

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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October 6, 2005

Mr. Grady Bethea, COO-LTC Clarendon Memorial Hospital
Clarendon Memorial Hospital
50 Hospital Street
Manning, South Carolina 29102

Re: AC# 3-SMH-J1 – Clarendon Memorial Hospital d/b/a Harper Nursing Center

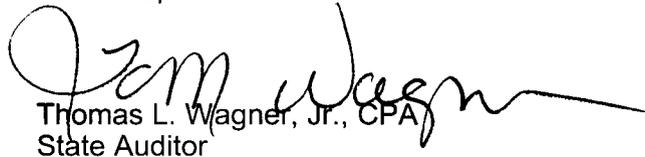
Dear Mr. Bethea:

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 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/sag

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

**CLARENDON MEMORIAL HOSPITAL
D/B/A HARPER NURSING CENTER**

ESTILL, SOUTH CAROLINA

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

April 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 determine the reimbursement rate to be used by the Department in determining the reimbursement settlement with Clarendon Memorial Hospital d/b/a Harper Nursing Center, 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 Clarendon Memorial Hospital d/b/a Harper 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 Clarendon Memorial Hospital d/b/a Harper 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 Clarendon Memorial Hospital d/b/a Harper 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
April 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

HARPER NURSING CENTER
Computation of Rate Change
For the Contract Period
Beginning January 1, 2003
AC# 3-SMH-J1

	01/01/03- <u>09/30/03</u>
Interim Reimbursement Rate (1)	\$106.82
Adjusted Reimbursement Rate	<u>91.75</u>
Decrease in Reimbursement Rate	\$ <u><u>15.07</u></u>

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

HARPER NURSING CENTER
 Computation of Adjusted Reimbursement Rate
 For the Contract Period January 1, 2003 Through September 30, 2003
 AC# 3-SMH-J1

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$48.85	\$62.89	
Dietary		9.80	11.21	
Laundry/Housekeeping/Maintenance		<u>7.65</u>	<u>9.67</u>	
Subtotal	\$ <u>5.86</u>	66.30	83.77	\$66.30
Administration & Medical Records	\$ <u>4.57</u>	<u>8.20</u>	<u>12.77</u>	<u>8.20</u>
Subtotal		74.50	\$ <u>96.54</u>	74.50
<u>Costs Not Subject to Standards:</u>				
Utilities		2.42		2.42
Special Services		.06		.06
Medical Supplies & Oxygen		2.52		2.52
Taxes and Insurance		1.18		1.18
Legal Fees		<u>.01</u>		<u>.01</u>
TOTAL		\$ <u>80.69</u>		80.69
Inflation Factor (3.70%)				2.99
Cost of Capital				6.32
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				2.82
Cost Incentive				5.86
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(6.93)</u>
ADJUSTED REIMBURSEMENT RATE				\$ <u>91.75</u>

HARPER NURSING CENTER
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2001
 AC# 3-SMH-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	\$1,906,763	\$ -	\$ 14,048 (3) 10,779 (3) 828 (4) 1,628 (4) 92,730 (5) 4,530 (5) 1,896 (6)	\$1,780,324
Dietary	393,675	-	25,787 (3) 30 (4) 10,647 (5)	357,211
Laundry	50,212	-	1,431 (3) 61 (4) 2,345 (5)	46,375
Housekeeping	175,820	-	5,661 (3) 1,015 (4) 8,129 (5)	161,015
Maintenance	142,635	-	16,922 (3) 1,899 (5) 52,430 (6)	71,384
Administration & Medical Records	502,880	1,930 (3) 240 (4)	49,957 (3) 8,800 (5) 147,294 (6)	298,999
Utilities	115,318	-	27,158 (3) 57 (6)	88,103
Special Services	2,365	-	-	2,365
Medical Supplies & Oxygen	117,085	-	25,366 (3)	91,719
Taxes and Insurance	65,098	-	21,876 (3) 78 (6)	43,144

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

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
Legal Fees	434	-	196 (6)	238
Cost of Capital	267,578	15,486 (7)	49,756 (1) <u>2,900 (2)</u>	230,408
Subtotal	3,739,863	17,656	586,234	3,171,285
Ancillary	(26,068)	-	-	(26,068)
Nonallowable	251,191	49,756 (1) 2,900 (2) 197,055 (3) 3,322 (4) 129,080 (5) <u>201,951 (6)</u>	15,486 (7)	819,769
Total Operating Expenses	<u>\$3,964,986</u>	<u>\$601,720</u>	<u>\$601,720</u>	<u>\$3,964,986</u>
Total Patient Days	<u>36,442</u>	<u>-</u>	<u>-</u>	<u>36,442</u>
Total Beds	<u>104</u>			

HARPER NURSING CENTER
Adjustment Report
Cost Report Period Ended September 30, 2001
AC# 3-SMH-J1

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Nonallowable	\$ 49,756	
	Other Equity	1,083,887	
	Accumulated Depreciation		\$ 164,631
	Fixed Assets		919,256
	Cost of Capital		49,756
	To adjust fixed assets and related depreciation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
2	Nonallowable	2,900	
	Cost of Capital - Amortization		2,900
	To adjust amortization expense		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
3	Nonallowable	197,055	
	Medical Records	1,930	
	Nursing		14,048
	Restorative		10,779
	Dietary		25,787
	Laundry		1,431
	Housekeeping		5,661
	Maintenance		16,922
	Administration		49,957
	Utilities		27,158
	Taxes and Insurance		21,876
	Medical Supplies		25,366
	To properly record expenses		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
4	Nonallowable	3,322	
	Administration	240	
	Nursing		828
	Restorative		1,628
	Dietary		30
	Housekeeping		1,015
	Laundry		61
	To adjust salaries		
	HIM-15-1, Section 2304		

HARPER NURSING CENTER
Adjustment Report
Cost Report Period Ended September 30, 2001
AC# 3-SMH-J1

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Nonallowable	129,080	
	Nursing		92,730
	Restorative		4,530
	Dietary		10,647
	Laundry		2,345
	Housekeeping		8,129
	Maintenance		1,899
	Administration		8,800
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
6	Nonallowable	201,951	
	Administration		147,294
	Legal		196
	Maintenance		52,430
	Nursing		1,896
	Taxes and Insurance		78
	Utilities		57
	To adjust home office cost HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
7	Cost of Capital	15,486	
	Nonallowable		15,486
	To adjust capital return State Plan, Attachment 4.19D		
		<u> </u>	<u> </u>
	TOTAL ADJUSTMENTS	<u>\$1,685,607</u>	<u>\$1,685,607</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.

HARPER NURSING CENTER
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2001
 AC# 3-SMH-J1

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.4607</u>	<u>2.4607</u>	<u>2.4607</u>	
Deemed Asset Value (Per Bed)	38,431	38,431	38,431	
Number of Beds	<u>44</u>	<u>44</u>	<u>16</u>	
Deemed Asset Value	1,690,964	1,690,964	614,896	
Improvements Since 1981	76,211	-	-	
Accumulated Depreciation at 9/30/01	<u>(620,121)</u>	<u>(242,760)</u>	<u>(38,200)</u>	
Deemed Depreciated Value	1,147,054	1,448,204	576,696	
Market Rate of Return	<u>.0577</u>	<u>.0577</u>	<u>.0577</u>	
Total Annual Return	66,185	83,561	33,275	
Return Applicable to Non-Reimbursable Cost Centers	-	-	-	
Allocation of Rent and Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	<u>-</u>	
Allowable Annual Return	66,185	83,561	33,275	
Depreciation Expense	18,745	27,578	14,787	
Amortization Expense	-	-	-	
Capital Related Income Offsets	(5,806)	(5,806)	(2,111)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	<u>-</u>	<u>Total</u>
Allowable Cost of Capital Expense	79,124	105,333	45,951	\$230,408
Total Patient Days (Minimum 96%)	<u>15,418</u>	<u>15,418</u>	<u>5,606</u>	<u>36,442</u>
Cost of Capital Per Diem	\$ <u>5.13</u>	\$ <u>6.83</u>	\$ <u>8.20</u>	\$ <u>6.32</u>

HARPER NURSING CENTER
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2001
 AC# 3-SMH-J1

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$1.77	\$ N/A	\$ N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	<u>\$5.76</u>	<u>\$6.83</u>	<u>\$8.20</u>
Reimbursable Cost of Capital Per Diem		\$6.32	
Cost of Capital Per Diem		<u>6.32</u>	
Cost of Capital Per Diem Limitation		<u>\$ -</u>	

COMMENTS AND RECOMMENDATIONS

Our agreed-upon procedures identified certain conditions that we have determined to be subject to correction or improvement. We believe these conditions should be brought to your attention.

DOCUMENTATION OF REVENUE AND EXPENSES

During our review we determined the provider did not maintain proper documentation to support journal entries or transactions recorded on the general ledger for revenue and expenses.

HIM-15-1, Section 2304 states:

“Cost information as developed by the provider must be current, accurate and in sufficient detail to support payments made for services rendered to beneficiaries. This includes all ledgers, books, records and original evidences of cost...which pertain to the determination of reasonable cost, capable of being audited.”

By failing to maintain adequate documentation/support, we were unable to verify reported amounts on the cost report. This resulted in an overstatement of expenses and income.

We recommend the Provider maintain proper documentation to support reported amounts on the cost report.

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.