

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-CON-J1 – Conway 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 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

CONWAY NURSING CENTER, INC.

CONWAY, SOUTH CAROLINA

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

AGREED-UPON PROCEDURES REPORT

ON CONTRACT

FOR

PURCHASE OF NURSING CARE SERVICES

WITH

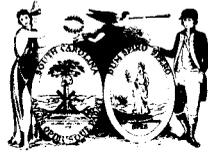
STATE OF SOUTH CAROLINA

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 JANUARY 1, 2003	A	3
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIOD JANUARY 1, 2003 THROUGH SEPTEMBER 30, 2003	B	4
SUMMARY OF COSTS AND TOTAL PATIENT DAYS FOR THE COST REPORT PERIOD ENDED SEPTEMBER 30, 2001	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 28, 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 Conway 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 Conway 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.

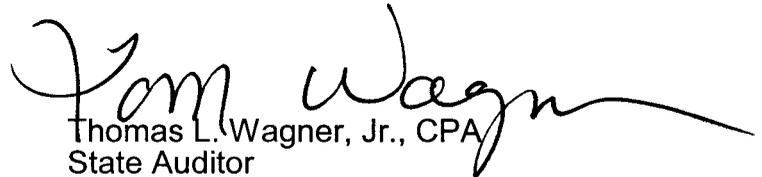
The procedures and the associated findings are as follows:

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 Conway 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 Conway 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 28, 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

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

01/01/03-
09/30/03

Adjusted Reimbursement Rate	\$95.05
Interim Reimbursement Rate (1)	<u>95.02</u>
Increase in Reimbursement Rate	\$ <u><u>.03</u></u>

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

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

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$50.41	\$62.89	
Dietary		9.84	11.21	
Laundry/Housekeeping/Maintenance		<u>9.74</u>	<u>9.67</u>	
Subtotal	<u>\$5.86</u>	69.99	83.77	\$69.99
Administration & Medical Records	<u>\$6.86</u>	<u>5.91</u>	<u>12.77</u>	<u>5.91</u>
Subtotal		75.90	<u>\$96.54</u>	75.90
<u>Costs Not Subject to Standards:</u>				
Utilities		2.28		2.28
Special Services		.02		.02
Medical Supplies & Oxygen		3.47		3.47
Taxes and Insurance		1.67		1.67
Legal Fees		<u>.05</u>		<u>.05</u>
TOTAL		<u>\$83.39</u>		83.39
Inflation Factor (3.70%)				3.09
Cost of Capital				6.82
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				2.92
Cost Incentive				5.86
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(7.03)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$95.05</u>

CONWAY NURSING CENTER, INC.
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2001
 AC# 3-CON-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	\$3,354,039	\$ 4,389 (11) 346 (11)	\$ 3,000 (10)	\$3,355,774
Dietary	654,545	387 (11)	-	654,932
Laundry	129,521	26,583 (6) 99 (11)	-	156,203
Housekeeping	309,881	394 (11)	-	310,275
Maintenance	182,147	147 (11)	-	182,294
Administration & Medical Records	400,414	1,032 (4) 1,729 (8) 284 (11)	10,000 (9)	393,459
Utilities	152,087	-	-	152,087
Special Services	1,432	-	-	1,432
Medical Supplies & Oxygen	227,354	9,550 (6)	5,938 (10)	230,966
Taxes and Insurance	127,774	-	11,019 (1) 5,861 (3)	110,894
Legal Fees	3,099	-	-	3,099
Cost of Capital	462,651	68 (5)	3,709 (2) 5,203 (7)	453,807
Subtotal	6,004,944	45,008	44,730	6,005,222
Ancillary	128,832	-	-	128,832

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

<u>Expenses</u>	Totals (From Schedule SC 13) as Adjusted by DH&HS	Adjustments		Adjusted Totals
		<u>Debit</u>	<u>Credit</u>	
Nonallowable	634,113	11,019 (1) 3,709 (2) 5,861 (3) 5,203 (7) 10,000 (9) <u>8,938 (10)</u>	1,032 (4) 1,729 (8) 6,046 (11)	670,036
Total Operating Expenses	<u>\$6,767,889</u>	<u>\$89,738</u>	<u>\$53,537</u>	<u>\$6,804,090</u>
Total Patient Days	<u>66,576</u>	<u>-</u>	<u>-</u>	<u>66,576</u>
Total Beds	<u>190</u>			

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

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Nonallowable Taxes and Insurance	\$ 11,019	\$ 11,019
	To adjust mortgage insurance expense HIM-15-1, Sections 202.2 and 2304 State Plan, Attachment 4.19D		
2	Nonallowable Cost of Capital	3,709	3,709
	To adjust loan cost amortization HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
3	Nonallowable Taxes and Insurance	5,861	5,861
	To adjust insurance HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
4	Administration Nonallowable	1,032	1,032
	To reclassify expense to the proper cost center HIM-15-1, Section 2304 DH&HS Expense Crosswalk		
5	Fixed Assets Cost of Capital Other Equity Accumulated Depreciation	99,400 68 83,719	183,187
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
6	Laundry Medical Supplies Other Equity	26,583 9,550	36,133
	To correct cost report income offset adjustment HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

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

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
7	Nonallowable Cost of Capital	5,203	5,203
	To adjust capital return State Plan, Attachment 4.19D		
8	Administration Nonallowable	1,729	1,729
	To reverse cost report adjustment HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
9	Nonallowable Administration	10,000	10,000
	To remove cost not related to patient care HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
10	Nonallowable Medical Supplies Nursing	8,938	5,938 3,000
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		

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

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
11	Nursing	4,389	
	Restorative	346	
	Dietary	387	
	Laundry	99	
	Housekeeping	394	
	Maintenance	147	
	Administration	284	
	Nonallowable		6,046
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
		_____	_____
	TOTAL ADJUSTMENTS	\$ <u>272,857</u>	\$ <u>272,857</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.

CONWAY NURSING CENTER, INC.
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2001
 AC# 3-CON-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>130</u>	<u>60</u>	
Deemed Asset Value	4,996,030	2,305,860	
Improvements Since 1981	1,151,754	-	
Accumulated Depreciation at 9/30/01	<u>(1,906,822)</u>	<u>(935,772)</u>	
Deemed Depreciated Value	4,240,962	1,370,088	
Market Rate of Return	<u>.0577</u>	<u>.0577</u>	
Total Annual Return	244,704	79,054	
Return Applicable to Non-Reimbursable Cost Centers	-	-	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	
Allowable Annual Return	244,704	79,054	
Depreciation Expense	80,834	62,056	
Amortization Expense	1,531	707	
Capital Related Income Offsets	(10,317)	(4,762)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	<u>Total</u>
Allowable Cost of Capital Expense	316,752	137,055	\$453,807
Total Patient Days (Minimum 96% Occupancy)	<u>45,552</u>	<u>21,024</u>	<u>66,576</u>
Cost of Capital Per Diem	\$ <u>6.95</u>	\$ <u>6.52</u>	\$ <u>6.82</u>

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

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$3.78*	\$ N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	<u>\$7.77</u>	<u>\$6.52</u>
Reimbursable Cost of Capital Per Diem	\$6.82	
Cost of Capital Per Diem	<u>6.82</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.