

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 2, 2015

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

Re: AC# 3-LEX-J1 – NHC Healthcare - Lexington, LLC d/b/a
NHC Healthcare - Lexington

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 – LEXINGTON, LLC
D/B/A NHC HEALTHCARE - LEXINGTON**

WEST COLUMBIA, SOUTH CAROLINA

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2012
AC# 3-LEX-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 8, 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 – Lexington, LLC d/b/a NHC Healthcare – Lexington, 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 – Lexington, LLC d/b/a NHC Healthcare - Lexington 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 – Lexington, LLC d/b/a NHC Healthcare - Lexington, 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 – Lexington, LLC d/b/a NHC Healthcare - Lexington 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 8, 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 – LEXINGTON
Computation of Rate Change
For the Contract Period
Beginning October 1, 2012
AC# 3-LEX-J1

10/01/12-
09/30/13

Interim Reimbursement Rate (1)	\$164.25
Adjusted Reimbursement Rate	<u>149.84</u>
Decrease in Reimbursement Rate	\$ <u><u>14.41</u></u>

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

NHC HEALTHCARE – LEXINGTON
 Computation of Adjusted Reimbursement Rate
 For the Contract Period October 1, 2012 Through September 30, 2013
 AC# 3-LEX-J1

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 95.52	\$ 79.95	
Dietary		22.19	17.37	
Laundry/Housekeeping/Maintenance		<u>15.61</u>	<u>15.73</u>	
Subtotal	\$ <u>-</u>	133.32	113.05	\$113.05
Administration & Medical Records	\$ <u>-</u>	<u>27.82</u>	<u>22.95</u>	<u>22.95</u>
Subtotal		161.14	<u>\$136.00</u>	136.00
<u>Costs Not Subject to Standards:</u>				
Utilities		5.93		5.93
Special Services		.05		.05
Medical Supplies & Oxygen		6.90		6.90
Taxes and Insurance		2.57		2.57
Legal Fees		<u>.07</u>		<u>.07</u>
TOTAL		<u>\$176.66</u>		151.52
Inflation Factor (N/A)				-
Cost of Capital				4.25
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				-
Effect of \$1.75 Cap on Cost/Profit Incentives				-
Budget Neutrality Adjustment (3.805%)				<u>(5.93)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$149.84</u>

NHC HEALTHCARE – LEXINGTON
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2011
 AC# 3-LEX-J1

<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	\$4,030,674	\$ 172 (4)	\$ 1,614 (7) 3,007 (7) 58 (8) 14,340 (10)	\$4,011,827
Dietary	926,753	5,190 (4)	5 (8)	931,938
Laundry	136,466	-	-	136,466
Housekeeping	280,948	858 (4)	-	281,806
Maintenance	238,571	-	1,422 (5) 3 (8)	237,146
Administration & Medical Records	1,276,997	6,994 (4)	1,506 (5) 1,025 (7) 113,265 (8)	1,168,195
Utilities	253,212	-	4,349 (9)	248,863
Special Services	2,010	-	-	2,010
Medical Supplies & Oxygen	312,337	-	13,441 (4) 2,261 (5) 6,936 (7)	289,699
Taxes and Insurance	396,150	-	7,397 (3) 280,399 (7) 399 (8)	107,955
Legal Fees	2,885	-	48 (8)	2,837

NHC HEALTHCARE – LEXINGTON
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2011
AC# 3-LEX-J1

<u>Expenses</u>	Totals (From Schedule SC 13) as Adjusted by DH&HS	Adjustments <u>Debit</u>	<u>Credit</u>	Adjusted <u>Totals</u>
Cost of Capital	492,725	106,044 (2)	200,639 (1) 43,554 (6) <u>175,898 (8)</u>	178,678
Subtotal	8,349,728	119,258	871,566	7,597,420
Ancillary	-	227 (4) 1,184 (5)	-	1,411
Nonallowable	1,187,126	200,639 (1) 7,397 (3) 4,005 (5) 43,554 (6) 292,981 (7) 289,676 (8) 14,340 (10)	106,044 (2)	1,933,674
CNA Training and Testing	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Operating Expenses	<u>\$9,536,854</u>	<u>\$973,261</u>	<u>\$977,610</u>	<u>\$9,532,505</u>
Total Patient Days	<u>41,998</u>	<u>-</u>	<u>-</u>	<u>41,998</u>
Total Beds	<u>120</u>			

NHC HEALTHCARE – LEXINGTON
Adjustment Report
Cost Report Period Ended September 30, 2011
AC# 3-LEX-J1

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$727,900	
	Other Equity	182,483	
	Nonallowable	200,639	
	Accumulated Depreciation		\$910,383
	Cost of Capital		200,639
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Cost of Capital	106,044	
	Nonallowable		106,044
	To adjust depreciation expense to comply with capital cost policy State Plan, Attachment 4.19D		
3	Nonallowable	7,397	
	Taxes and Insurance		7,397
	To adjust property tax expense HIM-15-1, Sections 2302.1 and 2304		
4	Nursing	172	
	Dietary	5,190	
	Housekeeping	858	
	Administration	6,994	
	Ancillary	227	
	Medical Supplies		13,441
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		
5	Ancillary	1,184	
	Nonallowable	4,005	
	Maintenance		1,422
	Administration		1,506
	Medical Supplies		2,261
	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 – LEXINGTON
Adjustment Report
Cost Report Period Ended September 30, 2011
AC# 3-LEX-J1

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Nonallowable Cost of Capital	43,554	43,554
	To adjust capital return and related income offset State Plan, Attachment 4.19D		
7	Nonallowable Nursing Restorative Medical Records Taxes and Insurance Medical Supplies	292,981	1,614 3,007 1,025 280,399 6,936
	To disallow liability insurance and adjust related party cost HIM-15-1, Sections 1005, 2162.2 and 2304 State Plan, Attachment 4.19D		
8	Nonallowable Nursing Dietary Maintenance Administration Legal Taxes and Insurance Cost of Capital	289,676	58 5 3 113,265 48 399 175,898
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
9	Other Revenue Utilities	4,349	4,349
	To offset income against related expense HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		

NHC HEALTHCARE – LEXINGTON
Adjustment Report
Cost Report Period Ended September 30, 2011
AC# 3-LEX-J1

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
10	Nonallowable Restorative	14,340	14,340
	To disallow cable TV expense HIM-15-1, Section 2106.1 DH&HS Expense Crosswalk		
	TOTAL ADJUSTMENTS	<u>\$1,887,993</u>	<u>\$1,887,993</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 – LEXINGTON
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2011
AC# 3-LEX-J1

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>3.1821</u>	<u>3.1821</u>	
Deemed Asset Value (Per Bed)	49,698	49,698	
Number of Beds	<u>88</u>	<u>32</u>	
Deemed Asset Value	4,373,424	1,590,336	
Improvements Since 1981	1,010,528	344,369	
Accumulated Depreciation at 9/30/11	<u>(2,091,757)</u>	<u>(760,229)</u>	
Deemed Depreciated Value	3,292,195	1,174,476	
Market Rate of Return	<u>.0408</u>	<u>.0408</u>	
Total Annual Return	134,322	47,919	
Return Applicable to Non-Reimbursable Cost Centers	-	-	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	
Allowable Annual Return	134,322	47,919	
Depreciation Expense	125,188	53,490	
Amortization Expense	-	-	
Capital Related Income Offsets	(134,322)	(47,919)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	<u>Total</u>
Allowable Cost of Capital Expense	125,188	53,490	\$178,678
Total Patient Days (Actual)	<u>30,800</u>	<u>11,198</u>	<u>41,998</u>
Cost of Capital Per Diem	\$ <u>4.06</u>	\$ <u>4.78</u>	\$ <u>4.25</u>

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