

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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May 11, 2010

Mr. Jerry D. Morton, CFO
Wesley Commons
1110 Marshall Road
Greenwood, South Carolina 29646

Re: AC# 3-MHG-J6 – Wesley Commons

Dear Mr. Morton:

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.

By request of the state medicaid agency this letter also serves as an official notice of your requirement to respond with a report of planned corrective actions on the recommendations and deficiencies noted in this report within forty-five (45) days of the date of this letter. Your response should reference the audit control number and be addressed to: Division of Home Health and Nursing Facility Services, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina, 29202-8206. You are also required to simultaneously furnish a copy of your corrective action report to the State Auditor's Office.

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

**WESLEY COMMONS
GREENWOOD, SOUTH CAROLINA**

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2007
AC# 3-MHG-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 PERIOD BEGINNING OCTOBER 1, 2007	A	3
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIOD OCTOBER 1, 2007 THROUGH SEPTEMBER 30, 2008	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	10
COMMENTS AND RECOMMENDATIONS		12

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

June 16, 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 Wesley Commons, 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 Wesley Commons 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.

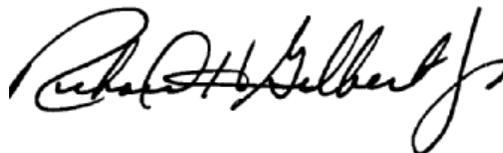
The procedures and the associated findings are as follows:

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 Wesley Commons, 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, Cost of Capital Reimbursement Analysis, and Comments and Recommendations 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 Wesley Commons 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
June 16, 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.", with a stylized flourish at the end.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

WESLEY COMMONS
Computation of Rate Change
For the Contract Period
Beginning October 1, 2007
AC# 3-MHG-J6

	<u>10/01/07-</u> <u>09/30/08</u>
Interim Reimbursement Rate (1)	\$148.85
Adjusted Reimbursement Rate	<u>146.45</u>
Decrease in Reimbursement Rate	\$ <u><u>2.40</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated June 8, 2009.

WESLEY COMMONS

Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 2007 Through September 30, 2008
AC# 3-MHG-J6

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 70.39	\$ 82.94	
Dietary		16.74	13.85	
Laundry/Housekeeping/Maintenance		<u>15.53</u>	<u>12.55</u>	
Subtotal	\$ <u>6.68</u>	102.66	109.34	\$102.66
Administration & Medical Records	\$ <u>1.73</u>	<u>16.49</u>	<u>18.22</u>	<u>16.49</u>
Subtotal		119.15	<u>\$127.56</u>	119.15
<u>Costs Not Subject to Standards:</u>				
Utilities		4.89		4.89
Special Services		.01		.01
Medical Supplies & Oxygen		4.12		4.12
Taxes and Insurance		3.74		3.74
Legal Fees		<u>.06</u>		<u>.06</u>
TOTAL		<u>\$131.97</u>		131.97
Inflation Factor (4.60%)				6.07
Cost of Capital				8.16
Cost of Capital Limitation				(2.10)
Profit Incentive (Maximum 3.5% of Allowable Cost)				1.73
Cost Incentive				6.68
Effect of \$1.75 Cap on Cost/Profit Incentives				(6.66)
Transportation Escort Add-On				<u>.60</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$146.45</u>

WESLEY COMMONS
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2006
AC# 3-MHG-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	\$2,565,900	\$ 351 (4)	\$ 33,237 (1) 3,305 (3) 8,587 (4) 5,140 (5)	\$2,515,982
Dietary	598,930	-	465 (4)	598,465
Laundry	116,983	10 (4)	-	116,993
Housekeeping	210,774	1,500 (6)	79 (4) 1,499 (7)	210,696
Maintenance	174,883	33,237 (1) 88,348 (2) 29,045 (4) 513,447 (6)	611,675 (7)	227,285
Administration & Medical Records	678,071	18,013 (3) 9,039 (4) 5,140 (5) 873,241 (6)	88,348 (2) 20,993 (4) 884,793 (7)	589,370
Utilities	174,861	1,211 (6)	1,211 (7)	174,861
Special Services	461	-	-	461
Medical Supplies & Oxygen	161,609	-	12,157 (3) 2,340 (4)	147,112
Taxes and Insurance	140,949	79,413 (6)	86,806 (7)	133,556

WESLEY COMMONS
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2006
AC# 3-MHG-J6

<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>
Legal Fees	2,353	3,783 (6)	4,128 (7)	2,008
Cost of Capital	216,590	22,781 (6)	16,564 (7)	291,736
	<u> </u>	<u>68,929 (8)</u>	<u> </u>	<u> </u>
Subtotal	5,042,364	1,747,488	1,781,327	5,008,525
Ancillary	145,386	-	-	145,386
Nonallowable	10,084,742	1,606,676 (7)	2,551 (3)	10,118,581
			5,981 (4)	
			1,495,376 (6)	
			68,929 (8)	
CNA Training and Testing	<u> -</u>	<u> -</u>	<u> -</u>	<u> -</u>
Total Operating Expenses	<u>\$15,272,492</u>	<u>\$3,354,164</u>	<u>\$3,354,164</u>	<u>\$15,272,492</u>
Total Patient Days	<u> 35,741</u>	<u> -</u>	<u> -</u>	<u> 35,741</u>
Total Beds	<u> 102</u>			

WESLEY COMMONS
Adjustment Report
Cost Report Period Ended September 30, 2006
AC# 3-MHG-J6

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Maintenance Restorative	\$33,237	\$33,237
	To reclass shared auto repairs, maintenance, gas and insurance HIM-15-1, Section 2304 DH&HS Expense Crosswalk State Plan, Attachment 4.19D		
2	Maintenance Administration	88,348	88,348
	To properly classify security expense DH&HS Expense Crosswalk		
3	Medical Records Nursing Medical Supplies & Oxygen Nonallowable - Assisted Living	18,013	3,305 12,157 2,551
	To reclassify wages based on position descriptions and conversation with the administrator DH&HS Expense Crosswalk HIM-15-1, Sections 2313.2D and 2304		
4	Restorative Laundry Maintenance Medical Records Nursing Dietary Housekeeping Administration Medical Supplies & Oxygen Nonallowable	351 10 29,045 9,039	8,587 465 79 20,993 2,340 5,981
	To adjust the fringe benefits allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

WESLEY COMMONS
Adjustment Report
Cost Report Period Ended September 30, 2006
AC# 3-MHG-J6

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Administration Restorative	5,140	5,140
	To reclass shared business catered functions and shared campus activities to administration for allocation purpose HIM-15-1, Section 2304 DH&HS Expense Crosswalk		
6	Housekeeping Maintenance Administration Utilities Taxes and Insurance Legal Cost of Capital Nonallowable	1,500 513,447 873,241 1,211 79,413 3,783 22,781	1,495,376
	To reverse Provider/DH&HS adjustment to remove indirect costs applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
7	Nonallowable Housekeeping Maintenance Administration Utilities Taxes and Insurance Legal Cost of Capital	1,606,676	1,499 611,675 884,793 1,211 86,806 4,128 16,564
	To remove indirect costs applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		

WESLEY COMMONS
Adjustment Report
Cost Report Period Ended September 30, 2006
AC# 3-MHG-J6

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
8	Cost of Capital Nonallowable	68,929	68,929
	To adjust capital return State Plan, Attachment 4.19D		
	TOTAL ADJUSTMENTS	<u>68,929</u>	<u>68,929</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.

WESLEY COMMONS
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2006
 AC# 3-MHG-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>102</u>
Deemed Asset Value	4,546,242
Improvements Since 1981	2,517,969
Accumulated Depreciation at 9/30/06	<u>(3,752,103)</u>
Deemed Depreciated Value	3,312,108
Market Rate of Return	<u>.0489</u>
Total Annual Return	161,962
Return Applicable to Non-Reimbursable Cost Centers	(16,477)
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	145,485
Depreciation Expense	162,815
Amortization Expense	-
Capital Related Income Offsets	-
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(16,564)</u>
Allowable Cost of Capital Expense	291,736
Total Patient Days (Minimum 96% Occupancy)	<u>35,741</u>
Cost of Capital Per Diem	\$ <u><u>8.16</u></u>

WESLEY COMMONS
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2006
AC# 3-MHG-J6

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$ 2.07
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	\$ <u>6.06</u>
Reimbursable Cost of Capital Per Diem	\$ 6.06
Cost of Capital Per Diem	<u>8.16</u>
Cost of Capital Per Diem Limitation	\$ (<u>2.10</u>)

COMMENTS AND RECOMMENDATIONS

Our agreed-upon procedures identified certain conditions that we determined to be subject to correction or improvement. We believe that this condition should be brought to your attention.

SALARY ALLOCATIONS

The provider allocated employee salaries to multiple cost centers.

The salary allocations were not supported by approved time sheets, time studies or documented allocation plans; rather, they were based on estimates which could not be verified by auditing procedures. This resulted in possible over/understatements of expenses in the related cost centers.

HIM-15-1, Section 2304, states:

Cost information as developed by the provider must be current, accurate, and in sufficient detail to support payments made for services rendered to beneficiaries. This includes all ledgers, books, records and original evidences of cost (purchase requisitions, purchase orders, vouchers, requisitions for materials, inventories, labor time cards, payrolls, bases for apportioning costs, etc.), which pertain to the determination of reasonable cost, capable of being audited.

We recommend all salary allocations be supported by approved time sheets, time studies in accordance with HIM-15-1, Section 2313.2E or other documented allocation plans which can be verified by audit.

COPIER ALLOCATIONS

The provider allocated copier expense to multiple accounts.

The copier expense allocations were not supported by a documented allocation plan or documented statistics. Per the provider they were based on number of copies which were not documented to support the allocations. This resulted in possible over/understatements of expenses in the related cost centers.

HIM-15-1, Section 2304, states:

Cost information as developed by the provider must be current, accurate, and in sufficient detail to support payments made for services rendered to beneficiaries. This includes all ledgers, books, records and original evidences of cost (purchase requisitions, purchase orders, vouchers, requisitions for materials, inventories, labor time cards, payrolls, bases for apportioning costs, etc.), which pertain to the determination of reasonable cost, capable of being audited.

We recommend all copier allocations be supported by the statistics and method used to allocate the expense in accordance with HIM-15-1, Section 2304.

2 copies of this document were published at an estimated printing cost of \$1.47 each, and a total printing cost of \$2.94. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.