

*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

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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-GAC-J2 – NHC Healthcare – Garden City, LLC d/b/a  
NHC Healthcare – Garden City

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 – GARDEN CITY, LLC  
D/B/A NHC HEALTHCARE – GARDEN CITY**

**MURRELLS INLET, SOUTH CAROLINA**

**CONTRACT PERIOD  
BEGINNING OCTOBER 1, 2013  
AC# 3-GAC-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

January 15, 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 – Garden City, LLC d/b/a NHC Healthcare – Garden City, 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 – Garden City, LLC d/b/a NHC Healthcare – Garden City 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 – Garden City, LLC d/b/a NHC Healthcare – Garden City, 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 – Garden City, LLC d/b/a NHC Healthcare – Garden City 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 15, 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 – GARDEN CITY**  
Computation of Rate Change  
For the Contract Period  
Beginning October 1, 2013  
AC# 3-GAC-J2

	<u>10/01/13-</u> <u>09/30/14</u>
Interim Reimbursement Rate (1)	\$174.04
Adjusted Reimbursement Rate	<u>161.64</u>
Decrease in Reimbursement Rate	\$ <u><u>12.40</u></u>

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

**NHC HEALTHCARE – GARDEN CITY**  
 Computation of Adjusted Reimbursement Rate  
 For the Contract Period October 1, 2013 Through September 30, 2014  
 AC# 3-GAC-J2

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 86.58	\$ 85.64	
Dietary		19.83	17.31	
Laundry/Housekeeping/Maintenance		<u>13.77</u>	<u>15.32</u>	
Subtotal	\$ <u>-</u>	120.18	118.27	\$118.27
Administration & Medical Records	\$ <u>.09</u>	<u>22.20</u>	<u>22.29</u>	<u>22.20</u>
Subtotal		142.38	<u>\$140.56</u>	140.47
<u>Costs Not Subject to Standards:</u>				
Utilities		6.26		6.26
Special Services		.04		.04
Medical Supplies & Oxygen		6.11		6.11
Taxes and Insurance		2.15		2.15
Legal Fees		<u>.96</u>		<u>.96</u>
<b>TOTAL</b>		<u>\$157.90</u>		155.99
Inflation Factor (3.60%)				5.62
Cost of Capital				4.81
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				.09
Cost Incentive				-
Effect of \$1.75 Cap on Cost/Profit Incentives				-
Budget Neutrality Adjustment (2.9241%)				<u>(4.87)</u>
<b>ADJUSTED REIMBURSEMENT RATE</b>				<u>\$161.64</u>

**NHC HEALTHCARE – GARDEN CITY**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 2012  
AC# 3-GAC-J2

<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	\$4,341,062	\$ -	\$ 21,517 (4) 1,608 (8) 3,068 (8)	\$4,314,869
Dietary	988,328	-	-	988,328
Laundry	134,380	-	-	134,380
Housekeeping	316,410	-	-	316,410
Maintenance	235,627	-	-	235,627
Administration & Medical Records	1,172,384	-	39 (8) 1,464 (8) 64,459 (9)	1,106,422
Utilities	311,895	-	-	311,895
Special Services	2,084	-	-	2,084
Medical Supplies & Oxygen	321,250	-	4,164 (6) 12,346 (8)	304,740
Taxes and Insurance	481,162	-	354,710 (3) 19,259 (5)	107,193
Legal Fees	47,838	-	-	47,838

**NHC HEALTHCARE – GARDEN CITY**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 2012  
AC# 3-GAC-J2

<u>Expenses</u>	Totals (From Schedule SC 13) as Adjusted by DH&HS	Adjustments		Adjusted Totals
		<u>Debit</u>	<u>Credit</u>	
Cost of Capital	470,835	15,387 (2)	15,786 (1) 28,325 (7) <u>202,331 (9)</u>	239,780
Subtotal	<u>8,823,255</u>	<u>15,387</u>	<u>729,076</u>	<u>8,109,566</u>
Ancillary	-	4,164 (6)	-	4,164
Nonallowable	1,726,413	15,786 (1) 354,710 (3) 21,517 (4) 19,259 (5) 28,325 (7) 18,525 (8) 266,790 (9)	15,387 (2)	2,435,938
CNA Training and Testing	<u>6,507</u>	<u>-</u>	<u>-</u>	<u>6,507</u>
Total Operating Expenses	<u>\$10,556,175</u>	<u>\$744,463</u>	<u>\$744,463</u>	<u>\$10,556,175</u>
Total Patient Days	<u>49,835</u>	<u>-</u>	<u>-</u>	<u>49,835</u>
Total Beds	<u>148</u>			

**NHC HEALTHCARE – GARDEN CITY**  
Adjustment Report  
Cost Report Period Ended September 30, 2012  
AC# 3-GAC-J2

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Other Equity	\$500,931	
	Nonallowable	15,786	
	Fixed Assets		\$104,379
	Accumulated Depreciation		396,552
	Cost of Capital		15,786
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Cost of Capital	15,387	
	Nonallowable		15,387
	To adjust depreciation expense to comply with capital cost policy State Plan, Attachment 4.19D		
3	Nonallowable	354,710	
	Taxes and Insurance		354,710
	To disallow liability insurance HIM-15-1, Sections 2162.2 and 2304 State Plan, Attachment 4.19D		
4	Nonallowable	21,517	
	Restorative		21,517
	To disallow cable TV expense HIM-15-1, Section 2106.1 DH&HS Expense Crosswalk		
5	Nonallowable	19,259	
	Taxes and Insurance		19,259
	To adjust property tax expense HIM-15-1, Sections 2102.3 and 2304		
6	Ancillary	4,164	
	Medical Supplies		4,164
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		

**NHC HEALTHCARE – GARDEN CITY**  
Adjustment Report  
Cost Report Period Ended September 30, 2012  
AC# 3-GAC-J2

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
7	Nonallowable Cost of Capital	28,325	28,325
	To adjust capital return and related income offset State Plan, Attachment 4.19D		
8	Nonallowable Nursing Restorative Administration Medical Records Medical Supplies	18,525	1,608 3,068 39 1,464 12,346
	To adjust related party cost HIM-15-1, Sections 1005 and 2304		
9	Nonallowable Administration Cost of Capital	266,790	64,459 202,331
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
	<b>TOTAL ADJUSTMENTS</b>	<u>\$1,245,394</u>	<u>\$1,245,394</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 – GARDEN CITY**  
**Cost of Capital Reimbursement Analysis**  
**For the Cost Report Period Ended September 30, 2012**  
**AC# 3-GAC-J2**

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>3.21571</u>	<u>3.21571</u>	
Deemed Asset Value (Per Bed)	50,223	50,223	
Number of Beds	<u>88</u>	<u>60</u>	
Deemed Asset Value	4,419,624	3,013,380	
Improvements Since 1981	1,001,350	78,928	
Accumulated Depreciation at 9/30/12	<u>(2,072,919)</u>	<u>(825,562)</u>	
Deemed Depreciated Value	3,348,055	2,266,746	
Market Rate of Return	<u>.0369</u>	<u>.0369</u>	
Total Annual Return	123,543	83,643	
Return Applicable to Non-Reimbursable Cost Centers	-	-	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	
Allowable Annual Return	123,543	83,643	
Depreciation Expense	106,927	132,853	
Amortization Expense	-	-	
Capital Related Income Offsets	(123,543)	(83,643)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	<u>Total</u>
Allowable Cost of Capital Expense	106,927	132,853	\$239,780
Total Patient Days (Minimum 92% Occupancy)	<u>29,632</u>	<u>20,203</u>	<u>49,835</u>
Cost of Capital Per Diem	\$ <u><u>3.61</u></u>	\$ <u><u>6.58</u></u>	\$ <u><u>4.81</u></u>

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