

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 7, 2015

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

Re: AC# 3-AND-J2 – 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, 2011 through September 30, 2012. That report was used to set the rate covering the contract period beginning October 1, 2013.

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/cwc

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, 2013
AC# 3-AND-J2**

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

February 6, 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, 2013, and for the twelve month cost report period ended September 30, 2012, 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
February 6, 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.", written in a cursive style.

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

NHC HEALTHCARE / ANDERSON, LLC
Computation of Rate Change
For the Contract Period
Beginning October 1, 2013
AC# 3-AND-J2

	<u>10/01/13-</u> <u>09/30/14</u>
Interim Reimbursement Rate (1)	\$179.91
Adjusted Reimbursement Rate	<u>164.60</u>
Decrease in Reimbursement Rate	\$ <u><u>15.31</u></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, 2013 Through September 30, 2014
 AC# 3-AND-J2

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 85.59	\$106.47	
Dietary		19.13	17.31	
Laundry/Housekeeping/Maintenance		<u>15.28</u>	<u>15.32</u>	
Subtotal	<u>\$9.74</u>	120.00	139.10	\$120.00
Administration & Medical Records	<u>\$ -</u>	<u>25.46</u>	<u>22.29</u>	<u>22.29</u>
Subtotal		145.46	<u>\$161.39</u>	142.29
<u>Costs Not Subject to Standards:</u>				
Utilities		3.15		3.15
Special Services		-		-
Medical Supplies & Oxygen		7.12		7.12
Taxes and Insurance		3.29		3.29
Legal Fees		<u>.06</u>		<u>.06</u>
TOTAL		<u>\$159.08</u>		155.91
Inflation Factor (3.60%)				5.61
Cost of Capital				6.29
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				9.74
Effect of \$1.75 Cap on Cost/Profit Incentives				(7.99)
Budget Neutrality Adjustment (2.9241%)				<u>(4.96)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$164.60</u>

NHC HEALTHCARE / ANDERSON, LLC
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2012
 AC# 3-AND-J2

<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	\$7,917,366	\$104,648 (14)	\$ 10,472 (3) 10,601 (4) 50,285 (7) 1,095,095 (8) 351,790 (9) 3,322 (10) 8,363 (10) 2,732 (11) 80,948 (13) 199,242 (15)	\$6,209,164
Dietary	1,667,452	1,319 (4) 1,931 (5) 293,180 (14)	185 (11) 2,251 (12) 573,274 (15)	1,388,172
Laundry	274,121	48,197 (14)	94,303 (15)	228,015
Housekeeping	546,585	91 (4) 87,288 (14)	200,092 (15)	433,872
Maintenance	567,883	91,536 (14)	2,379 (5) 196 (10) 95 (11) 2,815 (12) 207,372 (15)	446,562
Administration & Medical Records	2,401,056	31,697 (4) 3,502 (4) 7,947 (7) 27,233 (7) 2,462 (9) 8,438 (9) 212,254 (14) 56,328 (14)	424 (5) 807 (10) 2,869 (10) 389,610 (11) 176 (12) 388,822 (15) 120,832 (15)	1,847,377

NHC HEALTHCARE / ANDERSON, LLC
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2012
AC# 3-AND-J2

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	<u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
Utilities	287,266	45,806 (14)	104,710 (15)	228,362
Special Services	476	817,136 (5)	817,318 (12)	294
Medical Supplies & Oxygen	620,621	99,475 (5) 109,120 (14)	29,461 (4) 41,472 (10) 172,642 (12) 69,224 (15)	516,417
Taxes and Insurance	900,878	135,498 (14)	694,999 (2) 17,721 (11) 84,678 (15)	238,978
Legal Fees	5,560	597 (14)	1,249 (11) 553 (15)	4,355
Cost of Capital	748,322	163,215 (6) 15,428 (14)	116,755 (1) 310,784 (11) 43,157 (15)	456,269
Subtotal	15,937,586	2,364,326	6,304,075	11,997,837
Ancillary	-	6,377 (5)	-	6,377

NHC HEALTHCARE / ANDERSON, LLC
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2012
 AC# 3-AND-J2

<u>Expenses</u>	Totals (From Schedule SC 13) as Adjusted by DH&HS	Adjustments		Adjusted Totals
		<u>Debit</u>	<u>Credit</u>	
Nonallowable	8,005,494	116,755 (1)	922,116 (5)	11,941,963
		694,999 (2)	163,215 (6)	
		10,472 (3)	1,199,880 (14)	
		3,453 (4)		
		15,105 (7)		
		1,095,095 (8)		
		343,987 (9)		
		57,029 (10)		
		722,376 (11)		
		995,202 (12)		
		80,948 (13)		
		2,086,259 (15)		
 CNA Training and Testing	 <u>139,264</u>	 <u>-</u>	 <u>3,097 (9)</u>	 <u>136,167</u>
 Total Operating Expenses	 <u>\$24,082,344</u>	 <u>\$8,592,383</u>	 <u>\$8,592,383</u>	 <u>\$24,082,344</u>
 Total Patient Days	 <u>87,217</u>	 <u>-</u>	 <u>14,669 (16)</u>	 <u>72,548</u>
 Total Beds	 <u>202</u>			

NHC HEALTHCARE / ANDERSON, LLC
 Adjustment Report
 Cost Report Period Ended September 30, 2012
 AC# 3-AND-J2

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$2,329,188	
	Other Equity	1,094,812	
	Nonallowable	116,755	
	Fixed Assets		\$3,424,000
	Cost of Capital		116,755
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	694,999	
	Taxes and Insurance		694,999
	To disallow liability insurance HIM-15-1, Sections 2162.2 and 2304 State Plan, Attachment 4.19D		
3	Nonallowable	10,472	
	Restorative		10,472
	To disallow cable TV expense HIM-15-1, Section 2106.1 DH&HS Expense Crosswalk		
4	Dietary	1,319	
	Housekeeping	91	
	Administration	31,697	
	Medical Records	3,502	
	Nonallowable	3,453	
	Nursing		10,601
	Medical Supplies		29,461
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		

NHC HEALTHCARE / ANDERSON, LLC
Adjustment Report
Cost Report Period Ended September 30, 2012
AC# 3-AND-J2

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Dietary	1,931	
	Medical Supplies	99,475	
	Special Services	817,136	
	Ancillary	6,377	
	Maintenance		2,379
	Administration		424
	Nonallowable		922,116
	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		
6	Cost of Capital	163,215	
	Nonallowable		163,215
	To adjust capital return State Plan, Attachment 4.19D		
7	Administration	7,947	
	Medical Records	27,233	
	Nonallowable	15,105	
	Nursing		50,285
	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	1,095,095	
	Nursing		1,095,095
	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, 2012
AC# 3-AND-J2

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
9	Administration	2,462	
	Medical Records	8,438	
	Nonallowable	343,987	
	Nursing		351,790
	CNA Training and Testing		3,097
	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	57,029	
	Nursing		3,322
	Restorative		8,363
	Maintenance		196
	Administration		807
	Medical Records		2,869
	Medical Supplies		41,472
	To adjust related party cost		
	HIM-15-1, Sections 1005 and 2304		
11	Nonallowable	722,376	
	Nursing		2,732
	Dietary		185
	Maintenance		95
	Administration		389,610
	Legal		1,249
	Taxes and Insurance		17,721
	Cost of Capital		310,784
	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, 2012
AC# 3-AND-J2

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
12	Nonallowable	995,202	
	Dietary		2,251
	Maintenance		2,815
	Administration		176
	Medical Supplies		172,642
	Special Services		817,318
	To reclassify ancillary service cost to a non-reimbursable cost center HIM-15-1, Sections 2102.3 and 2304 State Plan, Attachment 4.19D		
13	Nonallowable	80,948	
	Nursing		80,948
	To reclassify expense to a non-reimbursable cost center HIM-15-1, Sections 2102.3 and 2304 State Plan, Attachment 4.19D		
14	Restorative	104,648	
	Dietary	293,180	
	Laundry	48,197	
	Housekeeping	87,288	
	Maintenance	91,536	
	Administration	212,254	
	Medical Records	56,328	
	Legal	597	
	Utilities	45,806	
	Taxes and Insurance	135,498	
	Medical Supplies	109,120	
	Cost of Capital	15,428	
	Nonallowable		1,199,880
	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, 2012
AC# 3-AND-J2

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
15	Nonallowable	2,086,259	
	Restorative		199,242
	Dietary		573,274
	Laundry		94,303
	Housekeeping		200,092
	Maintenance		207,372
	Administration		388,822
	Medical Records		120,832
	Legal		553
	Utilities		104,710
	Taxes and Insurance		84,678
	Medical Supplies		69,224
	Cost of Capital		43,157
	To remove indirect cost applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
16	Memo Adjustment: To decrease total patient days by 14,669 to 72,548		
	TOTAL ADJUSTMENTS	\$12,016,383	\$12,016,383

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, 2012
AC# 3-AND-J2

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>3.21571</u>
Deemed Asset Value (Per Bed)	50,223
Number of Beds	<u>202</u>
Deemed Asset Value	10,145,046
Improvements Since 1981	9,518,703
Accumulated Depreciation at 9/30/12	<u>(8,709,262)</u>
Deemed Depreciated Value	10,954,487
Market Rate of Return	<u>.0369</u>
Total Annual Return	404,221
Return Applicable to Non-Reimbursable Cost Centers	(38,339)
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	365,882
Depreciation Expense	462,186
Amortization Expense	-
Capital Related Income Offsets	(328,642)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(43,157)</u>
Allowable Cost of Capital Expense	456,269
Total Patient Days (Actual)	<u>72,548</u>
Cost of Capital Per Diem	\$ <u><u>6.29</u></u>

NHC HEALTHCARE / ANDERSON, LLC
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2012
AC# 3-AND-J2

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	\$6.29
Cost of Capital Per Diem	<u>6.29</u>
Cost of Capital Per Diem Limitation	<u>\$ -</u>

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