

# 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-FTN-J3 – R & A Enterprises d/b/a Fountain Inn Convalescent Home

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, 2002 through September 30, 2003. That report was used to set the rate covering the contract period beginning October 1, 2004.

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.

Yours very truly,

A handwritten signature in cursive script, appearing to read "Richard H. Gilbert, Jr.".

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

RHGjr/cwc

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

**R & A ENTERPRISES  
D/B/A FOUNTAIN INN CONVALESCENT HOME  
FOUNTAIN INN, SOUTH CAROLINA**

**CONTRACT PERIOD  
BEGINNING OCTOBER 1, 2004  
AC# 3-FTN-J3**

**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

September 28, 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 R & A Enterprises d/b/a Fountain Inn Convalescent Home, for the contract period beginning October 1, 2004, and for the twelve month cost report period ended September 30, 2003, as set forth in the accompanying schedules. The management of R & A Enterprises d/b/a Fountain Inn Convalescent Home 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 R & A Enterprises d/b/a Fountain Inn Convalescent Home, 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, 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 R & A Enterprises d/b/a Fountain Inn Convalescent Home 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  
September 28, 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

**FOUNTAIN INN CONVALESCENT HOME**

Computation of Rate Change  
For the Contract Period  
Beginning October 1, 2004  
AC# 3-FTN-J3

	<u>10/01/04-</u> <u>09/30/05</u>
Interim Reimbursement Rate (1)	\$134.48
Adjusted Reimbursement Rate	<u>122.62</u>
Decrease in Reimbursement Rate	\$ <u><u>11.86</u></u>

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

**FOUNTAIN INN CONVALESCENT HOME**  
 Computation of Adjusted Reimbursement Rate  
 For the Contract Period October 1, 2004 Through September 30, 2005  
 AC# 3-FTN-J3

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 57.82	\$ 68.79	
Dietary		14.74	13.62	
Laundry/Housekeeping/Maintenance		<u>11.51</u>	<u>11.53</u>	
Subtotal	<u>\$6.58</u>	84.07	93.94	\$ 84.07
Administration & Medical Records	<u>\$4.96</u>	<u>12.56</u>	<u>17.52</u>	<u>12.56</u>
Subtotal		96.63	<u>\$111.46</u>	96.63
<u>Costs Not Subject to Standards:</u>				
Utilities		2.82		2.82
Special Services		-		-
Medical Supplies & Oxygen		6.78		6.78
Taxes and Insurance		3.27		3.27
Legal Fees		<u>-</u>		<u>-</u>
<b>TOTAL</b>		<u>\$109.50</u>		109.50
Inflation Factor (4.70%)				5.15
Cost of Capital				6.22
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				3.83
Cost Incentive				6.58
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(8.66)</u>
<b>ADJUSTED REIMBURSEMENT RATE</b>				<u>\$122.62</u>

**FOUNTAIN INN CONVALESCENT HOME**  
 Summary of Costs and Total Patient Days  
 For the Cost Report Period Ended September 30, 2003  
 AC# 3-FTN-J3

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$1,009,407	\$ -	\$25,859 (2) 70,283 (9) 4,923 (9) 570 (10)	\$ 907,772
Dietary	244,499	-	1,542 (8) 10,906 (9) 676 (10)	231,375
Laundry	20,675	-	1,394 (9)	19,281
Housekeeping	109,872	-	68 (8) 7,690 (9) 59 (10)	102,055
Maintenance	72,803	-	8,570 (3) 300 (8) 3,256 (9) 1,364 (10)	59,313
Administration & Medical Records	223,565	-	1,967 (4) 1,300 (8) 8,727 (9) 14,396 (10)	197,175
Utilities	42,893	6,656 (2)	1,839 (5) 108 (10) 3,311 (11)	44,291
Special Services	-	5,979 (12)	5,979 (9)	-

**FOUNTAIN INN CONVALESCENT HOME**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 2003  
AC# 3-FTN-J3

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	<u>Debit</u>	Adjustments <u>Credit</u>	<u>Adjusted Totals</u>
Medical Supplies & Oxygen	121,720	-	8,751 (7) 5,363 (8) 1,124 (12)	106,482
Taxes and Insurance	53,224	-	1,598 (6) 316 (10)	51,310
Legal Fees	-	-	-	-
Cost of Capital	96,032	700 (1) 429 (3) <u>761 (13)</u>	324 (10)	97,598
Subtotal	1,994,690	14,525	192,563	1,816,652
Ancillary	-	7,674 (7)	-	7,674
Nonallowable	230,542	19,203 (2) 1,615 (4) 1,839 (5) 1,513 (6) 489 (7) 8,573 (8) 113,158 (9) 17,813 (10) <u>3,311 (11)</u>	700 (1) 4,855 (12) 761 (13)	391,740
Total Operating Expenses	<u>\$2,225,232</u>	<u>\$189,713</u>	<u>\$198,879</u>	<u>\$2,216,066</u>
Total Patient Days	<u>15,699</u>	<u>-</u>	<u>-</u>	<u>15,699</u>

Total Beds 44

**FOUNTAIN INN CONVALESCENT HOME**  
Adjustment Report  
Cost Report Period Ended September 30, 2003  
AC# 3-FTN-J3

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$22,593	
	Cost of Capital	700	
	Accumulated Depreciation		\$16,410
	Other Equity		6,183
	Nonallowable		700
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Utilities	6,656	
	Nonallowable	19,203	
	Nursing		25,859
	To reclassify expense to the proper cost center State Plan, Attachment 4.19D DH&HS Expense Crosswalk		
3	Fixed Assets	8,570	
	Cost of Capital	429	
	Accumulated Depreciation		429
	Maintenance		8,570
	To capitalize fixed asset and record related depreciation HIM-15-1, Section 108		
4	Retained Earnings	352	
	Nonallowable	1,615	
	Administration		1,967
	To reclassify expense to the proper cost center, properly charge expense applicable to the prior period and disallow duplicate posting of expense HIM-15-1, Sections 2302.1 and 2304 DH&HS Expense Crosswalk		

**FOUNTAIN INN CONVALESCENT HOME**  
Adjustment Report  
Cost Report Period Ended September 30, 2003  
AC# 3-FTN-J3

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Nonallowable Utilities	1,839	1,839
	To reclassify expense to the proper cost center HIM-15-1, Section 2304 DH&HS Expense Crosswalk		
6	Retained Earnings Nonallowable Accrued Property Taxes Taxes and Insurance	8,662 1,513	8,577 1,598
	To adjust property taxes and related accrual HIM-15-1, Sections 2302.1 and 2304		
7	Accounts Payable Nonallowable Ancillary Medical Supplies	588 489 7,674	8,751
	To reclassify expense to the proper cost center and remove expense applicable to the subsequent period HIM-15-1, Sections 2302.1 and 2304 DH&HS Expense Crosswalk		
8	Nonallowable Dietary Housekeeping Maintenance Medical Records Medical Supplies	8,573	1,542 68 300 1,300 5,363
	To remove duplicate postings of expense HIM-15-1, Section 2304		

**FOUNTAIN INN CONVALESCENT HOME**  
Adjustment Report  
Cost Report Period Ended September 30, 2003  
AC# 3-FTN-J3

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
9	Nonallowable	113,158	
	Nursing		70,283
	Restorative		4,923
	Dietary		10,906
	Laundry		1,394
	Housekeeping		7,690
	Maintenance		3,256
	Administration		8,727
	Special Services		5,979
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
10	Nonallowable	17,813	
	Nursing		570
	Dietary		676
	Housekeeping		59
	Maintenance		1,364
	Administration		14,396
	Utilities		108
	Taxes and Insurance		316
	Cost of Capital		324
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
11	Nonallowable	3,311	
	Utilities		3,311
	To remove expense not related to patient care HIM-15-1, Sections 2102.3 and 2328		

**FOUNTAIN INN CONVALESCENT HOME**  
Adjustment Report  
Cost Report Period Ended September 30, 2003  
AC# 3-FTN-J3

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
12	Special Services Medical Supplies Nonallowable	5,979	1,124 4,855
	To adjust special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
13	Cost of Capital Nonallowable	761	761
	To adjust capital return State Plan, Attachment 4.19D		
	TOTAL ADJUSTMENTS	\$230,478	\$230,478

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.

**FOUNTAIN INN CONVALESCENT HOME**  
 Cost of Capital Reimbursement Analysis  
 For the Cost Report Period Ended September 30, 2003  
 AC# 3-FTN-J3

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.63785</u>
Deemed Asset Value (Per Bed)	41,198
Number of Beds	<u>44</u>
Deemed Asset Value	1,812,712
Improvements Since 1981	94,939
Accumulated Depreciation at 9/30/03	<u>(338,392)</u>
Deemed Depreciated Value	1,569,259
Market Rate of Return	<u>.0531</u>
Total Annual Return	83,328
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	83,328
Depreciation Expense	14,270
Amortization Expense	-
Capital Related Income Offsets	-
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	97,598
Total Patient Days (Actual)	<u>15,699</u>
Cost of Capital Per Diem	\$ <u><u>6.22</u></u>

**FOUNTAIN INN CONVALESCENT HOME**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 2003  
AC# 3-FTN-J3

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$3.55
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$7.54</u>
Reimbursable Cost of Capital Per Diem	\$6.22
Cost of Capital Per Diem	<u>6.22</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.

### **TRANSACTION CLASSIFICATION**

The Provider classified a significant number of transactions to improper accounts and cost centers.

Guidance for the proper classification of transactions is provided in the South Carolina Department of Health and Human Services Medicaid Nursing Home Accounting and Reporting Manual (Expense Crosswalk), the State Plan under Title XIX of the Social Security Act, Medicaid Bulletins and South Carolina Department of Health and Human Services directives.

By failing to classify transactions in accordance with the administering agency's guidelines, the Provider misstated several accounts and cost centers.

We recommend the Provider establish and implement necessary controls to ensure that all transactions are properly classified in accordance with South Carolina Department of Health and Human Services guidelines.

### MEAL AND VENDING MACHINE SALES

Income from meal and vending machine sales was not deposited in the facility operating account. Funds generated from these sales were retained by the owners and used to make minor purchases for the facility, similar to a petty cash fund.

A system of good internal accounting control requires that all cash received be deposited intact.

By failing to deposit these receipts, the Provider is unable to readily document income derived from meal sales and vending machines, and has understated income and overstated reimbursable expenses.

We recommend the Provider establish and implement the necessary controls to ensure that all cash received is deposited timely and intact.

2 copies of this document were published at an estimated printing cost of \$1.49 each, and a total printing cost of \$2.98. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.