

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

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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-J6 – 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, 2005 through September 30, 2006. That report was used to set the rate covering the contract period 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/sag

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

**THE METHODIST OAKS
ORANGEBURG, SOUTH CAROLINA**

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

**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 28, 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 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 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 28, 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 Periods
Beginning October 1, 2007
AC# 3-MHO-J6

	<u>Beginning 10/01/07</u>
Interim Reimbursement Rate (1)	\$138.67
Adjusted Reimbursement Rate	<u>132.83</u>
Decrease in Reimbursement Rate	\$ <u><u>5.84</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 Periods Beginning October 1, 2007
 AC# 3-MHO-J6

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 66.17	\$ 71.36	
Dietary		12.79	13.85	
Laundry/Housekeeping/Maintenance		<u>12.41</u>	<u>12.55</u>	
Subtotal	<u>\$6.39</u>	91.37	97.76	\$ 91.37
Administration & Medical Records	<u>\$2.64</u>	<u>15.58</u>	<u>18.22</u>	<u>15.58</u>
Subtotal		106.95	<u>\$115.98</u>	106.95
<u>Costs Not Subject to Standards:</u>				
Utilities		5.96		5.96
Special Services		-		-
Medical Supplies & Oxygen		3.73		3.73
Taxes and Insurance		1.19		1.19
Legal Fees		<u>.10</u>		<u>.10</u>
TOTAL		<u>\$117.93</u>		117.93
Inflation Factor (4.60%)				5.42
Cost of Capital				7.27
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				2.64
Cost Incentive				6.39
Effect of \$1.75 Cap on Cost/Profit Incentives				(7.28)
Transportation Escort Add-on				<u>.46</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$132.83</u>

THE METHODIST OAKS
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2006
 AC# 3-MHO-J6

<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	\$3,262,631	\$ 822 (1) 57,036 (9)	\$32,502 (4) 52,487 (6) 26,096 (6) 58,512 (7) 10,690 (7) 21,628 (8) 36,042 (8) 21,755 (10)	\$3,060,777
Dietary	584,582	8,305 (7) 128,454 (9)	129,949 (10)	591,392
Laundry	108,941	55,834 (9)	55,833 (10)	108,942
Housekeeping	259,993	11,352 (9)	9,088 (10)	262,257
Maintenance	220,359	187 (1) 32,502 (4) 781,950 (9)	41,848 (5) 7,149 (7) 782,982 (10)	203,019
Administration & Medical Records	618,752	58,198 (6) 55,939 (6) 126,114 (7) 14,987 (7) 379,860 (9)	36,237 (8) 496,836 (10)	720,777
Utilities	295,480	75,659 (9)	95,459 (10)	275,680
Special Services	-	-	-	-
Medical Supplies & Oxygen	227,892	-	35,554 (6) 10,423 (7) 9,186 (8)	172,729

THE METHODIST OAKS
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2006
AC# 3-MHO-J6

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	<u>Debit</u>	Adjustments <u>Credit</u>	<u>Adjusted Totals</u>
Taxes and Insurance	60,373	206,926 (9)	212,042 (10)	55,257
Legal Fees	4,874	4,571 (9)	4,863 (10)	4,582
Cost of Capital	407,531	26,924 (1)	132,105 (2)	336,239
		53,599 (3)	16,760 (10)	
		<u>24,877 (9)</u>	<u>27,827 (11)</u>	
Subtotal	6,051,408	2,104,096	2,363,853	5,791,651
Ancillary	125,963	-	-	125,963
Nonallowable	7,119,481	132,105 (2)	28,333 (1)	7,375,483
		41,848 (5)	53,599 (3)	
		99,738 (8)	62,632 (7)	
		1,825,567 (10)	1,726,519 (9)	
		27,827 (11)		
CNA Training & Testing	<u>775</u>	<u>-</u>	<u>-</u>	<u>775</u>
Total Operating Expenses	<u>\$13,297,627</u>	<u>\$4,231,181</u>	<u>\$4,234,936</u>	<u>\$13,293,872</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, 2006
AC# 3-MHO-J6

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$746,947	
	Other Income	400	
	Restorative	822	
	Maintenance	187	
	Cost of Capital	26,924	
	Accumulated Depreciation		\$546,017
	Fund Balance		200,930
	Nonallowable		28,333
	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	132,105	
	Cost of Capital		132,105
	To adjust loan cost amortization and interest income HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
3	Cost of Capital	53,599	
	Nonallowable		53,599
	To adjust depreciation and amortization expense to comply with capital cost policy State Plan, Attachment 4.19D		
4	Maintenance	32,502	
	Nursing		32,502
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		
5	Nonallowable	41,848	
	Maintenance		41,848
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		

THE METHODIST OAKS
Adjustment Report
Cost Report Period Ended September 30, 2006
AC# 3-MHO-J6

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Administration	58,198	
	Medical Records	55,939	
	Nursing		52,487
	Restorative		26,096
	Medical Supplies		35,554
	To reclassify expense to the proper cost center		
	DH&HS Expense Crosswalk		
7	Dietary	8,305	
	Administration	126,114	
	Medical Records	14,987	
	Nursing		58,512
	Restorative		10,690
	Maintenance		7,149
	Medical Supplies		10,423
	Nonallowable		62,632
	To reclassify expense to the proper cost center and adjust fringe benefit allocation		
	HIM-15-1, Section 2304		
	DH&HS Expense Crosswalk		
	State Plan, Attachment 4.19D		
8	Other Income	3,355	
	Nonallowable	99,738	
	Nursing		21,628
	Restorative		36,042
	Administration		36,237
	Medical Supplies		9,186
	To adjust Provider allocation of cost to non-reimbursable cost centers, offset income against related expense and remove special (ancillary) services reimbursed by Medicare		
	HIM-15-1, Sections 2102.3 and 2304		
	State Plan, Attachment 4.19D		

THE METHODIST OAKS
Adjustment Report
Cost Report Period Ended September 30, 2006
AC# 3-MHO-J6

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
9	Restorative	57,036	
	Dietary	128,454	
	Laundry	55,834	
	Housekeeping	11,352	
	Maintenance	781,950	
	Administration	379,860	
	Utilities	75,659	
	Taxes and Insurance	206,926	
	Legal	4,571	
	Cost of Capital	24,877	
	Nonallowable		1,726,519
	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		
10	Nonallowable	1,825,567	
	Restorative		21,755
	Dietary		129,949
	Laundry		55,833
	Housekeeping		9,088
	Maintenance		782,982
	Administration		496,836
	Utilities		95,459
	Taxes and Insurance		212,042
	Legal		4,863
	Cost of Capital		16,760
	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, 2006
 AC# 3-MHO-J6

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
11	Nonallowable Cost of Capital	27,827	27,827
	To adjust capital return State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	<u>\$4,981,883</u>	<u>\$4,981,883</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, 2006
 AC# 3-MHO-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>132</u>
Deemed Asset Value	5,883,372
Improvements Since 1981	152,037
Accumulated Depreciation at 9/30/06	<u>(1,336,663)</u>
Deemed Depreciated Value	4,698,746
Market Rate of Return	<u>.0489</u>
Total Annual Return	229,769
Return Applicable to Non-Reimbursable Cost Centers	(18,352)
Allocation of Interest to Non-Reimbursable Cost Centers	<u>6,451</u>
Allowable Annual Return	217,868
Depreciation Expense	139,234
Amortization Expense	1,903
Capital Related Income Offsets	(6,006)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(16,760)</u>
Allowable Cost of Capital Expense	336,239
Total Patient Days (Minimum 96% Occupancy)	<u>46,253</u>
Cost of Capital Per Diem	\$ <u><u>7.27</u></u>

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