

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

September 22, 2010

Mr. Robert Bowles, Administrator
Saluda Nursing Center
Post Office Box 398
Saluda, South Carolina 29138

Re: AC# 3-SAL-J6 – Saluda Nursing Center

Dear Mr. Bowles:

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 Facility Health and Nursing Home 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.

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

**SALUDA NURSING CENTER
SALUDA, SOUTH CAROLINA**

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

June 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 Saluda Nursing Center, 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 Saluda Nursing Center 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.

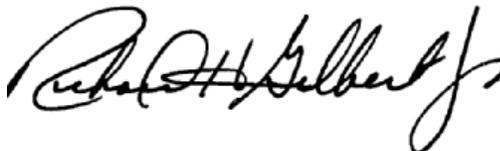
The procedures and the associated findings are as follows:

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 Saluda Nursing Center, 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 the 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 Saluda Nursing Center 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 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.", written in a cursive style.

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

SALUDA NURSING CENTER
Computation of Rate Change
For the Contract Period
Beginning October 1, 2007
AC# 3-SAL-J6

	10/01/07- <u>09/30/08</u>
Interim Reimbursement Rate (1)	\$145.10
Adjusted Reimbursement Rate	<u>143.10</u>
Decrease in Reimbursement Rate	\$ <u><u>2.00</u></u>

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

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

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 79.43	\$ 82.94	
Dietary		14.96	13.85	
Laundry/Housekeeping/Maintenance		<u>13.47</u>	<u>12.55</u>	
Subtotal	<u>\$1.48</u>	107.86	109.34	\$107.86
Administration & Medical Records	<u>\$8.92</u>	<u>9.30</u>	<u>18.22</u>	<u>9.30</u>
Subtotal		117.16	<u>\$127.56</u>	117.16
<u>Costs Not Subject to Standards:</u>				
Utilities		4.79		4.79
Special Services		-		-
Medical Supplies & Oxygen		5.53		5.53
Taxes and Insurance		.59		.59
Legal Fees		<u>.01</u>		<u>.01</u>
TOTAL		<u>\$128.08</u>		128.08
Inflation Factor (4.60%)				5.89
Cost of Capital				6.87
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				4.48
Cost Incentive				1.48
Effect of \$1.75 Cap on Cost/Profit Incentives				(4.21)
Transportation Escort Add-On				<u>.51</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$143.10</u>

SALUDA NURSING CENTER
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2006
 AC# 3-SAL-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	\$3,800,503	\$ 2,584 (4) 71,754 (9)	\$ 4,125 (4) 33,378 (5) 1,631 (5) 71,978 (10)	\$3,763,729
Dietary	705,307	7,401 (4) 218,252 (9)	2,552 (5) 219,397 (10)	709,011
Laundry	189,771	1,872 (4) 58,723 (9)	725 (5) 58,996 (10)	190,645
Housekeeping	297,670	163,386 (9)	789 (4) 3,154 (5) 163,173 (10)	293,940
Maintenance	161,257	3,335 (4) 1 (5) 99,409 (9)	14,975 (3) 95,468 (10)	153,559
Administration & Medical Records	461,025	1,160 (4) 186,066 (9) 30,420 (9)	418 (4) 3,585 (5) 521 (5) 202,692 (10) 30,572 (10)	440,883
Utilities	227,560	139,926 (9)	140,611 (10)	226,875
Special Services	-	895 (4) 2,189 (6)	3,084 (5)	-
Medical Supplies & Oxygen	276,330	85,508 (9)	4 (6) 18,784 (7) 81,069 (10)	261,981

SALUDA NURSING CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2006
AC# 3-SAL-J6

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	<u>Debit</u>	Adjustments <u>Credit</u>	<u>Adjusted Totals</u>
Taxes and Insurance	28,034	16,646 (9)	16,783 (10)	27,897
Legal Fees	527	273 (9)	300 (10)	500
Cost of Capital	381,422	1,122 (1) 749 (3) 11,860 (9) 66,815 (11)	818 (2) 2,368 (8) 14,359 (10) 8,011 (11) <u>5,204 (12)</u>	431,208
Subtotal	<u>6,529,406</u>	<u>1,170,346</u>	<u>1,199,524</u>	<u>6,500,228</u>
Ancillary	288,583	-	-	288,583
Nonallowable	3,753,671	818 (2) 48,629 (5) 2,368 (8) 1,095,398 (10) 5,204 (12)	1,122 (1) 11,915 (4) 2,185 (6) 1,082,223 (9) 58,804 (11)	3,749,839
CNA Training and Testing	<u>3,686</u>	<u>-</u>	<u>-</u>	<u>3,686</u>
Total Operating Expenses	<u>\$10,575,346</u>	<u>\$2,322,763</u>	<u>\$2,355,773</u>	<u>\$10,542,336</u>
Total Patient Days	<u>47,382</u>	<u>-</u>	<u>-</u>	<u>47,382</u>
Cost of Capital Patient Days	<u>62,893</u>	<u>-</u>	<u>93 (13)</u>	<u>62,800</u>
Total Beds	<u>132</u>			

SALUDA NURSING CENTER
Adjustment Report
Cost Report Period Ended September 30, 2006
AC# 3-SAL-J6

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$1,741,678	
	Other Equity	1,268,061	
	Cost of Capital	1,122	
	Fixed Assets		\$3,009,739
	Nonallowable		1,122
	<p>To separate Nursing Home fixed assets and accumulated depreciation from the non-reimbursable private pay wing and ambulance service and to adjust depreciation expense to the documented amount HIM-15-1, Section 2304 State Plan, Attachment 4.19D</p>		
2	Other Equity	38,361	
	Nonallowable	818	
	Fixed Assets		25,275
	Accumulated Depreciation		13,086
	Cost of Capital		818
	<p>To carry forward the prior adjustments to remove assets reimbursed by insurance and to adjust accumulated depreciation by the 9/30/04 adjustment to depreciation expense HIM-15-1, Sections 116 and 133.1</p>		
3	Fixed Assets	14,975	
	Cost of Capital	749	
	Accumulated Depreciation		749
	Maintenance		14,975
	<p>To capitalize office renovations HIM-15-1, Section 108</p>		

SALUDA NURSING CENTER
Adjustment Report
Cost Report Period Ended September 30, 2006
AC# 3-SAL-J6

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
4	Restorative	2,584	
	Dietary	7,401	
	Laundry	1,872	
	Maintenance	3,335	
	Medical Records	1,160	
	Special Services	895	
	Nursing		4,125
	Housekeeping		789
	Administration		418
	Nonallowable		11,915
	To adjust vacation expense HIM-15-1, Section 2304		
5	Maintenance	1	
	Nonallowable	48,629	
	Nursing		33,378
	Restorative		1,631
	Dietary		2,552
	Laundry		725
	Housekeeping		3,154
	Administration		3,585
	Medical Records		521
	Special Services		3,084
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
6	Special Services	2,189	
	Medical Supplies		4
	Nonallowable		2,185
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
7	PEN claims	18,784	
	Medical Supplies & Oxygen		18,784
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		

SALUDA NURSING CENTER
Adjustment Report
Cost Report Period Ended September 30, 2006
AC# 3-SAL-J6

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
8	Nonallowable Cost of Capital	2,368	2,368
	To remove interest expense State Plan, Attachment 4.19D		
9	Restorative	71,754	
	Dietary	218,252	
	Laundry	58,723	
	Housekeeping	163,386	
	Maintenance	99,409	
	Administration	186,066	
	Medical Records	30,420	
	Legal	273	
	Utilities	139,926	
	Taxes and Insurance	16,646	
	Medical Supplies & Oxygen	85,508	
	Cost of Capital	11,860	
	Nonallowable		1,082,223
	To reverse DH&HS adjustment to remove indirect costs applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
10	Nonallowable	1,095,398	
	Restorative		71,978
	Dietary		219,397
	Laundry		58,996
	Housekeeping		163,173
	Maintenance		95,468
	Administration		202,692
	Medical Records		30,572
	Legal		300
	Utilities		140,611
	Taxes and Insurance		16,783
	Medical Supplies & Oxygen		81,069
	Cost of Capital		14,359
	To remove indirect costs applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		

SALUDA NURSING CENTER
Adjustment Report
Cost Report Period Ended September 30, 2006
AC# 3-SAL-J6

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
11	Cost of Capital - Depreciation Expense	66,815	
	Cost of Capital - Interest Revenue		8,011
	Nonallowable		58,804
	To record depreciation expense on the 44 bed addition as adjusted to comply with the capital cost policy and to record interest income State Plan, Attachment 4.19D		
12	Nonallowable	5,204	
	Cost of Capital		5,204
	To adjust capital return State Plan, Attachment 4.19D		
13	<u>Memo Adjustment:</u>		
	To decrease new bed patient days by 93 to 15,418 to correct the 96% occupancy calculation		
	(This adjustment is for cost of capital purposes only)		
	<u>TOTAL ADJUSTMENTS</u>	<u>\$5,404,622</u>	<u>\$5,404,622</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.

SALUDA NURSING CENTER
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2006
 AC# 3-SAL-J6

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.85382</u>	<u>2.85382</u>	
Deemed Asset Value (Per Bed)	44,571	44,571	
Number of Beds	<u>132</u>	<u>44</u>	
Deemed Asset Value	5,883,372	1,961,124	
Improvements Since 1981	1,729,173	-	
Accumulated Depreciation at 09/30/06	<u>(3,056,843)</u>	<u>(989,129)</u>	
Deemed Depreciated Value	4,555,702	971,995	
Market Rate of Return	<u>.0489</u>	<u>.0489</u>	
Total Annual Return	222,774	47,531	
Return Applicable to Non-Reimbursable Cost Centers	(17,239)	-	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>4,350</u>	<u>-</u>	
Allowable Annual Return	209,885	47,531	
Depreciation Expense	137,738	66,815	
Amortization Expense	-	-	
Capital Related Income Offsets	(8,391)	(8,011)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(14,359)</u>	<u>-</u>	<u>Total</u>
Allowable Cost of Capital Expense	324,873	106,335	\$431,208
Total Patient Days	<u>47,382</u>	<u>15,418</u>	<u>62,800</u>
Cost of Capital Per Diem	\$ <u>6.86</u>	\$ <u>6.90</u>	\$ <u>6.87</u>

SALUDA NURSING CENTER
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2006
 AC# 3-SAL-J6

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$3.22	\$ N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	<u>\$7.21</u>	<u>\$6.90</u>
Reimbursable Cost of Capital Per Diem	\$6.87	
Cost of Capital Per Diem	<u>6.87</u>	
Cost of Capital Per Diem Limitation	\$ <u>-</u>	

COMMENTS AND RECOMMENDATIONS

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

INSUFFICIENT DOCUMENTATION/PROPER CLASSIFICATION

The provider does not maintain medical supply and oxygen revenue for all payer sources and medical supply expense is not properly classified.

The medical supply and the oxygen revenue were adjusted to the Medicare only amount. Charge journals were not maintained for private, Medicaid, or others receiving these services. The provider also does not properly identify Medical supply expense. The provider uses Medicare revenue and a fifty percent mark-up policy to compute Medical Supply expense. This percentage could not be verified by auditing procedures. This resulted in possible over/understatements of medical supply and oxygen expenses.

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.

State Plan, Attachment 4.19D states:

Effective January 1, 1995, in order to avoid dual reimbursement of these (ancillary services) costs from both the Medicare and Medicaid Programs, the SCDHHS will only include the costs of the Medicaid recipients' ancillary services which are not reimbursed by the Medicare Program in the facility's Medicaid reimbursement rate.

We recommend the provider maintain charge journals which support total ancillary revenue for all payer sources. We also recommend that the provider utilize the DHHS Expense crosswalk and account descriptions when classifying facility expenses.

EMPLOYEE EDUCATION ABOUT FALSE CLAIMS RECOVERY

The provider has no policies and procedures in place to inform or educate employees, including management and any contractor or agent, about preventing and detecting fraud waste and abuse or about whistleblower protections.

The provider was unaware of the False Claims Recovery requirement. This resulted in the provider's failure to comply with Section 6032 of the Deficit Reduction Act of 2005.

Section 6032 of the Deficit Reduction Act of 2005 provides:

Any entity that receives or makes annual payments under the State plan of at least \$5,000,000, as a condition of receiving such payments, shall-

“(A) establish written policies for all employees of the entity (including management), and of any contractor or agent of the entity, that provide detailed information about the False Claims Act established under sections 3729 through 3733 of title 31, United States Code, administrative remedies for false claims and statements established under chapter 38 of title 31, United States Code, any State laws pertaining to civil or criminal penalties for false claims and statements, and whistleblower protections under such laws, with respect to the role of such laws in preventing and detecting fraud, waste, and abuse in Federal health care programs (as defined in section 1128B(f));

“(B) include as part of such written policies, detailed provisions regarding the entity's policies and procedures for detecting and preventing fraud, waste, and abuse; and

“(C) include in any employee handbook for the entity, a specific discussion of the laws described in subparagraph (A), the rights of employees to be protected as whistleblowers, and the entity's policies and procedures for detecting and preventing fraud, waste, and abuse.”

EFFECTIVE DATE. – Except as provided in section 6035(e), the amendments made by subsection (a) take effect on January 1, 2007.

We recommend that the provider develop and implement policies and procedures in conformity with the requirements of Section 6032 of the Deficit Reduction Act of 2005.

2 copies of this document were published at an estimated printing cost of \$1.50 each, and a total printing cost of \$3.00. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.