

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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September 13, 2006

Mr. Robert Bowles, Administrator
Saluda Nursing Center
Post Office Box 398
Saluda, South Carolina 29138

Re: AC# 3-SAL-J3 – Saluda Nursing Center

Dear Mr. Bowles:

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.

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/cwc

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

**SALUDA NURSING CENTER
SALUDA, SOUTH CAROLINA**

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

August 11, 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 Saluda 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 Saluda 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 Saluda 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 Saluda 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 11, 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

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

	<u>10/01/04-</u> <u>09/30/05</u>
Interim Reimbursement Rate (1)	\$123.57
Adjusted Reimbursement Rate	<u>122.19</u>
Decrease in Reimbursement Rate	\$ <u><u>1.38</u></u>

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

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

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 66.82	\$ 75.95	
Dietary		13.16	12.15	
Laundry/Housekeeping/Maintenance		<u>11.84</u>	<u>10.42</u>	
Subtotal	\$ <u>6.70</u>	91.82	98.52	\$ 91.82
Administration & Medical Records	\$ <u>7.62</u>	<u>7.44</u>	<u>15.06</u>	<u>7.44</u>
Subtotal		99.26	<u>\$113.58</u>	99.26
<u>Costs Not Subject to Standards:</u>				
Utilities		3.89		3.89
Special Services		-		-
Medical Supplies & Oxygen		5.26		5.26
Taxes and Insurance		.35		.35
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$108.76</u>		108.76
Inflation Factor (4.70%)				5.11
Cost of Capital				6.57
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				3.81
Cost Incentive				6.70
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(8.76)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$122.19</u>

SALUDA NURSING CENTER
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2003
 AC# 3-SAL-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	\$3,253,774	\$ 58,116 (4)	\$ 48,263 (1) 14,099 (2) 104 (2) 58,659 (5)	\$3,190,765
Dietary	630,265	185,574 (4)	216 (2) 187,335 (5)	628,288
Laundry	165,257	48,658 (4)	62 (2) 49,118 (5)	164,735
Housekeeping	232,354	128,233 (4)	132,728 (5)	227,859
Maintenance	176,287	109,089 (4)	49 (2) 112,324 (5)	173,003
Administration & Medical Records	364,624	162,683 (4) 19,852 (4)	152 (2) 34 (2) 171,741 (5) 20,038 (5)	355,194
Utilities	189,175	116,816 (4)	120,307 (5)	185,684
Special Services	-	48,263 (1) 12,611 (2)	60,874 (3)	-
Medical Supplies & Oxygen	231,366	19,572 (3)	-	250,938
Taxes and Insurance	17,004	10,177 (4)	10,503 (5)	16,678
Legal Fees	-	-	-	-

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

<u>Expenses</u>	Totals (From Schedule SC 13) as Adjusted by DH&HS	Adjustments		Adjusted Totals
		<u>Debit</u>	<u>Credit</u>	
Cost of Capital	308,983	12,797 (4)	17,416 (5)	313,748
	<u> </u>	<u>9,384 (6)</u>	<u> </u>	<u> </u>
Subtotal	5,569,089	941,825	1,004,022	5,506,892
Ancillary	272,116	-	-	272,116
Nonallowable	3,483,042	1 (2)	502 (2)	3,545,239
		2,606 (2)	851,995 (4)	
		41,302 (3)	9,384 (6)	
	<u> </u>	<u>880,169 (5)</u>	<u> </u>	<u> </u>
Total Operating Expenses	<u>\$9,324,247</u>	<u>\$1,865,903</u>	<u>\$1,865,903</u>	<u>\$9,324,247</u>
Total Patient Days	<u>47,752</u>	<u>-</u>	<u>-</u>	<u>47,752</u>
Total Beds	<u>132</u>			

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

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Therapy Nursing	\$ 48,263	\$ 48,263
	To properly classify physical therapy aide wages DH&HS Expense Checklist		
2	Therapy Nonallowable - Beauty & Barber Nonallowable Ambulance Nursing Restorative Dietary Laundry Maintenance Administration Medical Records Nonallowable - Private Pay Wing	12,611 1 2,606	14,099 104 216 62 49 152 34 502
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
3	Medical Supplies & Oxygen Nonallowable Therapy	19,572 41,302	60,874
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
4	Restorative Dietary Laundry Housekeeping Maintenance Administration Medical Records Utilities Taxes and Insurance Cost of Capital Nonallowable	58,116 185,574 48,658 128,233 109,089 162,683 19,852 116,816 10,177 12,797	851,995
	To reverse the DH&HS adjustment to remove indirect costs applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		

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

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Nonallowable	880,169	
	Restorative		58,659
	Dietary		187,335
	Laundry		49,118
	Housekeeping		132,728
	Maintenance		112,324
	Administration		171,741
	Medical Records		20,038
	Utilities		120,307
	Taxes and Insurance		10,503
	Cost of Capital		17,416
	To remove indirect costs applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
6	Cost of Capital	9,384	
	Nonallowable		9,384
	To adjust capital return State Plan, Attachment 4.19D		
	TOTAL ADJUSTMENTS	\$1,865,903	\$1,865,903

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.

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

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.6379</u>
Deemed Asset Value (Per Bed)	41,198
Number of Beds	<u>132</u>
Deemed Asset Value	5,438,136
Improvements Since 1981	1,420,709
Accumulated Depreciation at 9/30/03	<u>(2,743,273)</u>
Deemed Depreciated Value	4,115,572
Market Rate of Return	<u>0.0531</u>
Total Annual Return	218,537
Return Applicable to Non-Reimbursable Cost Centers	(20,391)
Allocation of Interest to Non-Reimbursable Cost Centers	<u>5,520</u>
Allowable Annual Return	203,666
Depreciation Expense	130,308
Amortization Expense	-
Capital Related Income Offsets	(2,810)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(17,416)</u>
Allowable Cost of Capital Expense	313,748
Total Patient Days (Actual)	<u>47,752</u>
Cost of Capital Per Diem	\$ <u><u>6.57</u></u>

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

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$3.22
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$7.21</u>
Reimbursable Cost of Capital Per Diem	\$6.57
Cost of Capital Per Diem	<u>6.57</u>
Cost of Capital Per Diem Limitation	<u>\$ -</u>

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