

# 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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June 30, 2009

Mrs. Suzanne Ward, Chief Financial Officer  
The Methodist Oaks  
1000 Methodist Oaks Drive  
Post Office Drawer 327  
Orangeburg, South Carolina 29116-0327

Re: AC# 3-MHO-J5 – The Methodist Oaks

Dear Mrs. Ward:

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, 2004 through September 30, 2005. That report was used to set the rate covering the contract period beginning October 1, 2006.

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/cwc

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

**THE METHODIST OAKS  
ORANGEBURG, SOUTH CAROLINA**

**CONTRACT PERIOD  
BEGINNING OCTOBER 1, 2006  
AC# 3-MHO-J5**

**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

April 15, 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 The Methodist Oaks, for the contract period beginning October 1, 2006, and for the twelve month cost report period ended September 30, 2005, as set forth in the accompanying schedules. The management of The Methodist Oaks 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 The Methodist Oaks, 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 The Methodist Oaks 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  
April 15, 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

**THE METHODIST OAKS**  
Computation of Rate Change  
For the Contract Period  
Beginning October 1, 2006  
AC# 3-MHO-J5

	10/01/06- <u>09/30/07</u>
Interim Reimbursement Rate (1)	\$133.15
Adjusted Reimbursement Rate	<u>121.27</u>
Decrease in Reimbursement Rate	\$ <u><u>11.88</u></u>

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

**THE METHODIST OAKS**

Computation of Adjusted Reimbursement Rate  
 For the Contract Period October 1, 2006 Through September 30, 2007  
 AC# 3-MHO-J5

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 62.16	\$ 68.64	
Dietary		12.91	13.46	
Laundry/Housekeeping/Maintenance		<u>9.39</u>	<u>12.03</u>	
Subtotal	<u>\$6.59</u>	84.46	94.13	\$ 84.46
Administration & Medical Records	<u>\$3.81</u>	<u>13.06</u>	<u>16.87</u>	<u>13.06</u>
Subtotal		97.52	<u>\$111.00</u>	97.52
<u>Costs Not Subject to Standards:</u>				
Utilities		5.48		5.48
Special Services		-		-
Medical Supplies & Oxygen		2.88		2.88
Taxes and Insurance		1.12		1.12
Legal Fees		<u>.11</u>		<u>.11</u>
<b>TOTAL</b>		<u>\$107.11</u>		107.11
Inflation Factor (4.60%)				4.93
Cost of Capital				7.48
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				3.75
Cost Incentive				6.59
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(8.59)</u>
<b>ADJUSTED REIMBURSEMENT RATE</b>				<u>\$121.27</u>

**THE METHODIST OAKS**  
 Summary of Costs and Total Patient Days  
 For the Cost Report Period Ended September 30, 2005  
 AC# 3-MHO-J5

<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	\$3,030,749	\$ 7,233 (9) 50,813 (13)	\$ 60,103 (8) 17,837 (8) 47,579 (9) 251 (11) 32,706 (12) 32,894 (12) 22,419 (15)	\$2,875,006
Dietary	688,885	491,433 (16)	2,942 (8) 22,256 (12) 557,984 (14)	597,136
Laundry	121,870	63,860 (13)	1,690 (8) 63,279 (15)	120,761
Housekeeping	236,588	385,684 (12) 6,451 (13) 4,590 (16)	6,871 (8) 3,524 (14) 490,051 (15)	132,867
Maintenance	205,597	694,675 (13) 6,159 (16)	882 (1) 41,751 (4) 9,574 (8) 6,179 (14) 667,186 (15)	180,859
Administration & Medical Records	581,769	112,697 (8) 4,944 (8) 53,598 (9) 21,606 (9) 324,059 (13) 41,153 (16)	7,792 (5) 2,718 (6) 33,584 (12) 33,286 (14) 458,518 (15)	603,928
Utilities	269,741	67,110 (13) 5,021 (16)	4,706 (14) 83,503 (15)	253,663

**THE METHODIST OAKS**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 2005  
AC# 3-MHO-J5

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	<u>Debit</u>	Adjustments <u>Credit</u>	<u>Adjusted Totals</u>
Special Services	-	-	-	-
Medical Supplies & Oxygen	191,409	-	9,793 (8) 34,858 (9) 12,021 (10) 1,352 (12)	133,385
Taxes and Insurance	65,892	215,975 (13) 1,587 (16)	42,988 (7) 789 (12) 1,811 (14) 186,045 (15)	51,821
Legal Fees	5,868	5,410 (13) 582 (16)	589 (14) 5,981 (15)	5,290
Cost of Capital	431,196	31,850 (1) 59,558 (3) 17,590 (13) 7,132 (16)	148,034 (2) 9,255 (14) 16,478 (15) 27,430 (17)	346,129
Subtotal	5,829,564	2,680,770	3,209,489	5,300,845
Ancillary	110,444	-	-	110,444

**THE METHODIST OAKS**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 2005  
AC# 3-MHO-J5

<u>Expenses</u>	Totals (From Schedule SC 13) as Adjusted by DH&HS	Debit	Adjustments Credit	Adjusted Totals
Nonallowable	6,048,312	148,034 (2)	32,068 (1)	6,567,589
		41,751 (4)	59,558 (3)	
		796 (5)	8,831 (8)	
		42,988 (7)	263,455 (12)	
		12,021 (10)	1,445,943 (13)	
		2,975 (11)	557,657 (16)	
		617,334 (14)		
		1,993,460 (15)		
		27,430 (17)		
CNA Training and Testing	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Operating Expenses	<u>\$11,988,320</u>	<u>\$5,567,559</u>	<u>\$5,577,001</u>	<u>\$11,978,878</u>
Total Patient Days	<u>46,253</u>	<u>-</u>	<u>-</u>	<u>46,253</u>
Total Beds	<u>132</u>			

**THE METHODIST OAKS**  
Adjustment Report  
Cost Report Period Ended September 30, 2005  
AC# 3-MHO-J5

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$743,641	
	Other Income	1,100	
	Cost of Capital	31,850	
	Accumulated Depreciation		\$528,841
	Fund Balance		214,800
	Maintenance		882
	Nonallowable		32,068
	To adjust fixed assets and related depreciation and offset income against related expense HIM-15-1, Sections 2302.5 and 2304 State Plan, Attachment 4.19D		
2	Nonallowable	148,034	
	Cost of Capital		148,034
	To adjust loan cost amortization and interest income HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
3	Cost of Capital	59,558	
	Nonallowable		59,558
	To adjust depreciation and amortization expense to comply with capital cost policy State Plan, Attachment 4.19D		
4	Nonallowable	41,751	
	Maintenance		41,751
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		
5	Prepaid Expense	6,996	
	Nonallowable	796	
	Administration		7,792
	To disallow expense due to lack of adequate documentation and properly charge expense applicable to the subsequent period HIM-15-1, Sections 2302.1 and 2304		

**THE METHODIST OAKS**  
Adjustment Report  
Cost Report Period Ended September 30, 2005  
AC# 3-MHO-J5

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Retained Earnings Administration	2,718	2,718
	To properly charge expense applicable to the prior period HIM-15-1, Section 2302.1		
7	Nonallowable Taxes and Insurance	42,988	42,988
	To adjust property and liability insurance expense and reclassify expense to the proper cost center HIM-15-1, Sections 2103 and 2304 DH&HS Expense Crosswalk State Plan, Attachment 4.19D		
8	Administration Medical Records Nursing Restorative Dietary Laundry Housekeeping Maintenance Medical Supplies Nonallowable	112,697 4,944	60,103 17,837 2,942 1,690 6,871 9,574 9,793 8,831
	To reclassify expense to the proper cost center and adjust fringe benefits and related allocation HIM-15-1, Section 2304 DH&HS Expense Crosswalk State Plan, Attachment 4.19D		
9	Nursing Administration Medical Records Restorative Medical Supplies	7,233 53,598 21,606	47,579 34,858
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		

**THE METHODIST OAKS**  
Adjustment Report  
Cost Report Period Ended September 30, 2005  
AC# 3-MHO-J5

ADJUSTMENT NUMBER	ACCOUNT TITLE	DEBIT	CREDIT
10	Nonallowable Medical Supplies	12,021	12,021
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
11	Nonallowable Other Income Restorative	2,975	2,724 251
	To reverse income offset and reclassify expense to the proper cost center HIM-15-1, Sections 2102.3 and 2328		
12	Other Income Housekeeping Nursing Restorative Dietary Administration Taxes and Insurance Medical Supplies Nonallowable	1,352 385,684	32,706 32,894 22,256 33,584 789 1,352 263,455
	To adjust Provider allocation of cost to non-reimbursable cost centers and offset income against related expense HIM-15-1, Sections 2102.3 and 2304 State Plan, Attachment 4.19D		
13	Restorative Laundry Housekeeping Maintenance Administration Utilities Taxes and Insurance Legal Cost of Capital Nonallowable	50,813 63,860 6,451 694,675 324,059 67,110 215,975 5,410 17,590	1,445,943
	To reverse DH&HS adjustment to remove indirect cost applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		

**THE METHODIST OAKS**  
Adjustment Report  
Cost Report Period Ended September 30, 2005  
AC# 3-MHO-J5

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
14	Nonallowable	617,334	
	Dietary		557,984
	Housekeeping		3,524
	Maintenance		6,179
	Administration		33,286
	Utilities		4,706
	Taxes and Insurance		1,811
	Legal		589
	Cost of Capital		9,255
	To reverse DH&HS adjustment to record dietary cost allocation HIM-15-1, Section 2304		
15	Nonallowable	1,993,460	
	Restorative		22,419
	Laundry		63,279
	Housekeeping		490,051
	Maintenance		667,186
	Administration		458,518
	Utilities		83,503
	Taxes and Insurance		186,045
	Legal		5,981
	Cost of Capital		16,478
	To remove indirect cost applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
16	Dietary	491,433	
	Housekeeping	4,590	
	Maintenance	6,159	
	Administration	41,153	
	Utilities	5,021	
	Taxes and Insurance	1,587	
	Legal	582	
	Cost of Capital	7,132	
	Nonallowable		557,657
	To record dietary cost allocation HIM-15-1, Section 2304		

**THE METHODIST OAKS**  
 Adjustment Report  
 Cost Report Period Ended September 30, 2005  
 AC# 3-MHO-J5

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
17	Nonallowable Cost of Capital	27,430	27,430
	To adjust capital return State Plan, Attachment 4.19D		
		_____	_____
	TOTAL ADJUSTMENTS	<u>\$6,323,366</u>	<u>\$6,323,366</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.

**THE METHODIST OAKS**  
 Cost of Capital Reimbursement Analysis  
 For the Cost Report Period Ended September 30, 2005  
 AC# 3-MHO-J5

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2,77878</u>
Deemed Asset Value (Per Bed)	43,399
Number of Beds	<u>132</u>
Deemed Asset Value	5,728,668
Improvements Since 1981	137,330
Accumulated Depreciation at 9/30/05	<u>(1,204,727)</u>
Deemed Depreciated Value	4,661,271
Market Rate of Return	<u>.0490</u>
Total Annual Return	228,402
Return Applicable to Non-Reimbursable Cost Centers	(16,764)
Allocation of Interest to Non-Reimbursable Cost Centers	<u>6,870</u>
Allowable Annual Return	218,508
Depreciation Expense	145,749
Amortization Expense	2,152
Capital Related Income Offsets	(3,802)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(16,478)</u>
Allowable Cost of Capital Expense	346,129
Total Patient Days (Minimum 96% Occupancy)	<u>46,253</u>
Cost of Capital Per Diem	\$ <u><u>7.48</u></u>

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