

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-LNC-J1 – NHC Healthcare – Laurens, 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 – LAURENS, LLC

LAURENS, SOUTH CAROLINA

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

December 8, 2014

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 – Laurens, 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 – Laurens, 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 – Laurens, 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 – Laurens, 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
December 8, 2014

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 – LAURENS, LLC
Computation of Rate Change
For the Contract Period
Beginning October 1, 2012
AC# 3-LNC-J1

10/01/12-
09/30/13

Interim Reimbursement Rate (1)	\$159.27
Adjusted Reimbursement Rate	<u>146.37</u>
Decrease in Reimbursement Rate	\$ <u><u>12.90</u></u>

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

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

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 77.52	\$101.11	
Dietary		17.04	17.37	
Laundry/Housekeeping/Maintenance		<u>12.74</u>	<u>15.73</u>	
Subtotal	<u>\$9.39</u>	107.30	134.21	\$107.30
Administration & Medical Records	<u>\$1.90</u>	<u>21.05</u>	<u>22.95</u>	<u>21.05</u>
Subtotal		128.35	<u>\$157.16</u>	128.35
<u>Costs Not Subject to Standards:</u>				
Utilities		6.16		6.16
Special Services		.13		.13
Medical Supplies & Oxygen		7.52		7.52
Taxes and Insurance		2.44		2.44
Legal Fees		<u>.06</u>		<u>.06</u>
TOTAL		<u>\$144.66</u>		144.66
Inflation Factor (N/A)				-
Cost of Capital				5.75
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				1.90
Cost Incentive				9.39
Effect of \$1.75 Cap on Cost/Profit Incentives				(9.54)
Budget Neutrality Adjustment (3.805%)				<u>(5.79)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$146.37</u>

NHC HEALTHCARE – LAURENS, LLC
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2011
 AC# 3-LNC-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	\$4,783,927	\$ -	\$ 1,349 (6) 4,059 (6) 76 (7) 10,901 (8)	\$4,767,542
Dietary	1,019,636	28,507 (3)	7 (7)	1,048,136
Laundry	148,812	-	-	148,812
Housekeeping	375,239	-	2,340 (9)	372,899
Maintenance	264,251	-	1,003 (4) 4 (7) 1,611 (9)	261,633
Administration & Medical Records	1,461,581	6,317 (3) 1,346 (3)	1,837 (4) 1,682 (6) 149,231 (7) 21,904 (9)	1,294,590
Utilities	386,048	-	4,833 (8) 2,325 (9)	378,890
Special Services	7,822	-	-	7,822
Medical Supplies & Oxygen	517,859	-	39,961 (3) 4,132 (4) 11,420 (6)	462,346
Taxes and Insurance	562,277	-	410,883 (6) 526 (7) 1,015 (9)	149,853

NHC HEALTHCARE – LAURENS, LLC
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2011
AC# 3-LNC-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>
Legal Fees	3,801	-	63 (7) 70 (9)	3,668
Cost of Capital	593,711	35,090 (5)	27,038 (1) 16,228 (2) 231,754 (7) <u>361 (9)</u>	353,420
Subtotal	10,124,964	71,260	946,613	9,249,611
Ancillary	-	3,791 (3) 12,662 (4)	-	16,453
Nonallowable	2,852,160	27,038 (1) 16,228 (2) 429,393 (6) 381,661 (7) 10,901 (8) 29,626 (9)	5,690 (4) 35,090 (5)	3,706,227
CNA Training and Testing	<u>5,527</u>	<u>-</u>	<u>-</u>	<u>5,527</u>
Total Operating Expenses	<u>\$12,982,651</u>	<u>\$982,560</u>	<u>\$987,393</u>	<u>\$12,977,818</u>
Total Patient Days	<u>61,498</u>	<u>-</u>	<u>-</u>	<u>61,498</u>
Total Beds	<u>176</u>			

NHC HEALTHCARE – LAURENS, LLC
Adjustment Report
Cost Report Period Ended September 30, 2011
AC# 3-LNC-J1

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$198,139	
	Accumulated Depreciation	351,440	
	Nonallowable	27,038	
	Other Equity		\$549,579
	Cost of Capital		27,038
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	16,228	
	Cost of Capital		16,228
	To adjust depreciation expense to comply with capital cost policy State Plan, Attachment 4.19D		
3	Dietary	28,507	
	Administration	6,317	
	Medical Records	1,346	
	Ancillary	3,791	
	Medical Supplies		39,961
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		
4	Ancillary	12,662	
	Maintenance		1,003
	Administration		1,837
	Medical Supplies		4,132
	Nonallowable		5,690
	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 – LAURENS, LLC
Adjustment Report
Cost Report Period Ended September 30, 2011
AC# 3-LNC-J1

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Cost of Capital Nonallowable	35,090	35,090
	To adjust capital return and related income offset State Plan, Attachment 4.19D		
6	Nonallowable	429,393	
	Nursing		1,349
	Restorative		4,059
	Medical Records		1,682
	Taxes and Insurance		410,883
	Medical Supplies		11,420
	To disallow liability insurance and adjust related party cost HIM-15-1, Sections 1005, 2162.2 and 2304 State Plan, Attachment 4.19D		
7	Nonallowable	381,661	
	Nursing		76
	Dietary		7
	Maintenance		4
	Administration		149,231
	Legal		63
	Taxes and Insurance		526
	Cost of Capital		231,754
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
8	Other Revenue	4,833	
	Nonallowable	10,901	
	Restorative		10,901
	Utilities		4,833
	To offset income against related expense and disallow cable TV expense HIM-15-1, Sections 2102.3 and 2106.1 DH&HS Expense Crosswalk		

NHC HEALTHCARE – LAURENS, LLC
Adjustment Report
Cost Report Period Ended September 30, 2011
AC# 3-LNC-J1

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
9	Nonallowable	29,626	
	Housekeeping		2,340
	Maintenance		1,611
	Administration		21,904
	Utilities		2,325
	Taxes and Insurance		1,015
	Legal		70
	Cost of Capital		361
	To remove indirect cost applicable to a non-reimbursable cost center HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
	TOTAL ADJUSTMENTS	<u>\$1,536,972</u>	<u>\$1,536,972</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 – LAURENS, LLC
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2011
 AC# 3-LNC-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>132</u>	<u>44</u>	
Deemed Asset Value	6,560,136	2,186,712	
Improvements Since 1981	3,963,421	541,538	
Accumulated Depreciation at 9/30/11	<u>(4,617,937)</u>	<u>(1,504,479)</u>	
Deemed Depreciated Value	5,905,620	1,223,771	
Market Rate of Return	<u>.0408</u>	<u>.0408</u>	
Total Annual Return	240,949	49,930	
Return Applicable to Non-Reimbursable Cost Centers	(1,623)	(339)	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	
Allowable Annual Return	239,326	49,591	
Depreciation Expense	228,066	69,183	
Amortization Expense	-	-	
Capital Related Income Offsets	(182,794)	(49,591)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(305)</u>	<u>(56)</u>	<u>Total</u>
Allowable Cost of Capital Expense	284,293	69,127	\$353,420
Total Patient Days (Actual)	<u>46,123</u>	<u>15,375</u>	<u>61,498</u>
Cost of Capital Per Diem	\$ <u>6.16</u>	\$ <u>4.50</u>	\$ <u>5.75</u>

NHC HEALTHCARE – LAURENS, LLC
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2011
AC# 3-LNC-J1

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$5.47	\$ N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	<u>\$9.46</u>	<u>\$4.50</u>
Reimbursable Cost of Capital Per Diem	\$ 5.75	
Cost of Capital Per Diem	<u>5.75</u>	
Cost of Capital Per Diem Limitation	\$ <u>-</u>	

2 copies of this document were published at an estimated printing cost of \$1.41 each, and a total printing cost of \$2.82. Section 1-11-425 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.