

# 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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April 24, 2009

Ms. Alyce C. James, Administrator  
Marion Nursing Center, Inc.  
Post Office Box 1485  
Marion, South Carolina 29571

Re: AC# 3-MAR-J6 – Marion Nursing Center, Inc.

Dear Ms. James

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, 2005 through September 30, 2006. That report was used to set the rate covering the contract periods beginning October 1, 2007.

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.

Yours very truly,

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

**MARION NURSING CENTER, INC.**

**MARION, SOUTH CAROLINA**

**CONTRACT PERIODS  
BEGINNING OCTOBER 1, 2007  
AC# 3-MAR-J6**

**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 OCTOBER 1, 2007	A	3
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIODS BEGINNING OCTOBER 1, 2007	B	4
SUMMARY OF COSTS AND TOTAL PATIENT DAYS FOR THE COST REPORT PERIOD ENDED SEPTEMBER 30, 2006	C	5
ADJUSTMENT REPORT	1	7
COST OF CAPITAL REIMBURSEMENT ANALYSIS	2	9

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### INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

March 30, 2009

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 Marion Nursing Center, Inc., for the contract periods beginning October 1, 2007, and for the twelve month cost report period ended September 30, 2006, as set forth in the accompanying schedules. The management of Marion Nursing Center, 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 Marion Nursing Center, 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, 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 Marion Nursing Center, Inc. dated as of October 1, 2006, 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  
March 30, 2009

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

**MARION NURSING CENTER, INC.**  
Computation of Rate Change  
For the Contract Periods  
Beginning October 1, 2007  
AC# 3-MAR-J6

	Beginning <u>10/01/07</u>
Interim Reimbursement Rate (1)	\$101.94
Adjusted Reimbursement Rate	<u>100.27</u>
Decrease in Reimbursement Rate	\$ <u><u>1.67</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated February 13, 2008.

**MARION NURSING CENTER, INC.**  
 Computation of Adjusted Reimbursement Rate  
 For the Contract Periods Beginning October 1, 2007  
 AC# 3-MAR-J6

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$47.13	\$ 71.58	
Dietary		10.36	13.90	
Laundry/Housekeeping/Maintenance		<u>10.10</u>	<u>13.36</u>	
Subtotal	<u>\$6.92</u>	67.59	98.84	\$ 67.59
Administration & Medical Records	<u>\$6.45</u>	<u>10.62</u>	<u>17.07</u>	<u>10.62</u>
Subtotal		78.21	<u>\$115.91</u>	78.21
<u>Costs Not Subject to Standards:</u>				
Utilities		2.65		2.65
Special Services		-		-
Medical Supplies & Oxygen		3.85		3.85
Taxes and Insurance		2.83		2.83
Legal Fees		<u>.16</u>		<u>.16</u>
<b>TOTAL</b>		<u>\$87.70</u>		87.70
Inflation Factor (4.60%)				4.03
Cost of Capital				6.17
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				3.07
Cost Incentive				6.92
Effect of \$1.75 Cap on Cost/Profit Incentives				(8.24)
Transportation Escort Add-On				<u>.62</u>
<b>ADJUSTED REIMBURSEMENT RATE</b>				<u>\$100.27</u>

**MARION NURSING CENTER, INC.**  
 Summary of Costs and Total Patient Days  
 For the Cost Report Period Ended September 30, 2006  
 AC# 3-MAR-J6

<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	\$1,500,108	\$ -	\$25,246 (2) 2,862 (2) 18,088 (7) 767 (7)	\$1,453,145
Dietary	325,399	-	3,618 (3) 2,360 (7)	319,421
Laundry	52,753	561 (2)	197 (7)	53,117
Housekeeping	98,527	-	939 (7)	97,588
Maintenance	152,028	11,719 (2)	1,648 (4) 834 (5) 552 (7)	160,713
Administration & Medical Records	332,227	503 (7)	4,593 (2) 574 (7)	327,563
Utilities	81,617	-	-	81,617
Special Services	-	138 (2) 435 (8)	573 (2)	-
Medical Supplies & Oxygen	117,403	12,436 (2)	11,130 (6) 29 (8)	118,680
Taxes and Insurance	87,356	-	-	87,356
Legal Fees	4,872	-	-	4,872

**MARION NURSING CENTER, INC.**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 2006  
AC# 3-MAR-J6

<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>
Cost of Capital	191,095	-	380 (1) 610 (9)	190,105
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Subtotal	2,943,385	25,792	75,000	2,894,177
Ancillary	43,826	-	-	43,826
Nonallowable	471,321	380 (1) 4,824 (2) 3,618 (3) 1,648 (4) 834 (5) 3,272 (6) 22,974 (7) 610 (9)	406 (8)	509,075
CNA Training and Testing	<u>275</u>	<u>                    </u>	<u>                    </u>	<u>275</u>
Total Operating Expenses	<u>\$3,458,807</u>	<u>\$63,952</u>	<u>\$75,406</u>	<u>\$3,447,353</u>
Total Patient Days	<u>30,835</u>	<u>                    </u>	<u>                    </u>	<u>30,835</u>
Total Beds	<u>88</u>			

**MARION NURSING CENTER, INC.**  
Adjustment Report  
Cost Report Period Ended September 30, 2006  
AC# 3-MAR-J6

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$17,680	
	Nonallowable	380	
	Accumulated Depreciation		\$17,273
	Other Equity		407
	Cost of Capital		380
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Laundry	561	
	Maintenance	11,719	
	Medical Supplies & Oxygen	12,436	
	Occupational Therapy	138	
	Nonallowable	4,824	
	Other Equity	3,596	
	Nursing		25,246
	Restorative		2,862
	Administration		4,593
	Physical Therapy		573
	To properly classify expenses and remove undocumented expenses DH&HS Expense Checklist HIM-15-1, Section 2304		
3	Nonallowable	3,618	
	Dietary		3,618
	To remove inadequately documented expenses HIM-15-1, Section 2304		
4	Nonallowable	1,648	
	Maintenance		1,648
	To remove undocumented expenses HIM-15-1, Section 2304		
5	Nonallowable	834	
	Maintenance		834
	To remove prior period expenses HIM-15-1, Section 2302.1		

**MARION NURSING CENTER, INC.**  
Adjustment Report  
Cost Report Period Ended September 30, 2006  
AC# 3-MAR-J6

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Other Equity Nonallowable Medical Supplies & Oxygen	7,858 3,272	  11,130
	To remove nonallowable expense, prior period expense and inadequately documented expense DH&HS Expense Checklist HIM-15-1, Section 2302.1 and 2304		
7	Administration Nonallowable Nursing Restorative Dietary Laundry Housekeeping Maintenance Medical Records	503 22,974	  18,088 767 2,360 197 939 552 574
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
8	Therapy Medical Supplies Nonallowable	435	  29 406
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
9	Nonallowable Cost of Capital	610	 610
	To adjust capital return State Plan, Attachment 4.19D		
	TOTAL ADJUSTMENTS	\$93,086	\$93,086

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.

**MARION NURSING CENTER, INC.**  
 Cost of Capital Reimbursement Analysis  
 For the Cost Report Period Ended September 30, 2006  
 AC# 3-MAR-J6

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.85382</u>
Deemed Asset Value (Per Bed)	44,571
Number of Beds	<u>88</u>
Deemed Asset Value	3,922,248
Improvements Since 1981	317,533
Accumulated Depreciation at 9/30/06	<u>(758,020)</u>
Deemed Depreciated Value	3,481,761
Market Rate of Return	<u>.0489</u>
Total Annual Return	170,258
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	170,258
Depreciation Expense	19,877
Amortization Expense	-
Capital Related Income Offsets	(30)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	190,105
Total Patient Days (Minimum 96% Occupancy)	<u>30,835</u>
Cost of Capital Per Diem	\$ <u><u>6.17</u></u>

**MARION NURSING CENTER, INC.**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 2006  
AC# 3-MAR-J6

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$3.28
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$7.27</u>
Reimbursable Cost of Capital Per Diem	\$6.17
Cost of Capital Per Diem	<u>6.17</u>
Cost of Capital Per Diem Limitation	<u>\$ -</u>

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