

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
FAX (803) 343-0723

September 19, 2006

Ms. Sherry Finlayson, Director
Financial Analysis/Reimbursement
Conway Hospital
Post Office Box 829
Conway, South Carolina 29528-0829

Re: AC# 3-KNC-J3 – Conway Hospital Long Term Care Services
d/b/a Kingston Nursing Center

Dear Ms. Finlayson:

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 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.

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/ms

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

**CONWAY HOSPITAL
LONG TERM CARE SERVICES
D/B/A KINGSTON NURSING CENTER**

CONWAY, SOUTH CAROLINA

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

**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 OCTOBER 1, 2004	A	3
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIOD OCTOBER 1, 2004 THROUGH SEPTEMBER 30, 2005	B	4
SUMMARY OF COSTS AND TOTAL PATIENT DAYS FOR THE COST REPORT PERIOD ENDED SEPTEMBER 30, 2003	C	5
ADJUSTMENT REPORT	1	7
COST OF CAPITAL REIMBURSEMENT ANALYSIS	2	8

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
FAX (803) 343-0723

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

August 15, 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 Conway Hospital Long Term Care Services d/b/a Kingston Nursing Center, 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 Conway Hospital Long Term Care Services d/b/a Kingston 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 Conway Hospital Long Term Care Services d/b/a Kingston 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 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 Conway Hospital Long Term Care Services d/b/a Kingston 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
August 15, 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

KINGSTON NURSING CENTER
Computation of Rate Change
For the Contract Period
Beginning October 1, 2004
AC# 3-KNC-J3

	<u>10/01/04-</u> <u>09/30/05</u>
Adjusted Reimbursement Rate	\$144.63
Interim Reimbursement Rate (1)	<u>137.71</u>
Increase in Reimbursement Rate	\$ <u><u>6.92</u></u>

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

KINGSTON NURSING CENTER
 Computation of Adjusted Reimbursement Rate
 For the Contract Period October 1, 2004 Through September 30, 2005
 AC# 3-KNC-J3

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 82.53	\$ 70.36	
Dietary		15.46	12.42	
Laundry/Housekeeping/Maintenance		<u>16.19</u>	<u>11.28</u>	
Subtotal	\$ <u>-</u>	114.18	94.06	\$ 94.06
Administration & Medical Records	\$ <u>-</u>	<u>26.97</u>	<u>14.65</u>	<u>14.65</u>
Subtotal		141.15	<u>\$108.71</u>	108.71
<u>Costs Not Subject to Standards:</u>				
Utilities		4.84		4.84
Special Services		1.96		1.96
Medical Supplies & Oxygen		5.26		5.26
Taxes and Insurance		1.95		1.95
Legal Fees		<u>.24</u>		<u>.24</u>
TOTAL		<u>\$155.40</u>		122.96
Inflation Factor (4.70%)				5.78
Cost of Capital				23.50
Cost of Capital Limitation				(7.61)
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				-
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>-</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$144.63</u>

KINGSTON NURSING CENTER
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2003
 AC# 3-KNC-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	\$2,111,550	\$ 433,342 (1)	\$ -	\$2,544,892
Dietary	587,004	-	110,221 (1)	476,783
Laundry	112,198	-	39,803 (1)	72,395
Housekeeping	178,284	1,896 (1)	-	180,180
Maintenance	273,648	-	27,029 (1)	246,619
Administration & Medical Records	610,785	220,731 (1)	-	831,516
Utilities	81,826	67,526 (1)	-	149,352
Special Services	60,304	105 (1)	-	60,409
Medical Supplies & Oxygen	138,849	23,216 (1)	-	162,065
Taxes and Insurance	15,655	44,408 (1)	-	60,063
Legal Fees	-	7,323 (1)	-	7,323
Cost of Capital	426,140	200,457 (1)	-	724,692
		<u>98,095 (2)</u>		
Subtotal	4,596,243	1,097,099	177,053	5,516,289

KINGSTON NURSING CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2003
AC# 3-KNC-J3

<u>Expenses</u>	Totals (From Schedule SC 13) as Adjusted by DH&HS	Adjustments		Adjusted Totals
		<u>Debit</u>	<u>Credit</u>	
Ancillary	269,761	-	269,555 (1)	206
Nonallowable	925,633	-	822,056 (1) 98,095 (2)	5,482
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Operating Expenses	<u>\$5,791,637</u>	<u>\$1,097,099</u>	<u>\$1,366,759</u>	<u>\$5,521,977</u>
Total Patient Days	<u>30,835</u>	<u>-</u>	<u>-</u>	<u>30,835</u>
Total Beds	<u>88</u>			

KINGSTON NURSING CENTER
Adjustment Report
Cost Report Period Ended September 30, 2003
AC# 3-KNC-J3

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	General Services	\$ 433,342	
	Housekeeping	1,896	
	Administration & Medical Records	220,731	
	Utilities	67,526	
	Special Services	105	
	Medical Supplies	23,216	
	Taxes and Insurance	44,408	
	Legal	7,323	
	Cost of Capital	200,457	
	Other Equity	269,660	
	Dietary		\$ 110,221
	Laundry		39,803
	Maintenance		27,029
	Ancillary		269,555
	Nonallowable		822,056
	To adjust cost centers to amounts per the as-filed Medicare cost report HIM-15-1, Section 2300		
2	Cost of Capital	98,095	
	Nonallowable		98,095
	To adjust capital return to allowable State Plan, Attachment 4.19D		
	<u>TOTAL ADJUSTMENTS</u>	<u>\$1,366,759</u>	<u>\$1,366,759</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.

KINGSTON NURSING CENTER
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2003
 AC# 3-KNC-J3

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.63785</u>	<u>2.63785</u>	
Deemed Asset Value (Per Bed)	41,198	41,198	
Number of Beds	<u>44</u>	<u>44</u>	
Deemed Asset Value	1,812,712	1,812,712	
Improvements Since 1981	605,820	276,962	
Accumulated Depreciation at 9/30/03	<u>(1,503,031)</u>	<u>(666,423)</u>	
Deemed Depreciated Value	915,501	1,423,251	
Market Rate of Return	<u>0.0531</u>	<u>0.0531</u>	
Total Annual Return	48,613	75,575	
Return Applicable to Non-Reimbursable Cost Centers	-	-	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	
Allowable Annual Return	48,613	75,575	
Depreciation Expense	388,114	230,675	
Amortization Expense	-	-	
Capital Related Income Offsets	(18,285)	-	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	<u>Total</u>
Allowable Cost of Capital Expense	418,442	306,250	\$724,692
Total Patient Days (Minimum 96% Occupancy)	<u>15,591</u>	<u>15,244</u>	<u>30,835</u>
Cost of Capital Per Diem	\$ <u>26.84</u>	\$ <u>20.09</u>	\$ <u>23.50</u>

KINGSTON NURSING CENTER
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2003
 AC# 3-KNC-J3

6/30/89 Cost of Capital and Return on Equity		
Capital Per Diem Reimbursement	\$ 7.79	\$ N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	<u>\$11.78</u>	<u>\$20.09</u>
Weighted Average Reimbursable Cost of Capital Per Diem*	\$15.89	
Cost of Capital Per Diem	<u>23.50</u>	
Cost of Capital Per Diem Limitation	<u>\$(7.61)</u>	

* $-\frac{[(11.78 \times 15,591) + 306,250]}{30,835}$

2 copies of this document were published at an estimated printing cost of \$1.35 each, and a total printing cost of \$2.70. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.