>\$275,663</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.

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

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.4607</u>	<u>2.4607</u>	
Deemed Asset Value (Per Bed)	38,431	38,431	
Number of Beds	<u>132</u>	<u>50</u>	
Deemed Asset Value	5,072,892	1,921,550	
Improvements Since 1981	711,405	47,012	
Accumulated Depreciation at 9/30/01	<u>(1,812,556)</u>	<u>(490,561)</u>	
Deemed Depreciated Value	3,971,741	1,478,001	
Market Rate of Return	<u>.0577</u>	<u>.0577</u>	
Total Annual Return	229,169	85,281	
Return Applicable to Non-Reimbursable Cost Centers	(2,024)	(13)	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>69</u>	
Allowable Annual Return	227,145	85,337	
Depreciation Expense	79,796	59,588	
Amortization Expense	206	973	
Capital Related Income Offsets	-	(5,472)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(704)</u>	<u>(79)</u>	<u>Total</u>
Allowable Cost of Capital Expense	306,443	140,347	\$446,790
Total Patient Days (Minimum 96% Occupancy)	<u>46,252</u>	<u>18,106</u>	<u>64,358</u>
Cost of Capital Per Diem	\$ <u>6.63</u>	\$ <u>7.75</u>	\$ <u>6.94</u>

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

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$4.89*	\$ N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	<u>\$8.88</u>	<u>\$7.75</u>
Reimbursable Cost of Capital Per Diem		\$6.94
Cost of Capital Per Diem		<u>6.94</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.

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