

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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January 26, 2010

Mr. Howard Clarke, Administrator
Honorage Nursing Center, Inc.
1207 North Cashua Drive
Florence, South Carolina 29501

Re: AC# 3-HNH-J5 – Honorage Nursing Center

Dear Mr. Clarke:

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/sag

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

**HONORAGE NURSING CENTER, INC.
FLORENCE, SOUTH CAROLINA**

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

October 30, 2008

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 Honorage Nursing Center, Inc., 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 Honorage 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 Honorage 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 Honorage 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
October 30, 2008

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

HONORAGE NURSING CENTER, INC.

Computation of Rate Change
For the Contract Period
Beginning October 1, 2006
AC# 3-HNH-J5

	10/01/06- <u>09/30/07</u>
Interim Reimbursement Rate (1)	\$139.06
Adjusted Reimbursement Rate	<u>138.11</u>
Decrease in Reimbursement Rate	\$ <u><u>.95</u></u>

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

HONORAGE NURSING CENTER, INC.
 Computation of Adjusted Reimbursement Rate
 For the Contract Period October 1, 2006 Through September 30, 2007
 AC# 3-HNH-J5

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 68.17	\$ 79.89	
Dietary		14.24	13.72	
Laundry/Housekeeping/Maintenance		<u>13.78</u>	<u>12.61</u>	
Subtotal	<u>\$7.44</u>	96.19	106.22	\$ 96.19
Administration & Medical Records	<u>\$4.28</u>	<u>12.03</u>	<u>16.31</u>	<u>12.03</u>
Subtotal		108.22	<u>\$122.53</u>	108.22
<u>Costs Not Subject to Standards:</u>				
Utilities		4.80		4.80
Special Services		.01		.01
Medical Supplies & Oxygen		6.52		6.52
Taxes and Insurance		4.87		4.87
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$124.42</u>		124.42
Inflation Factor (4.60%)				5.72
Cost of Capital				6.22
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				4.28
Cost Incentive				7.44
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(9.97)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$138.11</u>

HONORAGE NURSING CENTER, INC.
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2005
 AC# 3-HNH-J5

<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>
General Services	\$2,142,981	\$ -	\$ 5,530 (3)	\$2,137,451
Dietary	446,436	-	-	446,436
Laundry	60,375	-	-	60,375
Housekeeping	174,773	-	-	174,773
Maintenance	208,770	-	4,166 (1) 7,790 (3)	196,814
Administration & Medical Records	377,152	-	-	377,152
Utilities	150,380	-	-	150,380
Special Services	4,573	-	4,181 (4)	392
Medical Supplies & Oxygen	215,630	-	11,288 (4)	204,342
Taxes and Insurance	152,812	-	-	152,812
Legal Fees	120	-	-	120
Cost of Capital	189,896	2,174 (1) <u>2,868 (2)</u>	-	194,938
Subtotal	4,123,898	5,042	32,955	4,095,985

HONORAGE NURSING CENTER, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2005
AC# 3-HNH-J5

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
Ancillary	119,633	-	-	119,633
Nonallowable	73,410	4,166 (1) 13,320 (3) 15,469 (4)	2,868 (2)	103,497
CNA Training and Testing	<u>675</u>	<u>-</u>	<u>-</u>	<u>675</u>
Total Operating Expenses	<u>\$4,317,616</u>	<u>\$37,997</u>	<u>\$35,823</u>	<u>\$4,319,790</u>
Total Patient Days	<u>31,353</u>	<u>-</u>	<u>-</u>	<u>31,353</u>
Total Beds	<u>88</u>			

HONORAGE NURSING CENTER, INC.
Adjustment Report
Cost Report Period Ended September 30, 2005
AC# 3-HNH-J5

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$ 87,079	
	Cost of Capital	2,174	
	Nonallowable	4,166	
	Accumulated Depreciation		\$ 72,597
	Other Equity		16,656
	Maintenance		4,166
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Cost of Capital	2,868	
	Nonallowable		2,868
	To adjust capital return State Plan, Attachment 4.19D		
3	Nonallowable	13,320	
	Restorative		5,530
	Maintenance		7,790
	To reclassify expense to the proper cost center HIM-15-1, Section 2307 State Plan, Attachment 4.19D		
4	Nonallowable	15,469	
	Medical Supplies & Oxygen		11,288
	Special Services		4,181
	To remove special (ancillary) services reimbursable by Medicare State Plan, Attachment 4.19D		
	TOTAL ADJUSTMENTS	<u>\$125,076</u>	<u>\$125,076</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.

HONORAGE NURSING CENTER, INC.
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2005
 AC# 3-HNH-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>88</u>
Deemed Asset Value	3,819,112
Improvements Since 1981	776,637
Accumulated Depreciation at 9/30/05	<u>(1,243,355)</u>
Deemed Depreciated Value	3,352,394
Market Rate of Return	<u>.0490</u>
Total Annual Return	164,267
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	164,267
Depreciation Expense	30,690
Amortization Expense	-
Capital Related Income Offsets	(19)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	194,938
Total Patient Days (Actual)	<u>31,353</u>
Cost of Capital Per Diem	\$ <u><u>6.22</u></u>

HONORAGE NURSING CENTER, INC.
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2005
AC# 3-HNH-J5

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$2.80
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$6.79</u>
Reimbursable Cost of Capital Per Diem	\$6.22
Cost of Capital Per Diem	<u>6.22</u>
Cost of Capital Per Diem Limitation	<u>\$ -</u>

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