

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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August 31, 2010

Mr. Glenn Wicker, Chief Financial Officer
J. F. Hawkins Nursing Home, Inc.
1330 Kinard Street
Newberry, South Carolina 29108

Re: AC# 3-JFH-F5 – J. F. Hawkins Nursing Home, Inc.

Dear Mr. Wicker:

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 July 1, 2004 through June 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

**J. F. HAWKINS NURSING HOME, INC.
NEWBERRY, SOUTH CAROLINA**

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2006
AC# 3-JFH-F5**

**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

June 7, 2010

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 J. F. Hawkins Nursing Home, Inc., for the contract period beginning October 1, 2006, and for the twelve month cost report period ended June 30, 2005, as set forth in the accompanying schedules. The management of J. F. Hawkins Nursing Home, 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 J. F. Hawkins Nursing Home, 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 J. F. Hawkins Nursing Home, 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
June 7, 2010

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

J. F. HAWKINS NURSING HOME, INC.
Computation of Rate Change
For the Contract Period
Beginning October 1, 2006
AC# 3-JFH-F5

10/01/06
09/30/07

Interim Reimbursement Rate (1)	\$136.41
Adjusted Reimbursement Rate	<u>133.72</u>
Decrease in Reimbursement Rate	\$ <u><u>2.69</u></u>

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

J. F. HAWKINS NURSING HOME, INC.
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 2006 Through September 30, 2007
AC# 3-JFH-F5

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 74.27	\$ 79.77	
Dietary		15.06	13.46	
Laundry/Housekeeping/Maintenance		<u>11.05</u>	<u>12.03</u>	
Subtotal	<u>\$4.88</u>	100.38	105.26	\$100.38
Administration & Medical Records	<u>\$5.96</u>	<u>10.91</u>	<u>16.87</u>	<u>10.91</u>
Subtotal		111.29	<u>\$122.13</u>	111.29
<u>Costs Not Subject to Standards:</u>				
Utilities		3.67		3.67
Special Services		.10		.10
Medical Supplies & Oxygen		2.93		2.93
Taxes and Insurance		.30		.30
Legal Fees		<u>.28</u>		<u>.28</u>
TOTAL		<u>\$118.57</u>		118.57
Inflation Factor (4.60%)				5.45
Cost of Capital				7.95
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				4.15
Cost Incentive				4.88
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(7.28)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$133.72</u>

J. F. HAWKINS NURSING HOME, INC.
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended June 30, 2005
 AC# 3-JFH-F5

<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	\$3,094,667	\$30,044 (6)	44,664 (7)	\$3,080,047
Dietary	623,742	1,207 (1) 273,515 (6)	273,883 (7)	624,581
Laundry	113,651	123 (1)	-	113,774
Housekeeping	239,145	75,132 (6)	72,021 (7)	242,256
Maintenance	155,659	191,365 (6)	244,998 (7)	102,026
Administration & Medical Records	462,028	136,343 (6)	4,636 (2) 141,121 (7)	452,614
Utilities	163,447	-	6,374 (6) 4,734 (7)	152,339
Special Services	3,943	-	-	3,943
Medical Supplies & Oxygen	123,692	-	2,199 (4)	121,493
Taxes and Insurance	12,828	28,341 (6)	28,783 (7)	12,386
Legal Fees	11,718	4,573 (6)	4,824 (7)	11,467
Cost of Capital	350,015	4,793 (6)	1,596 (1) 6,252 (2) 117 (3) 3,214 (5) 12,948 (7)	330,681
Subtotal	5,354,535	745,436	852,364	5,247,607

J. F. HAWKINS NURSING HOME, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended June 30, 2005
AC# 3-JFH-F5

<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	115,392	-	-	115,392
Nonallowable	2,513,069	10,888 (2)	737,732 (6)	2,619,731
		117 (3)		
		2,199 (4)		
		3,214 (5)		
		827,976 (7)		
CNA Training and Testing	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Operating Expenses	<u>\$7,982,996</u>	<u>\$1,589,830</u>	<u>\$1,590,096</u>	<u>\$7,982,730</u>
Total Patient Days	<u>41,471</u>	<u>-</u>	<u>-</u>	<u>41,471</u>
			Cost of Capital Patient Days	<u>41,620</u>
Total Beds	<u>118</u>			

J. F. HAWKINS NURSING HOME, INC.
Adjustment Report
Cost Report Period Ended June 30, 2005
AC# 3-JFH-F5

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$ 31,991	
	Dietary	1,207	
	Laundry	123	
	Fixed Assets		\$ 24,793
	Other Equity		6,932
	Cost of Capital		1,596
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	10,888	
	Administration		4,636
	Cost of Capital		6,252
	To remove nonallowable interest expense and loan cost amortization HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
3	Nonallowable	117	
	Cost of Capital		117
	To adjust depreciation expense to comply with capital cost policy State Plan, Attachment 4.19D		
4	Nonallowable	2,199	
	Medical Supplies & Oxygen		2,199
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
5	Nonallowable	3,214	
	Cost of Capital		3,214
	To adjust capital return State Plan, Attachment 4.19D		

J. F. HAWKINS NURSING HOME, INC.
Adjustment Report
Cost Report Period Ended June 30, 2005
AC# 3-JFH-F5

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Restorative	30,044	
	Dietary	273,515	
	Housekeeping	75,132	
	Maintenance	191,365	
	Administration	136,343	
	Legal	4,573	
	Taxes and Insurance	28,341	
	Cost of Capital	4,793	
	Utilities		6,374
	Nonallowable		737,732
	To reverse Provider and DH&HS adjustments to remove cost applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
7	Nonallowable	827,976	
	Restorative		44,664
	Dietary		273,883
	Housekeeping		72,021
	Maintenance		244,998
	Administration		141,121
	Legal		4,824
	Utilities		4,734
	Taxes and Insurance		28,783
	Cost of Capital		12,948
	To remove indirect cost applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
	<u>TOTAL ADJUSTMENTS</u>	<u>\$1,621,821</u>	<u>\$1,621,821</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.

J. F. HAWKINS NURSING HOME, INC.
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended June 30, 2005
 AC# 3-JFH-F5

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.77878</u>	<u>2.77878</u>	<u>2.77878</u>	
Deemed Asset Value (Per Bed)	43,399	43,399	43,399	
Number of Beds	<u>78</u>	<u>20</u>	<u>20</u>	
Deemed Asset Value	3,385,122	867,980	867,980	
Improvements Since 1981	1,422,162	36,176	36,407	
Accumulated Depreciation at 6/30/05	<u>(2,076,761)</u>	<u>(255,257)</u>	<u>(164,884)</u>	
Deemed Depreciated Value	2,730,523	648,899	739,503	
Market Rate of Return	<u>.0490</u>	<u>.0490</u>	<u>.0490</u>	
Total Annual Return	133,796	31,796	36,236	
Return Applicable to Non-Reimbursable Cost Centers	(6,282)	(1,492)	(1,701)	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>4,853</u>	<u>626</u>	<u>655</u>	
Allowable Annual Return	132,367	30,930	35,190	
Depreciation Expense	81,684	29,950	33,633	
Amortization Expense	-	-	-	
Capital Related Income Offsets	(83)	(21)	(21)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(8,684)</u>	<u>(2,031)</u>	<u>(2,233)</u>	<u>Total</u>
Allowable Cost of Capital Expense	205,284	58,828	66,569	\$330,681
Total Patient Days (Minimum 96% Occupancy)	<u>27,331</u>	<u>7,008</u>	<u>7,281</u>	<u>41,620</u>
Cost of Capital Per Diem	\$ <u>7.51</u>	\$ <u>8.39</u>	\$ <u>9.14</u>	\$ <u>7.95</u>

J. F. HAWKINS NURSING HOME, INC.
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended June 30, 2005
 AC# 3-JFH-F5

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$4.10	\$ N/A	\$ N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	<u>\$8.09</u>	<u>\$8.39</u>	<u>\$9.14</u>
Reimbursable Cost of Capital Per Diem		\$7.95	
Cost of Capital Per Diem		<u>7.95</u>	
Cost of Capital Per Diem Limitation		<u>\$ -</u>	

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