

*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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July 2, 2015

Ms. Martha Hughey  
Assistant Vice President of Reimbursement  
National Healthcare Corporation  
Post Office Box 1398  
Murfreesboro, Tennessee 37133

Re: AC# 3-AND-J1 – NHC Healthcare Corporation d/b/a NHC Healthcare / Anderson, 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, 2010 through September 30, 2011. That report was used to set the rate covering the contract period beginning October 1, 2012.

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.

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  
Ms. Nicole Mitchell Threat  
Ms. Melissa Simmons

**NHC HEALTHCARE CORPORATION D/B/A  
NHC HEALTHCARE / ANDERSON, LLC**

**ANDERSON, SOUTH CAROLINA**

**CONTRACT PERIOD  
BEGINNING OCTOBER 1, 2012  
AC# 3-AND-J1**

**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

January 28, 2015

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 NHC Healthcare Corporation d/b/a NHC Healthcare / Anderson, LLC, for the contract period beginning October 1, 2012, and for the twelve month cost report period ended September 30, 2011, as set forth in the accompanying schedules. The management of NHC Healthcare Corporation d/b/a NHC Healthcare / Anderson, 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 NHC Healthcare Corporation d/b/a NHC Healthcare / Anderson, 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 NHC Healthcare Corporation d/b/a NHC Healthcare / Anderson, LLC dated as of October 1, 2011, 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  
January 28, 2015

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

**NHC HEALTHCARE / ANDERSON, LLC**  
Computation of Rate Change  
For the Contract Period  
Beginning October 1, 2012  
AC# 3-AND-J1

10/01/12-  
09/30/13

Interim Reimbursement Rate (1)	\$168.69
Adjusted Reimbursement Rate	<u>159.04</u>
Decrease in Reimbursement Rate	\$ <u>9.65</u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated January 21, 2014.

**NHC HEALTHCARE / ANDERSON, LLC**  
 Computation of Adjusted Reimbursement Rate  
 For the Contract Period October 1, 2012 Through September 30, 2013  
 AC# 3-AND-J1

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 85.46	\$108.17	
Dietary		19.03	17.37	
Laundry/Housekeeping/Maintenance		<u>15.34</u>	<u>15.73</u>	
Subtotal	<u>\$9.89</u>	119.83	141.27	\$119.83
Administration & Medical Records	<u>\$ -</u>	<u>27.04</u>	<u>22.95</u>	<u>22.95</u>
Subtotal		146.87	<u>\$164.22</u>	142.78
<u>Costs Not Subject to Standards:</u>				
Utilities		3.08		3.08
Special Services		.03		.03
Medical Supplies & Oxygen		7.58		7.58
Taxes and Insurance		3.18		3.18
Legal Fees		<u>.07</u>		<u>.07</u>
<b>TOTAL</b>		<u>\$160.81</u>		156.72
Inflation Factor (N/A)				-
Cost of Capital				6.86
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				9.89
Effect of \$1.75 Cap on Cost/Profit Incentives				(8.14)
Budget Neutrality Adjustment (3.805%)				<u>(6.29)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$159.04</u>

**NHC HEALTHCARE / ANDERSON, LLC**  
 Summary of Costs and Total Patient Days  
 For the Cost Report Period Ended September 30, 2011  
 AC# 3-AND-J1

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$7,944,256	\$111,552 (14)	\$ 7,817 (2)	\$6,220,435
			126,838 (5)	
			51,946 (7)	
			1,113,919 (8)	
			241,086 (9)	
			2,724 (10)	
			7,278 (10)	
			2,633 (11)	
			9,990 (12)	
			57,115 (13)	
			214,027 (15)	
Dietary	1,665,709	5,661 (4)	3,103 (2)	1,385,276
		293,333 (14)	1 (5)	
		1,756 (16)	229 (11)	
			2,573 (13)	
			575,277 (15)	
Laundry	266,783	46,981 (14)	92,278 (15)	221,486
Housekeeping	568,336	37 (2)	208,602 (15)	450,824
		91,053 (14)		
Maintenance	564,482	91,382 (14)	3,400 (3)	444,086
			136 (11)	
			1,491 (13)	
			205,435 (15)	
			1,316 (16)	
Administration & Medical Records	2,622,325	7,459 (2)	2,580 (10)	1,968,003
		19,831 (4)	536,083 (11)	
		3,545 (4)	601 (13)	
		1,204 (5)	437,822 (15)	
		3,003 (5)	115,447 (15)	
		11,073 (7)	1,442 (16)	
		27,597 (7)		
		2,325 (9)		
		5,795 (9)		
		304,638 (14)		
		53,183 (14)		

**NHC HEALTHCARE / ANDERSON, LLC**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 2011  
AC# 3-AND-J1

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	<u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
Utilities	282,646	45,236 (14)	103,358 (15)	224,524
Special Services	3,022	731,683 (16)	732,196 (13)	2,509
Medical Supplies & Oxygen	278,492	519,311 (14) 97,037 (16)	29,037 (4) 49,359 (10) 173,492 (13) 91,006 (15)	551,946
Taxes and Insurance	877,231	131,948 (14)	676,949 (10) 18,198 (11) 82,730 (15)	231,302
Legal Fees	6,210	882 (14)	2,168 (11)	4,924
Cost of Capital	752,269	266,832 (6) 17,521 (14)	197,044 (1) 300,986 (11) <u>39,381 (15)</u>	499,211
Subtotal	15,831,761	2,891,858	6,519,093	12,204,526
Ancillary	-	17,554 (16)	-	17,554
Nonallowable	8,088,667	197,044 (1) 3,424 (2) 3,400 (3) 122,633 (5) 13,276 (7) 1,113,919 (8) 236,682 (9) 738,890 (10) 860,433 (11) 9,990 (12) 967,468 (13) 2,165,363 (15)	266,832 (6) 1,707,020 (14) 845,272 (16)	11,702,065

**NHC HEALTHCARE / ANDERSON, LLC**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 2011  
AC# 3-AND-J1

<u>Expenses</u>	Totals (From Schedule SC 13) as Adjusted by DH&HS	Adjustments <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
CNA Training and Testing	144,003	-	1 (5) <u>3,716 (9)</u>	140,286
Total Operating Expenses	<u>\$24,064,431</u>	<u>\$9,341,934</u>	<u>\$9,341,934</u>	<u>\$24,064,431</u>
Total Patient Days	<u>87,677</u>	<u>-</u>	<u>14,887 (17)</u>	<u>72,790</u>
Total Beds	<u>202</u>			

**NHC HEALTHCARE / ANDERSON, LLC**  
Adjustment Report  
Cost Report Period Ended September 30, 2011  
AC# 3-AND-J1

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$2,366,501	
	Other Equity	990,927	
	Nonallowable	197,044	
	Fixed Assets		\$3,357,428
	Cost of Capital		197,044
	To adjust fixed assets and related depreciation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
2	Housekeeping	37	
	Administration	7,459	
	Nonallowable	3,424	
	Nursing		7,817
	Dietary		3,103
	To reclassify expense to the proper cost center		
	DH&HS Expense Crosswalk		
3	Nonallowable	3,400	
	Maintenance		3,400
	To reclassify expense to the proper cost center		
	HIM-15-1, Section 2102.3		
	DH&HS Expense Crosswalk		
4	Dietary	5,661	
	Administration	19,831	
	Medical Records	3,545	
	Medical Supplies		29,037
	To reclassify expense to the proper cost center		
	DH&HS Expense Crosswalk		

**NHC HEALTHCARE / ANDERSON, LLC**  
Adjustment Report  
Cost Report Period Ended September 30, 2011  
AC# 3-AND-J1

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Nonallowable	122,633	
	Administration	1,204	
	Medical Records	3,003	
	Nursing		126,838
	Dietary		1
	CNA Training and Testing		1
	To adjust fringe benefits and related allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
6	Cost of Capital	266,832	
	Nonallowable		266,832
	To adjust capital return		
	State Plan, Attachment 4.19D		
7	Administration	11,073	
	Medical Records	27,597	
	Nonallowable	13,276	
	Nursing		51,946
	To reclassify expense to the proper cost center		
	HIM-15-1, Sections 2102.3 and 2304		
	State Plan, Attachment 4.19D		
	DH&HS Expense Crosswalk		
8	Nonallowable	1,113,919	
	Nursing		1,113,919
	To reclassify nursing cost to a non-reimbursable cost center		
	HIM-15-1, Sections 2102.3 and 2304		
	State Plan, Attachment 4.19D		

**NHC HEALTHCARE / ANDERSON, LLC**  
Adjustment Report  
Cost Report Period Ended September 30, 2011  
AC# 3-AND-J1

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
9	Administration	2,325	
	Medical Records	5,795	
	Nonallowable	236,682	
	Nursing		241,086
	CNA Training and Testing		3,716
	To reclassify expense to the proper cost center		
	HIM-15-1, Sections 2102.3 and 2304		
	State Plan, Attachment 4.19D		
	DH&HS Expense Crosswalk		
10	Nonallowable	738,890	
	Nursing		2,724
	Restorative		7,278
	Medical Records		2,580
	Taxes and Insurance		676,949
	Medical Supplies		49,359
	To disallow liability insurance and adjust related party cost		
	HIM-15-1, Sections 1005, 2162.2 and 2304		
	State Plan, Attachment 4.19D		
11	Nonallowable	860,433	
	Nursing		2,633
	Dietary		229
	Maintenance		136
	Administration		536,083
	Legal		2,168
	Taxes and Insurance		18,198
	Cost of Capital		300,986
	To adjust home office cost allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		

**NHC HEALTHCARE / ANDERSON, LLC**  
Adjustment Report  
Cost Report Period Ended September 30, 2011  
AC# 3-AND-J1

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
12	Nonallowable Restorative	9,990	9,990
	To disallow cable TV expense HIM-15-1, Section 2106.1 DH&HS Expense Crosswalk		
13	Nonallowable Nursing Dietary Maintenance Administration Medical Supplies Special Services	967,468	57,115 2,573 1,491 601 173,492 732,196
	To reclassify expense to a non-reimbursable cost center HIM-15-1, Sections 2102.3 and 2304 State Plan, Attachment 4.19D		
14	Restorative Dietary Laundry Housekeeping Maintenance Administration Medical Records Legal Utilities Taxes and Insurance Medical Supplies Cost of Capital Nonallowable	111,552 293,333 46,981 91,053 91,382 304,638 53,183 882 45,236 131,948 519,311 17,521	1,707,020
	To reverse DH&HS adjustment to remove indirect cost applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		

**NHC HEALTHCARE / ANDERSON, LLC**  
 Adjustment Report  
 Cost Report Period Ended September 30, 2011  
 AC# 3-AND-J1

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
15	Nonallowable	2,165,363	
	Restorative		214,027
	Dietary		575,277
	Laundry		92,278
	Housekeeping		208,602
	Maintenance		205,435
	Administration		437,822
	Medical Records		115,447
	Utilities		103,358
	Taxes and Insurance		82,730
	Medical Supplies		91,006
	Cost of Capital		39,381
	To remove indirect cost applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
16	Dietary	1,756	
	Medical Supplies	97,037	
	Special Services	731,683	
	Ancillary	17,554	
	Maintenance		1,316
	Administration		1,442
	Nonallowable		845,272
	To remove special (ancillary) services reimbursed by Medicare and reclassify expense to the proper cost center State Plan, Attachment 4.19D DH&HS Expense Crosswalk		

**NHC HEALTHCARE / ANDERSON, LLC**  
 Adjustment Report  
 Cost Report Period Ended September 30, 2011  
 AC# 3-AND-J1

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
17	Memo Adjustment: To decrease total patient days by 14,887 to 72,790		
	TOTAL ADJUSTMENTS	<u>\$12,699,362</u>	<u>\$12,699,362</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.

**NHC HEALTHCARE / ANDERSON, LLC**  
 Cost of Capital Reimbursement Analysis  
 For the Cost Report Period Ended September 30, 2011  
 AC# 3-AND-J1

Original Asset Cost (Per Bed)	\$	15,618
Inflation Adjustment		<u>3.1821</u>
Deemed Asset Value (Per Bed)		49,698
Number of Beds		<u>202</u>
Deemed Asset Value		10,038,996
Improvements Since 1981		9,052,878
Accumulated Depreciation at 9/30/11		<u>(8,369,434)</u>
Deemed Depreciated Value		10,722,440
Market Rate of Return		<u>.0408</u>
Total Annual Return		437,476
Return Applicable to Non-Reimbursable Cost Centers		(37,898)
Allocation of Interest to Non-Reimbursable Cost Centers		<u>-</u>
Allowable Annual Return		399,578
Depreciation Expense		460,279
Amortization Expense		-
Capital Related Income Offsets		(321,265)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers		<u>(39,381)</u>
Allowable Cost of Capital Expense		499,211
Total Patient Days (Actual)		<u>72,790</u>
Cost of Capital Per Diem	\$	<u><u>6.86</u></u>

**NHC HEALTHCARE / ANDERSON, LLC**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 2011  
AC# 3-AND-J1

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$4.59
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$8.58</u>
Reimbursable Cost of Capital Per Diem	\$6.86
Cost of Capital Per Diem	<u>6.86</u>
Cost of Capital Per Diem Limitation	<u>\$ -</u>

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