

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-F6 – 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, 2005 through June 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/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, 2007
AC# 3-JFH-F6**

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

May 24, 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, 2007, and for the twelve month cost report period ended June 30, 2006, 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
May 24, 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.", with a stylized flourish at the end.

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, 2007
AC# 3-JFH-F6

	<u>10/01/07-</u> <u>09/30/08</u>
Interim Reimbursement Rate (1)	\$137.45
Adjusted Reimbursement Rate	<u>132.83</u>
Decrease in Reimbursement Rate	\$ <u><u>4.62</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, 2007 Through September 30, 2008
 AC# 3-JFH-F6

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 70.98	\$ 82.94	
Dietary		16.13	13.85	
Laundry/Housekeeping/Maintenance		<u>10.91</u>	<u>12.55</u>	
Subtotal	<u>\$7.65</u>	98.02	109.34	\$ 98.02
Administration & Medical Records	<u>\$6.84</u>	<u>11.38</u>	<u>18.22</u>	<u>11.38</u>
Subtotal		109.40	<u>\$127.56</u>	109.40
<u>Costs Not Subject to Standards:</u>				
Utilities		4.13		4.13
Special Services		.06		.06
Medical Supplies & Oxygen		3.59		3.59
Taxes and Insurance		.32		.32
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$117.50</u>		117.50
Inflation Factor (4.60%)				5.41
Cost of Capital				7.64
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				4.11
Cost Incentive				7.65
Effect of \$1.75 Cap on Cost/Profit Incentives				(10.01)
Transportation Escort Add-On				<u>.53</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$132.83</u>

J. F. HAWKINS NURSING HOME, INC.
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended June 30, 2006
 AC# 3-JFH-F6

<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	\$3,031,850	\$ 1,206 (1) 17,930 (8) 953 (8) 28,151 (11)	\$ 29,249 (10) 45,480 (12)	\$3,005,361
Dietary	680,861	3,082 (8) 286,358 (11)	287,270 (12)	683,031
Laundry	111,620	569 (8)	-	112,189
Housekeeping	236,244	1,251 (8) 78,638 (11)	72,609 (12)	243,524
Maintenance	170,694	711 (8) 190,006 (11)	255,222 (12)	106,189
Administration & Medical Records	547,012	368 (8) 25,719 (10) 168,271 (11)	18,790 (2) 2,000 (5) 40,987 (7) 34,410 (8) 163,526 (12)	481,657
Utilities	185,444	-	4,905 (11) 5,555 (12)	174,984
Special Services	2,617	-	-	2,617
Medical Supplies & Oxygen	162,256	-	1,311 (6) 8,807 (9)	152,138
Taxes and Insurance	14,016	30,938 (11)	31,430 (12)	13,524

J. F. HAWKINS NURSING HOME, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended June 30, 2006
AC# 3-JFH-F6

<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>	
Legal Fees	-	-	-	-
Cost of Capital	343,761	234 (4) 4,276 (11)	2,338 (1) 5,189 (3) 12,052 (12) 5,216 (13)	323,476
	_____	_____	_____	_____
Subtotal	5,486,375	838,661	1,026,346	5,298,690
Ancillary	130,875	-	-	130,875
Nonallowable	2,463,624	18,790 (2) 5,189 (3) 2,000 (5) 1,311 (6) 40,987 (7) 9,546 (8) 8,807 (9) 3,530 (10) 873,144 (12) 5,216 (13)	234 (4) 781,733 (11)	2,650,177
CNA Training and Testing	-	-	-	-
	_____	_____	_____	_____
Total Operating Expenses	<u>\$8,080,874</u>	<u>\$1,807,181</u>	<u>\$1,808,313</u>	<u>\$8,079,742</u>
Total Patient Days	<u>42,339</u>	<u>-</u>	<u>-</u>	<u>42,339</u>
Total Beds	<u>118</u>			

J. F. HAWKINS NURSING HOME, INC.
Adjustment Report
Cost Report Period Ended June 30, 2006
AC# 3-JFH-F6

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$42,349	
	Other Equity	1,347	
	Restorative	1,206	
	Fixed Assets		\$42,564
	Cost of Capital		2,338
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable Administration	18,790	18,790
	To remove nonallowable interest expense HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
3	Nonallowable Cost of Capital	5,189	5,189
	To remove nonallowable loan cost amortization HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
4	Cost of Capital Nonallowable	234	234
	To adjust depreciation expense to comply with capital cost policy State Plan, Attachment 4.19D		
5	Nonallowable Administration	2,000	2,000
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		

J. F. HAWKINS NURSING HOME, INC.
Adjustment Report
Cost Report Period Ended June 30, 2006
AC# 3-JFH-F6

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Nonallowable Medical Supplies & Oxygen	1,311	1,311
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		
7	Nonallowable Administration	40,987	40,987
	To adjust salaries and fringe benefits paid by county HIM-15-1, Section 2304		
8	Nursing	17,930	
	Restorative	953	
	Dietary	3,082	
	Laundry	569	
	Housekeeping	1,251	
	Maintenance	711	
	Medical Records	368	
	Nonallowable Administration	9,546	34,410
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
9	Nonallowable Medical Supplies & Oxygen	8,807	8,807
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		

J. F. HAWKINS NURSING HOME, INC.
Adjustment Report
Cost Report Period Ended June 30, 2006
AC# 3-JFH-F6

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
10	Administration Nonallowable Nursing	25,719 3,530	 29,249
	To reclassify expense to the proper cost center HIM-15-1, Section 2102.3 DH&HS Expense Crosswalk		
11	Restorative Dietary Housekeeping Maintenance Administration Taxes and Insurance Cost of Capital Utilities Nonallowable	28,151 286,358 78,638 190,006 168,271 30,938 4,276	 4,905 781,733
	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		
12	Nonallowable Restorative Dietary Housekeeping Maintenance Administration Utilities Taxes and Insurance Cost of Capital	873,144	 45,480 287,270 72,609 255,222 163,526 5,555 31,430 12,052
	To remove indirect cost applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		

J. F. HAWKINS NURSING HOME, INC.
Adjustment Report
Cost Report Period Ended June 30, 2006
AC# 3-JFH-F6

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
13	Nonallowable Cost of Capital	5,216	5,216
	To adjust capital return State Plan, Attachment 4.19D		
		\$1,850,877	\$1,850,877
	TOTAL ADJUSTMENTS	\$1,850,877	\$1,850,877

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, 2006
 AC# 3-JFH-F6

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.85382</u>	<u>2.85382</u>	<u>2.85382</u>	
Deemed Asset Value (Per Bed)	44,571	44,571	44,571	
Number of Beds	<u>78</u>	<u>20</u>	<u>20</u>	
Deemed Asset Value	3,476,538	891,420	891,420	
Improvements Since 1981	1,443,865	36,176	32,628	
Accumulated Depreciation at 6/30/06	<u>(2,151,535)</u>	<u>(285,202)</u>	<u>(192,603)</u>	
Deemed Depreciated Value	2,768,868	642,394	731,445	
Market Rate of Return	<u>.0489</u>	<u>.0489</u>	<u>.0489</u>	
Total Annual Return	135,398	31,413	35,768	
Return Applicable to Non-Reimbursable Cost Centers	(6,384)	(1,481)	(1,686)	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>4,428</u>	<u>572</u>	<u>597</u>	
Allowable Annual Return	133,442	30,504	34,679	
Depreciation Expense	77,557	29,947	29,987	
Amortization Expense	-	-	-	
Capital Related Income Offsets	(388)	(100)	(100)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(8,067)</u>	<u>(1,979)</u>	<u>(2,006)</u>	<u>Total</u>
Allowable Cost of Capital Expense	202,544	58,372	62,560	\$323,476
Total Patient Days (Actual)	<u>27,984</u>	<u>7,057</u>	<u>7,298</u>	<u>42,339</u>
Cost of Capital Per Diem	\$ <u>7.24</u>	\$ <u>8.27</u>	\$ <u>8.57</u>	\$ <u>7.64</u>

J. F. HAWKINS NURSING HOME, INC.
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended June 30, 2006
 AC# 3-JFH-F6

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>\$8.27</u>	<u>\$8.57</u>
Reimbursable Cost of Capital Per Diem		\$7.64	
Cost of Capital Per Diem		<u>7.64</u>	
Cost of Capital Per Diem Limitation		<u>\$ -</u>	

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