

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
FAX (803) 343-0723

July 28, 2009

Ms. Martha Hughey
Assistant Vice President of Reimbursement
National Healthcare Corporation
100 East Vine Street
Murfreesboro, Tennessee 37130

Re: AC# 3-NAG-J4 – National Healthcare North Augusta, LLC

Dear Ms. Hughey:

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, 2003 through September 30, 2004. That report was used to set the rate covering the contract period beginning October 1, 2005.

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

**NATIONAL HEALTHCARE NORTH AUGUSTA, LLC
NORTH AUGUSTA, SOUTH CAROLINA**

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2005
AC# 3-NAG-J4**

**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

September 5, 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 National Healthcare North Augusta, LLC, for the contract period beginning October 1, 2005, and for the twelve month cost report period ended September 30, 2004, as set forth in the accompanying schedules. The management of National Healthcare North Augusta, LLC 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 National Healthcare North Augusta, LLC, 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 National Healthcare North Augusta, LLC dated as of October 1, 2001, 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
September 5, 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

NATIONAL HEALTHCARE NORTH AUGUSTA, LLC
Computation of Rate Change
For the Contract Period
Beginning October 1, 2005
AC# 3-NAG-J4

	10/01/05- <u>09/30/06</u>
Interim Reimbursement Rate (1)	\$142.35
Adjusted Reimbursement Rate	<u>141.94</u>
Decrease in Reimbursement Rate	\$ <u><u>.41</u></u>

- (1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated May 17, 2007.

NATIONAL HEALTHCARE NORTH AUGUSTA, LLC
 Computation of Adjusted Reimbursement Rate
 For the Contract Period October 1, 2005 Through September 30, 2006
 AC# 3-NAG-J4

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 66.51	\$ 75.11	
Dietary		13.37	12.63	
Laundry/Housekeeping/Maintenance		<u>12.25</u>	<u>10.97</u>	
Subtotal	<u>\$6.58</u>	92.13	98.71	\$ 92.13
Administration & Medical Records	<u>\$ -</u>	<u>21.52</u>	<u>16.13</u>	<u>16.13</u>
Subtotal		113.65	<u>\$114.84</u>	108.26
<u>Costs Not Subject to Standards:</u>				
Utilities		4.29		4.29
Special Services		-		-
Medical Supplies & Oxygen		5.57		5.57
Taxes and Insurance		6.91		6.91
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$130.42</u>		125.03
Inflation Factor (4.70%)				5.88
Cost of Capital				9.28
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				6.58
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(4.83)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$141.94</u>

NATIONAL HEALTHCARE NORTH AUGUSTA, LLC
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2004
 AC# 3-NAG-J4

<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>
General Services	\$3,084,701	\$ -	\$ -	\$3,084,701
Dietary	620,002	-	-	620,002
Laundry	92,714	-	-	92,714
Housekeeping	278,079	-	-	278,079
Maintenance	197,163	-	-	197,163
Administration & Medical Records	998,285	-	-	998,285
Utilities	198,773	-	-	198,773
Special Services	-	-	-	-
Medical Supplies & Oxygen	258,433	-	-	258,433
Taxes and Insurance	330,809	-	10,356 (2)	320,453
Legal Fees	-	-	-	-
Cost of Capital	438,755	26,552 (1)	8,020 (3)	433,081
	<u> </u>	<u> </u>	<u>24,206 (4)</u>	<u> </u>
Subtotal	6,497,714	26,552	42,582	6,481,684

NATIONAL HEALTHCARE NORTH AUGUSTA, LLC
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2004
AC# 3-NAG-J4

<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>	
Ancillary	-	-	-	-
Nonallowable	1,105,071 <u> </u>	10,356 (2) 8,020 (3) <u>24,206 (4)</u>	26,552 (1) <u> </u>	1,121,101 <u> </u>
Total Operating Expenses	<u>\$7,602,785</u>	<u>\$69,134</u>	<u>\$69,134</u>	<u>\$7,602,785</u>
Total Patient Days	<u>*46,380</u>	<u> -</u>	<u> -</u>	<u>46,380</u>
Cost of Capital Days	<u>*46,654</u>			

*Adjusted to 96% occupancy

Total Beds 132

NATIONAL HEALTHCARE NORTH AUGUSTA, LLC
Adjustment Report
Cost Report Period Ended September 30, 2004
AC# 3-NAG-J4

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Other Equity	\$ 54,870	
	Cost of Capital	26,552	
	Accumulated Depreciation		\$ 14,440
	Fixed Assets		40,430
	Nonallowable		26,552
	To adjust fixed assets and related depreciation expense HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	10,356	
	Taxes and Insurance		10,356
	To adjust property tax expense HIM-15-1, Section 2304		
3	Nonallowable	8,020	
	Cost of Capital		8,020
	To adjust capital return State Plan, Attachment 4.19D		
4	Nonallowable	24,206	
	Cost of Capital		24,206
	To adjust deemed asset value limitation State Plan, Attachment 4.19D		
		\$124,004	\$124,004
	TOTAL ADJUSTMENTS		

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.

NATIONAL HEALTHCARE NORTH AUGUSTA, LLC
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2004
 AC# 3-NAG-J4

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.7149</u>	<u>2.7149</u>	
Deemed Asset Value (Per Bed)	42,402	42,402	
Number of Beds	<u>88</u>	<u>44</u>	
Deemed Asset Value	3,731,376	1,865,688	
Improvements Since 1981	561,835	390,889	
Accumulated Depreciation at 9/30/04	<u>(1,457,396)</u>	<u>(1,032,410)</u>	
Deemed Depreciated Value	2,835,815	1,224,167	
Market Rate of Return	<u>.0516</u>	<u>.0516</u>	
Total Annual Return	146,328	63,167	
Return Applicable to Non-Reimbursable Cost Centers	-	-	
Allocation of Rent and Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	
Allowable Annual Return	146,328	63,167	
Depreciation Expense	110,167	117,208	
Amortization Expense	-	-	
Capital Related Income Offsets	(2,526)	(1,263)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	<u>Total</u>
Allowable Cost of Capital Expense	253,969	179,112	\$433,081
Total Patient Days (Minimum 96% Occupancy)	<u>30,920</u>	<u>15,734</u>	<u>46,654</u>
Cost of Capital Per Diem	\$ <u>8.21</u>	\$ <u>11.38</u>	\$ <u>9.28</u>

NATIONAL HEALTHCARE NORTH AUGUSTA, LLC
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2004
 AC# 3-NAG-J4

6/30/89 Cost of Capital and Return on Equity		
Capital Per Diem Reimbursement	\$ N/A	\$ N/A
Adjustment for Maximum Increase	<u>N/A</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	<u>\$8.21</u>	<u>\$11.38</u>
Reimbursable Cost of Capital Per Diem	\$9.28	
Cost of Capital Per Diem	<u>9.28</u>	
Cost of Capital Per Diem Limitation	<u>\$ -</u>	

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