

# 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

March 5, 2007

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

Re: AC# 3-SUN-E4 – Cooke Associates of Fork, Inc. d/b/a Sunny Acres Nursing 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 November 10, 2003 through May 31, 2004. That report was used to set the rate covering the contract period beginning November 10, 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.

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 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/cwc

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

**COOKE ASSOCIATES OF FORK, INC.  
D/B/A SUNNY ACRES NURSING HOME**

**FORK, SOUTH CAROLINA**

**CONTRACT PERIODS  
BEGINNING NOVEMBER 10, 2003  
AC# 3-SUN-E4**

**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 PERIODS BEGINNING NOVEMBER 10, 2003	A	3
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIOD NOVEMBER 10, 2003 THROUGH MAY 31, 2004	B-1	4
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIOD JUNE 1, 2004 THROUGH SEPTEMBER 30, 2004	B-2	5
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIOD OCTOBER 1, 2004 THROUGH SEPTEMBER 30, 2005	B-3	6
SUMMARY OF COSTS AND TOTAL PATIENT DAYS FOR THE COST REPORT PERIOD ENDED MAY 31, 2004 FOR THE CONTRACT PERIODS NOVEMBER 10, 2003 THROUGH SEPTEMBER 30, 2004	C-1	7
SUMMARY OF COSTS AND TOTAL PATIENT DAYS FOR THE COST REPORT PERIOD ENDED MAY 31, 2004 FOR THE CONTRACT PERIOD OCTOBER 1, 2004 THROUGH SEPTEMBER 30, 2005	C-2	9
ADJUSTMENT REPORT	1	11
COST OF CAPITAL REIMBURSEMENT ANALYSIS FOR THE CONTRACT PERIODS NOVEMBER 10, 2003 THROUGH SEPTEMBER 30, 2004	2	14
COST OF CAPITAL REIMBURSEMENT ANALYSIS FOR THE CONTRACT PERIOD OCTOBER 1, 2004 THROUGH SEPTEMBER 30, 2005	3	16
COMMENTS AND RECOMMENDATIONS		18

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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 Cooke Associates of Fork, Inc. d/b/a Sunny Acres Nursing Home, for the contract periods beginning November 10, 2003, and for the six month cost report period ended May 31, 2004, as set forth in the accompanying schedules. The management of Cooke Associates of Fork, Inc. d/b/a Sunny Acres Nursing 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.

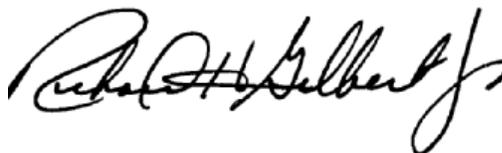
The procedures and the associated findings are as follows:

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 Cooke Associates of Fork, Inc. d/b/a Sunny Acres Nursing 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 Summaries of Costs and Total Patient Days, Adjustment Report, Cost of Capital Reimbursement Analyses, 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 Cooke Associates of Fork, Inc. d/b/a Sunny Acres Nursing Home dated as of October 28, 2003, as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computations 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

**SUNNY ACRES NURSING HOME**  
 Computation of Rate Change  
 For the Contract Periods  
 Beginning November 10, 2003  
 AC# 3-SUN-E4

	<u>11/10/03-</u> <u>05/31/04</u>	<u>06/01/04-</u> <u>09/30/04</u>	<u>10/01/04-</u> <u>09/30/05</u>
Interim Reimbursement Rate (1)	\$116.93	\$122.08	\$122.93
Adjusted Reimbursement Rate	<u>101.11</u>	<u>105.51</u>	<u>105.44</u>
Decrease in Reimbursement Rate	\$ <u>15.82</u>	\$ <u>16.57</u>	\$ <u>17.49</u>

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

**SUNNY ACRES NURSING HOME**  
 Computation of Adjusted Reimbursement Rate  
 For the Contract Period November 10, 2003 Through May 31, 2004  
 AC# 3-SUN-E4

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$52.32	\$ 66.44	
Dietary		9.43	11.55	
Laundry/Housekeeping/Maintenance		<u>13.41</u>	<u>9.83</u>	
Subtotal	<u>\$6.15</u>	75.16	87.82	\$ 75.16
Administration & Medical Records	<u>\$4.76</u>	<u>8.70</u>	<u>13.46</u>	<u>8.70</u>
Subtotal		83.86	<u>\$101.28</u>	83.86
<u>Costs Not Subject to Standards:</u>				
Utilities		2.34		2.34
Special Services		-		-
Medical Supplies & Oxygen		5.62		5.62
Taxes and Insurance		1.87		1.87
Legal Fees		<u>-</u>		<u>-</u>
<b>TOTAL</b>		<u>\$93.69</u>		93.69
Inflation Factor (N/A)				-
Cost of Capital				5.67
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				3.28
Cost Incentive				6.15
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(7.68)</u>
<b>ADJUSTED REIMBURSEMENT RATE</b>				<u>\$101.11</u>

**SUNNY ACRES NURSING HOME**  
 Computation of Adjusted Reimbursement Rate  
 For the Contract Period June 1, 2004 Through September 30, 2004  
 AC# 3-SUN-E4

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$52.32	\$ 66.44	
Dietary		9.43	11.55	
Laundry/Housekeeping/Maintenance		<u>13.41</u>	<u>9.83</u>	
Subtotal	\$ <u>6.15</u>	75.16	87.82	\$ 75.16
Administration & Medical Records	\$ <u>4.76</u>	<u>8.70</u>	<u>13.46</u>	<u>8.70</u>
Subtotal		83.86	<u>\$101.28</u>	83.86
<u>Costs Not Subject to Standards:</u>				
Utilities		2.34		2.34
Special Services		-		-
Medical Supplies & Oxygen		5.62		5.62
Taxes and Insurance		1.87		1.87
Legal Fees		<u>-</u>		<u>-</u>
<b>TOTAL</b>		<u>\$93.69</u>		93.69
Inflation Factor (4.70%)				4.40
Cost of Capital				5.67
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				3.28
Cost Incentive				6.15
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(7.68)</u>
<b>ADJUSTED REIMBURSEMENT RATE</b>				<u>\$105.51</u>

**SUNNY ACRES NURSING HOME**  
 Computation of Adjusted Reimbursement Rate  
 For the Contract Period October 1, 2004 Through September 30, 2005  
 AC# 3-SUN-E4

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$52.32	\$ 70.99	
Dietary		9.43	12.15	
Laundry/Housekeeping/Maintenance		<u>13.41</u>	<u>10.42</u>	
Subtotal	<u>\$6.55</u>	75.16	93.56	\$ 75.16
Administration & Medical Records	<u>\$6.36</u>	<u>8.70</u>	<u>15.06</u>	<u>8.70</u>
Subtotal		83.86	<u>\$108.62</u>	83.86
<u>Costs Not Subject to Standards:</u>				
Utilities		2.34		2.34
Special Services		-		-
Medical Supplies & Oxygen		5.62		5.62
Taxes and Insurance		1.87		1.87
Legal Fees		<u>-</u>		<u>-</u>
<b>TOTAL</b>		<u>\$93.69</u>		93.69
Inflation Factor (4.70%)				4.40
Cost of Capital				5.60
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				3.28
Cost Incentive				6.55
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(8.08)</u>
<b>ADJUSTED REIMBURSEMENT RATE</b>				<u>\$105.44</u>

**SUNNY ACRES NURSING HOME**  
 Summary of Costs and Total Patient Days  
 For the Cost Report Period Ended May 31, 2004  
 For the Contract Periods November 10, 2003 Through September 30, 2004  
 AC# 3-SUN-E4

<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	\$1,404,285	\$9,088 (6)	\$ 26,000 (3) 203,536 (7) 14,054 (7) 811 (8)	\$1,168,972
Dietary	234,216	783 (6)	23,306 (7) 963 (8)	210,730
Laundry	59,368	-	-	59,368
Housekeeping	126,598	-	4,329 (7) 83 (8)	122,186
Maintenance	157,095	-	14,865 (4) 18,789 (5) 3,524 (7) 1,940 (8)	117,977
Administration & Medical Records	241,959	117 (6)	5,527 (2) 16,485 (7) 25,608 (8)	194,456
Utilities	52,495	-	154 (8)	52,341
Special Services	-	6,598 (9)	6,598 (7)	-
Medical Supplies & Oxygen	148,339	-	15,334 (6) 7,379 (9)	125,626
Taxes and Insurance	42,162	-	451 (8)	41,711

**SUNNY ACRES NURSING HOME**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended May 31, 2004  
For the Contract Periods November 10, 2003 Through September 30, 2004  
AC# 3-SUN-E4

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
Legal Fees	-	-	-	-
Cost of Capital	126,194	1,155 (1)	462 (8)	126,719
	<u>                    </u>	<u>                    </u>	<u>168 (10)</u>	<u>                    </u>
Subtotal	2,592,711	17,741	390,366	2,220,086
Ancillary	-	318 (6)	-	533
		215 (9)		
Nonallowable	305,483	5,527 (2)	1,155 (1)	672,937
		26,000 (3)		
		14,865 (4)		
		18,789 (5)		
		390 (6)		
		271,832 (7)		
		30,472 (8)		
		566 (9)		
	<u>                    </u>	<u>168 (10)</u>	<u>                    </u>	<u>                    </u>
Total Operating Expenses	<u>\$2,898,194</u>	<u>\$386,883</u>	<u>\$391,521</u>	<u>\$2,893,556</u>
Total Patient Days	<u>22,341</u>	<u>-</u>	<u>-</u>	<u>22,341</u>
Total Beds	<u>111</u>			

**SUNNY ACRES NURSING HOME**  
 Summary of Costs and Total Patient Days  
 For the Cost Report Period Ended May 31, 2004  
 For the Contract Period October 1, 2004 Through September 30, 2005  
 AC# 3-SUN-E4

<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	\$1,404,285	\$9,088 (6)	\$ 26,000 (3) 203,536 (7) 14,054 (7) 811 (8)	\$1,168,972
Dietary	234,216	783 (6)	23,306 (7) 963 (8)	210,730
Laundry	59,368	-	-	59,368
Housekeeping	126,598	-	4,329 (7) 83 (8)	122,186
Maintenance	157,095	-	14,865 (4) 18,789 (5) 3,524 (7) 1,940 (8)	117,977
Administration & Medical Records	241,959	117 (6)	5,527 (2) 16,485 (7) 25,608 (8)	194,456
Utilities	52,495	-	154 (8)	52,341
Special Services	-	6,598 (9)	6,598 (7)	-
Medical Supplies & Oxygen	148,339	-	15,334 (6) 7,379 (9)	125,626
Taxes and Insurance	42,162	-	451 (8)	41,711

**SUNNY ACRES NURSING HOME**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended May 31, 2004  
For the Contract Period October 1, 2004 Through September 30, 2005  
AC# 3-SUN-E4

<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>	
Legal Fees	-	-	-	-
Cost of Capital	124,643	1,155 (1)	462 (8)	125,176
	<u>                    </u>	<u>                    </u>	<u>160 (11)</u>	<u>                    </u>
Subtotal	2,591,160	17,741	390,358	2,218,543
Ancillary	-	318 (6)	-	533
		215 (9)		
Nonallowable	307,034	5,527 (2)	1,155 (1)	674,480
		26,000 (3)		
		14,865 (4)		
		18,789 (5)		
		390 (6)		
		271,832 (7)		
		30,472 (8)		
		566 (9)		
	<u>                    </u>	<u>160 (11)</u>	<u>                    </u>	<u>                    </u>
Total Operating Expenses	<u>\$2,898,194</u>	<u>\$386,875</u>	<u>\$391,513</u>	<u>\$2,893,556</u>
Total Patient Days	<u>22,341</u>	<u>-</u>	<u>-</u>	<u>22,341</u>
Total Beds	<u>111</u>			

**SUNNY ACRES NURSING HOME**  
Adjustment Report  
Cost Report Period Ended May 31, 2004  
AC# 3-SUN-E4

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$32,907	
	Cost of Capital	1,155	
	Accumulated Depreciation		\$25,141
	Other Equity		7,766
	Nonallowable		1,155
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	5,527	
	Administration		5,527
	To remove unnecessary working capital interest HIM-15-1, Section 202.2		
3	Nonallowable	26,000	
	Nursing		26,000
	To remove expense related to unliquidated liabilities HIM-15-1, Section 2305		
4	Nonallowable	14,865	
	Maintenance		14,865
	To reclassify expense to the proper cost center and remove expense due to lack of documentation HIM-15-1, Section 2304 DH&HS Expense Crosswalk		
5	Nonallowable	18,789	
	Maintenance		18,789
	To remove expense due to lack of adequate documentation HIM-15-1, Section 2304		

**SUNNY ACRES NURSING HOME**  
Adjustment Report  
Cost Report Period Ended May 31, 2004  
AC# 3-SUN-E4

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Intercompany	4,638	
	Nursing	9,088	
	Dietary	783	
	Administration	117	
	Ancillary	318	
	Nonallowable	390	
	Medical Supplies		15,334
	To reclassify expense to the proper cost center and remove expense not related to patient care HIM-15-1, Sections 2102.3 and 2304 DH&HS Expense Crosswalk		
7	Nonallowable	271,832	
	Nursing		203,536
	Restorative		14,054
	Dietary		23,306
	Housekeeping		4,329
	Maintenance		3,524
	Administration		16,485
	Special Services		6,598
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
8	Nonallowable	30,472	
	Nursing		811
	Dietary		963
	Housekeeping		83
	Maintenance		1,940
	Administration		25,608
	Utilities		154
	Taxes and Insurance		451
	Cost of Capital		462
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

**SUNNY ACRES NURSING HOME**  
Adjustment Report  
Cost Report Period Ended May 31, 2004  
AC# 3-SUN-E4

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
9	Special Services	6,598	
	Ancillary	215	
	Nonallowable	566	
	Medical Supplies		7,379
	To adjust special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
10	Nonallowable	168	
	Cost of Capital		168
	To adjust capital return State Plan, Attachment 4.19D (This adjustment applies only to the contract periods 11/10/03 - 9/30/04)		
11	Nonallowable	160	
	Cost of Capital		160
	To adjust capital return State Plan, Attachment 4.19D (This adjustment applies only to the contract period 10/01/04 - 9/30/05)		
	TOTAL ADJUSTMENTS	<u>\$424,588</u>	<u>\$424,588</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.

**SUNNY ACRES NURSING HOME**  
 Cost of Capital Reimbursement Analysis  
 For the Cost Report Period Ended May 31, 2004  
 For the Contract Periods November 10, 2003 Through September 30, 2004  
 AC# 3-SUN-E4

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.55013</u>
Deemed Asset Value (Per Bed)	39,828
Number of Beds	<u>111</u>
Deemed Asset Value	4,420,908
Improvements Since 1981	401,783
Accumulated Depreciation at 5/31/04	( <u>1,208,824</u> )
Deemed Depreciated Value	3,613,867
Market Rate of Return	<u>.0561</u>
Total Annual Return	202,738
Number of Days in Period	<u>204/366</u>
Adjusted Annual Return	113,002
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	113,002
Depreciation Expense	13,717
Amortization Expense	-
Capital Related Income Offsets	-
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	126,719
Total Patient Days (Actual)	<u>22,341</u>
Cost of Capital Per Diem	\$ <u><u>5.67</u></u>

**SUNNY ACRES NURSING HOME**

Cost of Capital Reimbursement Analysis

For the Cost Report Period Ended May 31, 2004

For the Contract Periods November 10, 2003 Through September 30, 2004

AC# 3-SUN-E4

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$1.71
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$5.70</u>
Reimbursable Cost of Capital Per Diem	\$5.67
Cost of Capital Per Diem	<u>5.67</u>
Cost of Capital Per Diem Limitation	<u>\$ -</u>

**SUNNY ACRES NURSING HOME**  
 Cost of Capital Reimbursement Analysis  
 For the Cost Report Period Ended May 31, 2004  
 For the Contract Period October 1, 2004 Through September 30, 2005  
 AC# 3-SUN-E4

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.63785</u>
Deemed Asset Value (Per Bed)	41,198
Number of Beds	<u>111</u>
Deemed Asset Value	4,572,978
Improvements Since 1981	401,783
Accumulated Depreciation at 5/31/04	( <u>1,208,824</u> )
Deemed Depreciated Value	3,765,937
Market Rate of Return	<u>.0531</u>
Total Annual Return	199,971
Number of Days in Period	<u>204/366</u>
Adjusted Annual Return	111,459
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	111,459
Depreciation Expense	13,717
Amortization Expense	-
Capital Related Income Offsets	-
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	125,176
Total Patient Days (Actual)	<u>22,341</u>
Cost of Capital Per Diem	\$ <u><u>5.60</u></u>

**SUNNY ACRES NURSING HOME**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended May 31, 2004  
For the Contract Period October 1, 2004 Through September 30, 2005  
AC# 3-SUN-E4

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$1.71
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$5.70</u>
Reimbursable Cost of Capital Per Diem	\$5.60
Cost of Capital Per Diem	<u>5.60</u>
Cost of Capital Per Diem Limitation	<u>\$ -</u>

## **COMMENTS AND RECOMMENDATIONS**

Our agreed-upon procedures identified a condition that we have determined to be subject to correction or improvement. We believe this condition 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.

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