

State of South Carolina



Office of the State Auditor

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

RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

(803) 253-4160
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March 5, 2007

Mr. Richard C. Cooke
Cooke Management Company, Inc.
Post Office Box 808
Lake View, South Carolina 29563

Re: AC# 3-ANH-J2 – Aiken Nursing Facility d/b/a Azalea Woods

Dear Mr. Cooke:

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 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.

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.

Yours very truly,

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", written in a cursive style.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

RHGjr/cwc

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

**AIKEN NURSING FACILITY
D/B/A AZALEA WOODS**

AIKEN, SOUTH CAROLINA

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

**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

October 4, 2006

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 Aiken Nursing Facility d/b/a Azalea Woods, 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 Aiken Nursing Facility d/b/a Azalea Woods 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.

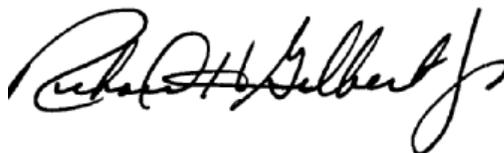
The procedures and the associated findings are as follows:

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 Aiken Nursing Facility d/b/a Azalea Woods, 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 Summary of Costs and Total Patient Days, Adjustment Report, 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 Aiken Nursing Facility d/b/a Azalea Woods 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
October 4, 2006

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.

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", written in a cursive style.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

AZALEA WOODS
Computation of Rate Change
For the Contract Period
Beginning October 1, 2003
AC# 3-ANH-J2

	<u>10/01/03-</u> <u>09/30/04</u>
Interim Reimbursement Rate (1)	\$127.45
Adjusted Reimbursement Rate	<u>124.56</u>
Decrease in Reimbursement Rate	\$ <u><u>2.89</u></u>

- (1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated March 1, 2006.

AZALEA WOODS
 Computation of Adjusted Reimbursement Rate
 For the Contract Period October 1, 2003 Through September 30, 2004
 AC# 3-ANH-J2

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 62.20	\$ 67.92	
Dietary		12.53	11.76	
Laundry/Housekeeping/Maintenance		<u>12.80</u>	<u>10.49</u>	
Subtotal	<u>\$2.64</u>	87.53	90.17	\$ 87.53
Administration & Medical Records	<u>\$3.53</u>	<u>9.72</u>	<u>13.25</u>	<u>9.72</u>
Subtotal		97.25	<u>\$103.42</u>	97.25
<u>Costs Not Subject to Standards:</u>				
Utilities		2.95		2.95
Special Services		-		-
Medical Supplies & Oxygen		5.88		5.88
Taxes and Insurance		4.61		4.61
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$110.69</u>		110.69
Inflation Factor (4.70%)				5.20
Cost of Capital				8.61
Cost of Capital Limitation				(1.69)
Profit Incentive (Maximum 3.5% of Allowable Cost)				3.53
Cost Incentive				2.64
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(4.42)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$124.56</u>

AZALEA WOODS
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2002
AC# 3-ANH-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	\$1,892,274	\$20,393 (5)	\$36,144 (4) 2,142 (4)	\$1,874,381
Dietary	381,680	-	4,237 (4)	377,443
Laundry	49,028	-	779 (4)	48,249
Housekeeping	157,365	-	2,930 (4)	154,435
Maintenance	187,188	-	2,364 (4) 1,875 (5)	182,949
Administration & Medical Records	316,481	-	2,113 (4) 437 (4) 20,879 (5)	293,052
Utilities	89,009	-	144 (5)	88,865
Special Services	-	-	-	-
Medical Supplies & Oxygen	181,748	-	4,559 (1)	177,189
Taxes and Insurance	164,031	-	16,770 (2) 7,974 (3) 293 (5)	138,994
Legal Fees	-	-	-	-

AZALEA WOODS
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2002
AC# 3-ANH-J2

<u>Expenses</u>	Totals (From Schedule SC 13) as Adjusted by DH&HS	Debit	Adjustments Credit	Adjusted Totals
Cost of Capital	208,527	2,136 (1)	45 (5)	259,534
	<u> </u>	<u>48,916 (6)</u>	<u> </u>	<u> </u>
Subtotal	3,627,331	71,445	103,685	3,595,091
Ancillary	-	-	-	-
Nonallowable	(200,718)	17,234 (2)	2,136 (1)	(172,573)
		7,974 (3)	48,916 (6)	
		51,146 (4)		
	<u> </u>	<u>2,843 (5)</u>	<u> </u>	<u> </u>
Total Operating Expenses	<u>\$3,426,613</u>	<u>\$150,642</u>	<u>\$154,737</u>	<u>\$3,422,518</u>
Total Patient Days	<u>30,134</u>	<u>-</u>	<u>-</u>	<u>30,134</u>
Total Beds	<u>86</u>			

AZALEA WOODS
Adjustment Report
Cost Report Period Ended September 30, 2002
AC# 3-ANH-J2

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$ 8,113	
	Cost of Capital	2,136	
	Other Equity	85,803	
	Accumulated Depreciation		\$88,426
	Intercompany		931
	Medical Supplies		4,559
	Nonallowable		2,136
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Retained Earnings	12,240	
	Nonallowable	17,234	
	Accrued Property Taxes		12,704
	Taxes and Insurance		16,770
	To adjust property taxes and related accrual HIM-15-1, Sections 2302.1 and 2304		
3	Nonallowable	7,974	
	Taxes and Insurance		7,974
	To adjust nursing home franchise fee expense and reclassify expense to the proper cost center HIM-15-1, Section 2304 DH&HS Expense Crosswalk		
4	Nonallowable	51,146	
	Nursing		36,144
	Restorative		2,142
	Dietary		4,237
	Laundry		779
	Housekeeping		2,930
	Maintenance		2,364
	Administration		2,113
	Medical Records		437
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

AZALEA WOODS
Adjustment Report
Cost Report Period Ended September 30, 2002
AC# 3-ANH-J2

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Nursing	20,393	
	Nonallowable	2,843	
	Maintenance		1,875
	Administration		20,879
	Utilities		144
	Taxes and Insurance		293
	Cost of Capital		45
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
6	Cost of Capital	48,916	
	Nonallowable		48,916
	To adjust capital return State Plan, Attachment 4.19D		
		\$256,798	\$256,798
	TOTAL ADJUSTMENTS		

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.

AZALEA WOODS
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2002
 AC# 3-ANH-J2

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.55013</u>
Deemed Asset Value (Per Bed)	39,828
Number of Beds	<u>86</u>
Deemed Asset Value	3,425,208
Improvements Since 1981	1,123,958
Accumulated Depreciation at 9/30/02	<u>(1,688,794)</u>
Deemed Depreciated Value	2,860,372
Market Rate of Return	<u>.0561</u>
Total Annual Return	160,467
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	160,467
Depreciation Expense	99,067
Amortization Expense	-
Capital Related Income Offsets	-
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	259,534
Total Patient Days (Minimum 96% Occupancy)	<u>30,134</u>
Cost of Capital Per Diem	\$ <u><u>8.61</u></u>

AZALEA WOODS
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2002
AC# 3-ANH-J2

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$ 2.93
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	\$ <u>6.92</u>
Reimbursable Cost of Capital Per Diem	\$ 6.92
Cost of Capital Per Diem	<u>8.61</u>
Cost of Capital Per Diem Limitation	\$ <u>(1.69)</u>

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