

*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-J6 – Honorage Nursing Center, Inc.

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, 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/cwc

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

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

**CONTRACT PERIOD  
BEGINNING OCTOBER 1, 2007  
AC# 3-HNH-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

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, 2007, and for the twelve month cost report period ended September 30, 2006, 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, 2007  
AC# 3-HNH-J6

	10/01/07- <u>09/30/08</u>
Interim Reimbursement Rate (1)	\$145.18
Adjusted Reimbursement Rate	<u>143.72</u>
Decrease in Reimbursement Rate	\$ <u>1.46</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, 2007 Through September 30, 2008  
 AC# 3-HNH-J6

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 68.65	\$ 83.18	
Dietary		14.44	13.90	
Laundry/Housekeeping/Maintenance		<u>16.83</u>	<u>13.36</u>	
Subtotal	<u>\$7.73</u>	99.92	110.44	\$ 99.92
Administration & Medical Records	<u>\$4.40</u>	<u>12.67</u>	<u>17.07</u>	<u>12.67</u>
Subtotal		112.59	<u>\$127.51</u>	112.59
<u>Costs Not Subject to Standards:</u>				
Utilities		4.27		4.27
Special Services		.13		.13
Medical Supplies & Oxygen		7.02		7.02
Taxes and Insurance		4.44		4.44
Legal Fees		<u>.16</u>		<u>.16</u>
<b>TOTAL</b>		<u>\$128.61</u>		128.61
Inflation Factor (4.60%)				5.92
Cost of Capital				6.92
Cost of Capital Limitation				(.13)
Profit Incentive (Maximum 3.5% of Allowable Cost)				4.40
Cost Incentive				7.73
Effect of \$1.75 Cap on Cost/Profit Incentives				(10.38)
Transportation Escort Add-On				<u>.65</u>
<b>ADJUSTED REIMBURSEMENT RATE</b>				<u>\$143.72</u>

**HONORAGE NURSING CENTER, INC.**  
 Summary of Costs and Total Patient Days  
 For the Cost Report Period Ended September 30, 2006  
 AC# 3-HNH-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	\$2,156,346	\$ 1,735 (1)	\$ 3,849 (3) 6,456 (5) 139 (5)	\$2,147,637
Dietary	452,292	-	585 (5)	451,707
Laundry	60,892	-	82 (5)	60,810
Housekeeping	251,131	-	458 (5)	250,673
Maintenance	247,315	-	19,365 (1) 12,816 (3) 224 (5)	214,910
Administration & Medical Records	394,895	1,594 (5)	86 (5)	396,403
Utilities	133,615	-	-	133,615
Special Services	6,296	-	2,287 (6)	4,009
Medical Supplies & Oxygen	225,072	-	5,360 (6)	219,712
Taxes and Insurance	136,635	2,193 (4)	-	138,828
Legal Fees	5,000	-	-	5,000
Cost of Capital	210,101	746 (1) <u>5,748 (2)</u>	-	216,595
Subtotal	4,279,590	12,016	51,707	4,239,899

**HONORAGE NURSING CENTER, INC.**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 2006  
AC# 3-HNH-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>	
Ancillary	-	-	-	-
Nonallowable	216,865	4,930 (1) 16,665 (3) 6,436 (5) 7,647 (6)	5,748 (2) 2,193 (4)	244,602
CNA Training & Testing	<u>400</u>	<u>-</u>	<u>-</u>	<u>400</u>
Total Operating Expenses	<u>\$4,496,855</u>	<u>\$47,694</u>	<u>\$59,648</u>	<u>\$4,484,901</u>
Total Patient Days	<u>31,284</u>	<u>-</u>	<u>-</u>	<u>31,284</u>
Total Beds	<u>88</u>			

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

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$74,047	
	Other Equity	11,250	
	Restorative	1,735	
	Cost of Capital	746	
	Nonallowable	4,930	
	Accumulated Depreciation		\$73,343
	Maintenance		19,365
	To adjust fixed assets and related depreciation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
2	Cost of Capital	5,748	
	Nonallowable		5,748
	To adjust capital return		
	State Plan, Attachment 4.19D		
3	Nonallowable	16,665	
	Restorative		3,849
	Maintenance		12,816
	To reclassify expense to the proper cost center		
	HIM-15-1, Section 2302.4		
	State Plan, Attachment 4.19D		
4	Taxes and Insurance	2,193	
	Nonallowable		2,193
	To adjust general insurance		
	HIM-15-1, Section 2304		
5	Administration	1,594	
	Nonallowable	6,436	
	Nursing		6,456
	Restorative		139
	Dietary		585
	Laundry		82
	Housekeeping		458
	Maintenance		224
	Medical Records		86
	To adjust workers' compensation expense		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		

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

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Nonallowable Medical Supplies & Oxygen Special Services	7,647	5,360 2,287
	To remove special (ancillary) services reimbursable by Medicare State Plan, Attachment 4.19D		
	<b>TOTAL ADJUSTMENTS</b>	<b><u>\$132,991</u></b>	<b><u>\$132,991</u></b>

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, 2006  
 AC# 3-HNH-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	1,087,034
Accumulated Depreciation at 9/30/06	( <u>1,277,466</u> )
Deemed Depreciated Value	3,731,816
Market Rate of Return	<u>.0489</u>
Total Annual Return	182,486
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	182,486
Depreciation Expense	34,109
Amortization Expense	-
Capital Related Income Offsets	-
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	216,595
Total Patient Days (Actual)	<u>31,284</u>
Cost of Capital Per Diem	\$ <u><u>6.92</u></u>

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

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	\$6.79
Cost of Capital Per Diem	<u>6.92</u>
Cost of Capital Per Diem Limitation	<u>\$(.13)</u>

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