

*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-J2 - 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, 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/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, 2013  
AC# 3-LNC-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 12, 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 – Laurens, 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 – 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  
January 12, 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 – LAURENS, LLC**  
Computation of Rate Change  
For the Contract Period  
Beginning October 1, 2013  
AC# 3-LNC-J2

10/01/13-  
09/30/14

Interim Reimbursement Rate (1)	\$167.28
Adjusted Reimbursement Rate	<u>153.45</u>
Decrease in Reimbursement Rate	\$ <u><u>13.83</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, 2013 Through September 30, 2014  
 AC# 3-LNC-J2

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 78.04	\$ 99.52	
Dietary		17.95	17.31	
Laundry/Housekeeping/Maintenance		<u>13.22</u>	<u>15.32</u>	
Subtotal	<u>\$9.25</u>	109.21	132.15	\$109.21
Administration & Medical Records	<u>\$2.11</u>	<u>20.18</u>	<u>22.29</u>	<u>20.18</u>
Subtotal		129.39	<u>\$154.44</u>	129.39
<u>Costs Not Subject to Standards:</u>				
Utilities		6.39		6.39
Special Services		.29		.29
Medical Supplies & Oxygen		7.26		7.26
Taxes and Insurance		2.61		2.61
Legal Fees		<u>.04</u>		<u>.04</u>
<b>TOTAL</b>		<u>\$145.98</u>		145.98
Inflation Factor (3.60%)				5.26
Cost of Capital				5.08
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				2.11
Cost Incentive				9.25
Effect of \$1.75 Cap on Cost/Profit Incentives				(9.61)
Budget Neutrality Adjustment (2.9241%)				<u>(4.62)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$153.45</u>

**NHC HEALTHCARE – LAURENS, LLC**  
 Summary of Costs and Total Patient Days  
 For the Cost Report Period Ended September 30, 2012  
 AC# 3-LNC-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	\$4,743,846	\$ -	\$ 10,702 (4) 1,890 (7) 4,500 (7)	\$4,726,754
Dietary	1,087,242	-	-	1,087,242
Laundry	165,775	-	-	165,775
Housekeeping	352,921	-	2,260 (10)	350,661
Maintenance	286,839	-	453 (7) 1,794 (10)	284,592
Administration & Medical Records	1,323,585	-	139 (7) 1,741 (7) 75,316 (8) 24,136 (10)	1,222,253
Utilities	394,802	-	5,512 (9) 2,435 (10)	386,855
Special Services	17,734	-	-	17,734
Medical Supplies & Oxygen	461,754	-	8,167 (5) 14,098 (7)	439,489
Taxes and Insurance	581,155	-	421,882 (3) 1,123 (10)	158,150
Legal Fees	2,274	-	50 (10)	2,224

**NHC HEALTHCARE – LAURENS, LLC**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 2012  
AC# 3-LNC-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	574,798	14,157 (6)	29,357 (1) 15,297 (2) 236,414 (8) <u>232 (10)</u>	307,655
Subtotal	9,992,725	14,157	857,498	9,149,384
Ancillary	-	8,167 (5)	-	8,167
Nonallowable	3,288,658	29,357 (1) 15,297 (2) 421,882 (3) 10,702 (4) 22,821 (7) 311,730 (8) 32,030 (10)	14,157 (6)	4,118,320
CNA Training and Testing	<u>4,616</u>	<u>-</u>	<u>-</u>	<u>4,616</u>
Total Operating Expenses	<u>\$13,285,999</u>	<u>\$866,143</u>	<u>\$871,655</u>	<u>\$13,280,487</u>
Total Patient Days	<u>60,571</u>	<u>-</u>	<u>-</u>	<u>60,571</u>
Total Beds	<u>176</u>			

**NHC HEALTHCARE – LAURENS, LLC**  
Adjustment Report  
Cost Report Period Ended September 30, 2012  
AC# 3-LNC-J2

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$334,498	
	Other Equity	127,042	
	Nonallowable	29,357	
	Accumulated Depreciation		\$461,540
	Cost of Capital		29,357
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	15,297	
	Cost of Capital		15,297
	To adjust depreciation expense to comply with capital cost policy State Plan, Attachment 4.19D		
3	Nonallowable	421,882	
	Taxes and Insurance		421,882
	To disallow liability insurance HIM-15-1, Sections 2162.2 and 2304 State Plan, Attachment 4.19D		
4	Nonallowable	10,702	
	Restorative		10,702
	To disallow cable TV expense HIM-15-1, Section 2106.1 DH&HS Expense Crosswalk		
5	Ancillary	8,167	
	Medical Supplies		8,167
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		

**NHC HEALTHCARE – LAURENS, LLC**  
Adjustment Report  
Cost Report Period Ended September 30, 2012  
AC# 3-LNC-J2

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Cost of Capital Nonallowable	14,157	14,157
	To adjust capital return and related income offset State Plan, Attachment 4.19D		
7	Nonallowable	22,821	
	Nursing		1,890
	Restorative		4,500
	Maintenance		453
	Administration		139
	Medical Records		1,741
	Medical Supplies		14,098
	To adjust related party cost HIM-15-1, Sections 1005 and 2304		
8	Nonallowable	311,730	
	Administration		75,316
	Cost of Capital		236,414
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan Attachment 4.19D		
9	Other Revenue	5,512	
	Utilities		5,512
	To offset income against related expense HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		

**NHC HEALTHCARE – LAURENS, LLC**  
Adjustment Report  
Cost Report Period Ended September 30, 2012  
AC# 3-LNC-J2

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
10	Nonallowable	32,030	
	Housekeeping		2,260
	Maintenance		1,794
	Administration		24,136
	Legal		50
	Utilities		2,435
	Taxes and Insurance		1,123
	Cost of Capital		232
	To remove indirect cost applicable to a non-reimbursable cost center HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
		\$1,333,195	\$1,333,195
	TOTAL ADJUSTMENTS	\$1,333,195	\$1,333,195

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, 2012  
 AC# 3-LNC-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>132</u>	<u>44</u>	
Deemed Asset Value	6,629,436	2,209,812	
Improvements Since 1981	4,016,418	555,808	
Accumulated Depreciation at 9/30/12	(4,828,536)	(1,568,774)	
Deemed Depreciated Value	5,817,318	1,196,846	
Market Rate of Return	<u>.0369</u>	<u>.0369</u>	
Total Annual Return	214,659	44,164	
Return Applicable to Non-Reimbursable Cost Centers	(1,508)	(312)	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	
Allowable Annual Return	213,151	43,852	
Depreciation Expense	214,377	65,554	
Amortization Expense	-	-	
Capital Related Income Offsets	(185,195)	(43,852)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(205)</u>	<u>(27)</u>	<u>Total</u>
Allowable Cost of Capital Expense	242,128	65,527	\$307,655
Total Patient Days (Actual)	<u>45,428</u>	<u>15,143</u>	<u>60,571</u>
Cost of Capital Per Diem	\$ <u>5.33</u>	\$ <u>4.33</u>	\$ <u>5.08</u>

**NHC HEALTHCARE – LAURENS, LLC**  
 Cost of Capital Reimbursement Analysis  
 For the Cost Report Period Ended September 30, 2012  
 AC# 3-LNC-J2

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>\$4.33</u>
Reimbursable Cost of Capital Per Diem	\$ 5.08	
Cost of Capital Per Diem	<u>5.08</u>	
Cost of Capital Per Diem Limitation	<u>\$ -</u>	

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