

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-KGS-J3 – Kingstree Nursing Facility, Inc.

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 Home Health and Nursing Facility 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 black ink, appearing to read "Richard H. Gilbert, Jr." with a stylized flourish at the end.

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

RHGjr/sag

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

KINGSTREE NURSING FACILITY, INC.

KINGSTREE, SOUTH CAROLINA

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2004
AC# 3-KGS-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 Kingstree Nursing Facility, Inc., 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 Kingstree Nursing Facility, 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 Kingstree Nursing Facility, 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 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 Kingstree Nursing Facility, 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
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

KINGSTREE NURSING FACILITY, INC.
Computation of Rate Change
For the Contract Period
Beginning October 1, 2004
AC# 3-KGS-J3

	10/01/04- <u>09/30/05</u>
Interim Reimbursement Rate (1)	\$126.77
Adjusted Reimbursement Rate	<u>119.13</u>
Decrease in Reimbursement Rate	\$ <u><u>7.64</u></u>

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

KINGSTREE NURSING FACILITY, INC.
 Computation of Adjusted Reimbursement Rate
 For the Contract Period October 1, 2004 Through September 30, 2005
 AC# 3-KGS-J3

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 55.72	\$ 70.36	
Dietary		12.87	12.42	
Laundry/Housekeeping/Maintenance		<u>11.99</u>	<u>11.28</u>	
Subtotal	\$ <u>6.58</u>	80.58	94.06	\$ 80.58
Administration & Medical Records	\$ <u>4.02</u>	<u>10.63</u>	<u>14.65</u>	<u>10.63</u>
Subtotal		91.21	<u>\$108.71</u>	91.21
<u>Costs Not Subject to Standards:</u>				
Utilities		2.68		2.68
Special Services		-		-
Medical Supplies & Oxygen		5.78		5.78
Taxes and Insurance		3.81		3.81
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$103.48</u>		103.48
Inflation Factor (4.70%)				4.86
Cost of Capital				9.04
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				3.62
Cost Incentive				6.58
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(8.45)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$119.13</u>

KINGSTREE NURSING FACILITY, INC.
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2003
 AC# 3-KGS-J3

<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	\$1,817,526	\$ -	\$ 74,412 (7) 3,345 (7) 1,132 (8)	\$1,738,637
Dietary	411,890	-	8,890 (7) 1,345 (8)	401,655
Laundry	88,218	-	3,371 (7)	84,847
Housekeeping	211,340	-	8,126 (7) 116 (8)	203,098
Maintenance	90,417	-	1,667 (7) 2,709 (8)	86,041
Administration & Medical Records	389,088	-	20,000 (6) 13,768 (7) 987 (7) 22,739 (8)	331,594
Utilities	101,388	-	14,001 (2) 215 (8) 3,626 (9)	83,546
Special Services	-	7,768 (10)	7,768 (7)	-
Medical Supplies & Oxygen	222,003	928 (10)	16,463 (4) 26,140 (5)	180,328
Taxes and Insurance	122,865	-	3,435 (3) 629 (8)	118,801
Legal Fees	-	-	-	-

KINGSTREE NURSING FACILITY, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2003
AC# 3-KGS-J3

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	Adjusted <u>Totals</u>
Cost of Capital	283,703	244 (11)	1,366 (1) 645 (8)	281,936
Subtotal	3,738,438	8,940	236,895	3,510,483
Ancillary	-	18,824 (5)	-	18,824
Nonallowable	748,469	1,366 (1) 14,001 (2) 16,463 (4) 20,000 (6) 122,334 (7) 29,530 (8) 3,626 (9)	487 (3) 8,696 (10) 244 (11)	946,362
Total Operating Expenses	<u>\$4,486,907</u>	<u>\$235,084</u>	<u>\$246,322</u>	<u>\$4,475,669</u>
Total Patient Days	<u>31,201</u>	<u>-</u>	<u>-</u>	<u>31,201</u>
Total Beds	<u>88</u>			

KINGSTREE NURSING FACILITY, INC.
Adjustment Report
Cost Report Period Ended September 30, 2003
AC# 3-KGS-J3

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Nonallowable Cost of Capital	\$ 1,366	\$ 1,366
	To adjust depreciation expense to comply with capital cost policy State Plan, Attachment 4.19D		
2	Nonallowable Utilities	14,001	14,001
	To adjust utilities expense HIM-15-1, Sections 2102.3 and 2304		
3	Retained Earnings Accrued Property Taxes Taxes and Insurance Nonallowable	26,992	23,070 3,435 487
	To adjust property tax expense and related accrual HIM-15-1, Sections 2302.1 and 2304		
4	Nonallowable Medical Supplies	16,463	16,463
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		
5	Retained Earnings Ancillary Medical Supplies	7,316 18,824	26,140
	To properly charge expense applicable to the prior period and reclassify expense to the proper cost center HIM-15-1, Section 2302.1 DH&HS Expense Crosswalk		
6	Nonallowable Administration	20,000	20,000
	To reclassify expense to the proper cost center State Plan, Attachment 4.19D		

KINGSTREE NURSING FACILITY, INC.
Adjustment Report
Cost Report Period Ended September 30, 2003
AC# 3-KGS-J3

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
7	Nonallowable	122,334	
	Nursing		74,412
	Restorative		3,345
	Dietary		8,890
	Laundry		3,371
	Housekeeping		8,126
	Maintenance		1,667
	Administration		13,768
	Medical Records		987
	Special Services		7,768
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
8	Nonallowable	29,530	
	Nursing		1,132
	Dietary		1,345
	Housekeeping		116
	Maintenance		2,709
	Administration		22,739
	Utilities		215
	Taxes and Insurance		629
	Cost of Capital		645
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
9	Nonallowable	3,626	
	Utilities		3,626
	To remove cost not related to patient care HIM-15-1, Sections 2102.3 and 2328		
10	Medical Supplies	928	
	Special Services	7,768	
	Nonallowable		8,696
	To adjust special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		

KINGSTREE NURSING FACILITY, INC.
Adjustment Report
Cost Report Period Ended September 30, 2003
AC# 3-KGS-J3

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
11	Cost of Capital Nonallowable	244	244
	To adjust capital return State Plan, Attachment 4.19D		
		\$269,392	\$269,392
	TOTAL ADJUSTMENTS	\$269,392	\$269,392

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.

KINGSTREE NURSING FACILITY, INC.
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2003
 AC# 3-KGS-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>88</u>
Deemed Asset Value	3,625,424
Improvements Since 1981	-
Accumulated Depreciation at 9/30/03	<u>(358,698)</u>
Deemed Depreciated Value	3,266,726
Market Rate of Return	<u>.0531</u>
Total Annual Return	173,463
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	173,463
Depreciation Expense	108,473
Amortization Expense	-
Capital Related Income Offsets	-
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	281,936
Total Patient Days (Actual)	<u>31,201</u>
Cost of Capital Per Diem	\$ <u><u>9.04</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 \$1.44 each, and a total printing cost of \$2.88. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.