

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 1, 2005

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

Re: AC# 3-BAY-J2 – 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, 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 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/sag

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

BAYVIEW NURSING CENTER, INC.

BEAUFORT, SOUTH CAROLINA

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

AGREED-UPON PROCEDURES REPORT

ON CONTRACT

FOR

PURCHASE OF NURSING CARE SERVICES

WITH

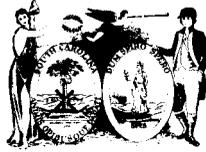
STATE OF SOUTH CAROLINA

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 OCTOBER 1, 2003	A	3
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIOD OCTOBER 1, 2003 THROUGH SEPTEMBER 30, 2004	B	4
SUMMARY OF COSTS AND TOTAL PATIENT DAYS FOR THE COST REPORT PERIOD ENDED SEPTEMBER 30, 2002	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 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 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 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 October 1, 2003
AC# 3-BAY-J2

	<u>10/01/03-</u> <u>09/30/04</u>
Adjusted Reimbursement Rate	\$93.13
Interim Reimbursement Rate (1)	<u>89.43</u>
Increase in Reimbursement Rate	\$ <u><u>3.70</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 October 1, 2003 Through September 30, 2004
 AC# 3-BAY-J2

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$40.43	\$ 66.44	
Dietary		11.57	11.55	
Laundry/Housekeeping/Maintenance		<u>8.47</u>	<u>9.83</u>	
Subtotal	<u>\$6.15</u>	60.47	87.82	\$60.47
Administration & Medical Records	<u>\$5.07</u>	<u>8.39</u>	<u>13.46</u>	<u>8.39</u>
Subtotal		68.86	<u>\$101.28</u>	68.86
<u>Costs Not Subject to Standards:</u>				
Utilities		2.76		2.76
Special Services		.09		.09
Medical Supplies & Oxygen		3.02		3.02
Taxes and Insurance		5.09		5.09
Legal Fees		<u>.33</u>		<u>.33</u>
TOTAL		<u>\$80.15</u>		80.15
Inflation Factor (4.70%)				3.77
Cost of Capital				7.46
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				2.81
Cost Incentive				6.15
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(7.21)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$93.13</u>

BAYVIEW NURSING CENTER, INC.
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2002
 AC# 3-BAY-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	\$2,243,165	\$ 1,600 (7)	\$ 1,720 (5) 178 (5)	\$2,242,867
Dietary	642,739	-	338 (4) 456 (5)	641,945
Laundry	30,754	35,316 (7)	85 (5)	65,985
Housekeeping	223,833	38,178 (8)	388 (5)	261,623
Maintenance	121,848	20,469 (8)	85 (5)	142,232
Administration & Medical Records	379,591	1,588 (5) 76,086 (8) 9,000 (12)	612 (5)	465,653
Utilities	131,244	21,970 (8)	-	153,214
Special Services	5,245	-	-	5,245
Medical Supplies & Oxygen	176,302	-	6,863 (4) 1,796 (5)	167,643
Taxes and Insurance	257,218	43,337 (8)	15,915 (1) 2,023 (3)	282,617
Legal Fees	16,204	2,350 (8)	-	18,554
Cost of Capital	424,949	787 (6) 13,573 (8)	4,998 (2) 4,731 (9) <u>15,851 (10)</u>	413,729
Subtotal	4,653,092	264,254	56,039	4,861,307

BAYVIEW NURSING CENTER, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2002
AC# 3-BAY-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>	
Ancillary	105,070	-	-	105,070
Nonallowable	1,027,359	15,915 (1) 4,998 (2) 2,023 (3) 7,201 (4) 3,732 (5) 4,731 (9) <u>15,851 (10)</u>	215,963 (8) 9,000 (12)	856,847
Total Operating Expenses	<u>\$5,785,521</u>	<u>\$318,705</u>	<u>\$281,002</u>	<u>\$5,823,224</u>
Total Patient Days	<u>55,336</u>	<u>145 (11)</u>	<u>-</u>	<u>55,481</u>
Total Beds	<u>170</u>			

BAYVIEW NURSING CENTER, INC.
Adjustment Report
Cost Report Period Ended September 30, 2002
AC# 3-BAY-J2

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Nonallowable Taxes and Insurance	\$ 15,915	\$ 15,915
	To adjust mortgage insurance HIM-15-1, Sections 202.2 and 2304 State Plan, Attachment 4.19D		
2	Nonallowable Cost of Capital	4,998	4,998
	To adjust loan cost amortization HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
3	Nonallowable Taxes and Insurance	2,023	2,023
	To adjust general and property insurance expense HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
4	Nonallowable Medical Supplies Dietary	7,201	6,863 338
	To remove special (ancillary) services reimbursed by Medicare and reclassify expense to the proper cost center HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
5	Nonallowable Medical Records Nursing Restorative Dietary Laundry Housekeeping Maintenance Administration Medical Supplies	3,732 1,588	1,720 178 456 85 388 85 612 1,796
	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, 2002
AC# 3-BAY-J2

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Fixed Assets	297,486	
	Cost of Capital	787	
	Other Equity	15,251	
	Accumulated Depreciation		313,524
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
7	Laundry	35,316	
	Nursing	1,600	
	Other Equity		36,916
	To correct cost report income offset adjustment HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
8	Cost of Capital	13,573	
	Taxes and Insurance	43,337	
	Administration	76,086	
	Legal	2,350	
	Maintenance	20,469	
	Utilities	21,970	
	Housekeeping	38,178	
	Nonallowable		215,963
	To revise adjustment to remove indirect costs applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
9	Nonallowable	4,731	
	Cost of Capital		4,731
	To adjust depreciation and amortization expense to comply with capital cost policy State Plan, Attachment 4.19D		

BAYVIEW NURSING CENTER, INC.
Adjustment Report
Cost Report Period Ended September 30, 2002
AC# 3-BAY-J2

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
10	Nonallowable Cost of Capital	15,851	15,851
	To adjust capital return State Plan, Attachment 4.19D		
11	<u>Memo Adjustment</u> To increase patient days by 145 from 55,336 to 55,481 days State Plan, Attachment 4.19D		
12	Medical Records Nonallowable	9,000	9,000
	To reclassify expense to the proper cost center HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
	TOTAL ADJUSTMENTS	\$ <u>631,442</u>	\$ <u>631,442</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, 2002
 AC# 3-BAY-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>126</u>	<u>44</u>	
Deemed Asset Value	5,018,328	1,752,432	
Improvements Since 1981	691,756	46,147	
Accumulated Depreciation at 9/30/02	<u>(1,849,776)</u>	<u>(546,850)</u>	
Deemed Depreciated Value	3,860,308	1,251,729	
Market Rate of Return	<u>.0561</u>	<u>.0561</u>	
Total Annual Return	216,563	70,222	
Return Applicable to Non-Reimbursable Cost Centers	(2,940)	(17)	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>105</u>	
Allowable Annual Return	213,623	70,310	
Depreciation Expense	74,058	58,619	
Amortization Expense	205	979	
Capital Related Income Offsets	-	(2,895)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(1,049)</u>	<u>(121)</u>	<u>Total</u>
Allowable Cost of Capital Expense	286,837	126,892	\$413,729
Total Patient Days (Actual)	<u>41,121</u>	<u>14,360</u>	<u>55,481</u>
Cost of Capital Per Diem	\$ <u>6.98</u>	\$ <u>8.84</u>	\$ <u>7.46</u>

BAYVIEW NURSING CENTER, INC.
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2002
 AC# 3-BAY-J2

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>\$8.84</u>
Reimbursable Cost of Capital Per Diem	\$7.46	
Cost of Capital Per Diem	<u>7.46</u>	
Cost of Capital Per Diem Limitation	\$ <u>-</u>	

* Cost of Capital and ROE 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.

2 copies of this document were published at an estimated printing cost of \$1.41 each, and a total printing cost of \$2.82. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.