

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-NAG-J2 – NHC Healthcare – North Augusta, LLC
d/b/a NHC Healthcare, North Augusta

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 – NORTH AUGUSTA, LLC
D/B/A NHC HEALTHCARE, NORTH AUGUSTA**

NORTH AUGUSTA, SOUTH CAROLINA

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2013
AC# 3-NAG-J2**

**AGREED-UPON PROCEDURES REPORT
ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

CONTENTS

	<u>EXHIBIT OR SCHEDULE</u>	<u>PAGE</u>
INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES		1
COMPUTATION OF RATE CHANGE FOR THE CONTRACT PERIOD BEGINNING OCTOBER 1, 2013	A	3
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIOD OCTOBER 1, 2013 THROUGH SEPTEMBER 30, 2014	B	4
SUMMARY OF COSTS AND TOTAL PATIENT DAYS FOR THE COST REPORT PERIOD ENDED SEPTEMBER 30, 2012	C	5
ADJUSTMENT REPORT	1	8
COST OF CAPITAL REIMBURSEMENT ANALYSIS	2	12

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

November 17, 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 – North Augusta, LLC d/b/a NHC Healthcare, North Augusta, 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 – North Augusta, LLC d/b/a NHC Healthcare, North Augusta 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 – North Augusta, LLC d/b/a NHC Healthcare, North Augusta, 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 – North Augusta, LLC d/b/a NHC Healthcare, North Augusta 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
November 17, 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, NORTH AUGUSTA
Computation of Rate Change
For the Contract Period
Beginning October 1, 2013
AC# 3-NAG-J2

10/01/13-
09/30/14

Interim Reimbursement Rate (1)	\$179.80
Adjusted Reimbursement Rate	<u>160.07</u>
Decrease in Reimbursement Rate	\$ <u><u>19.73</u></u>

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

NHC HEALTHCARE, NORTH AUGUSTA
 Computation of Adjusted Reimbursement Rate
 For the Contract Period October 1, 2013 Through September 30, 2014
 AC# 3-NAG-J2

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 86.40	\$ 99.52	
Dietary		18.14	17.31	
Laundry/Housekeeping/Maintenance		<u>13.54</u>	<u>15.32</u>	
Subtotal	<u>\$9.25</u>	118.08	132.15	\$118.08
Administration & Medical Records	<u>\$2.02</u>	<u>20.27</u>	<u>22.29</u>	<u>20.27</u>
Subtotal		138.35	<u>\$154.44</u>	138.35
<u>Costs Not Subject to Standards:</u>				
Utilities		5.07		5.07
Special Services		.01		.01
Medical Supplies & Oxygen		6.78		6.78
Taxes and Insurance		3.10		3.10
Legal Fees		<u>.04</u>		<u>.04</u>
TOTAL		<u>\$153.35</u>		153.35
Inflation Factor (3.60%)				5.52
Cost of Capital				4.27
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				2.02
Cost Incentive				9.25
Effect of \$1.75 Cap on Cost/Profit Incentives				(9.52)
Budget Neutrality Adjustment (2.9241%)				<u>(4.82)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$160.07</u>

NHC HEALTHCARE, NORTH AUGUSTA
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2012
 AC# 3-NAG-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	\$3,937,067	\$116,809 (12)	\$ 23,875 (5) 2,393 (7) 1,564 (9) 4,864 (9) 75,425 (11) 104,330 (13) 1,343 (14)	\$3,840,082
Dietary	793,837	315,823 (12) 929 (15)	1,702 (10) 302,399 (13) 91 (14)	806,397
Laundry	155,027	61,677 (12)	59,237 (13)	157,467
Housekeeping	269,588	115,099 (12)	146,603 (13)	238,084
Maintenance	230,659	102,639 (12)	30 (9) 1,027 (10) 125,676 (13) 47 (14) 336 (15)	206,182
Administration & Medical Records	1,009,990	294,701 (12) 60,861 (12)	14,700 (4) 292 (9) 1,899 (9) 197,407 (13) 53,917 (13) 196,470 (14)	900,867
Utilities	255,508	107,291 (12)	137,626 (13)	225,173
Special Services	363	10,800 (4) 376,412 (15)	387,210 (10)	365

NHC HEALTHCARE, NORTH AUGUSTA
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2012
AC# 3-NAG-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>	
Medical Supplies & Oxygen	296,684	118,034 (12) 20,290 (15)	17,239 (9) 81,614 (10) 34,602 (13)	301,553
Taxes and Insurance	492,585	192,404 (12)	460,228 (3) 11,209 (6) 67,074 (13) 8,714 (14)	137,764
Legal Fees	1,664	582 (12)	614 (14)	1,632
Cost of Capital	463,518	117,639 (2) 11,026 (8) <u>55,845 (12)</u>	272,823 (1) 17,068 (13) <u>168,167 (14)</u>	189,970
Subtotal	7,906,490	2,078,861	2,979,815	7,005,536
Ancillary	(1)	4,979 (15)	-	4,978
Nonallowable	4,816,782	272,823 (1) 460,228 (3) 3,900 (4) 23,875 (5) 11,209 (6) 2,393 (7) 25,888 (9) 471,553 (10) 75,425 (11) 1,245,939 (13) 375,446 (14)	117,639 (2) 11,026 (8) 1,541,765 (12) 402,274 (15)	5,712,757

NHC HEALTHCARE, NORTH AUGUSTA
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2012
AC# 3-NAG-J2

<u>Expenses</u>	Totals (From Schedule SC 13) as Adjusted by DH&HS	Adjustments		Adjusted Totals
		<u>Debit</u>	<u>Credit</u>	
CNA Training and Testing	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Operating Expenses	<u>\$12,723,271</u>	<u>\$5,052,519</u>	<u>\$5,052,519</u>	<u>\$12,723,271</u>
Total Patient Days	<u>44,447</u>	<u>-</u>	<u>-</u>	<u>44,447</u>
 Total Beds	 <u>132</u>			

NHC HEALTHCARE, NORTH AUGUSTA
Adjustment Report
Cost Report Period Ended September 30, 2012
AC# 3-NAG-J2

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets Nonallowable Accumulated Depreciation Other Equity Cost of Capital	\$1,030,943 272,823	 \$974,867 56,076 272,823
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Cost of Capital Nonallowable	117,639	 117,639
	To adjust depreciation expense to comply with capital cost policy State Plan, Attachment 4.19D		
3	Nonallowable Taxes and Insurance	460,228	 460,228
	To disallow liability insurance HIM-15-1, Sections 2162.2 and 2304 State Plan, Attachment 4.19D		
4	Special Services Nonallowable Medical Records	10,800 3,900	 14,700
	To reclassify expense to the proper cost center HIM-15-1, Section 2304 DH&HS Expense Crosswalk		
5	Nonallowable Restorative	23,875	 23,875
	To disallow cable TV expense HIM-15-1, Section 2106.1 DH&HS Expense Crosswalk		
6	Nonallowable Taxes and Insurance	11,209	 11,209
	To adjust property tax expense HIM-15-1, Sections 2302.1 and 2304		

NHC HEALTHCARE, NORTH AUGUSTA
Adjustment Report
Cost Report Period Ended September 30, 2012
AC# 3-NAG-J2

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
7	Nonallowable Nursing	2,393	2,393
	To adjust health insurance expense HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
8	Cost of Capital Nonallowable	11,026	11,026
	To adjust capital return and related income offset State Plan, Attachment 4.19D		
9	Nonallowable	25,888	
	Nursing		1,564
	Restorative		4,864
	Maintenance		30
	Administration		292
	Medical Records		1,899
	Medical Supplies		17,239
	To adjust related party cost HIM-15-1, Sections 1005 and 2304		
10	Nonallowable	471,553	
	Dietary		1,702
	Maintenance		1,027
	Medical Supplies		81,614
	Special Services		387,210
	To reclassify ancillary service cost to a non-reimbursable cost center HIM-15-1, Sections 2102.3 and 2304 State Plan, Attachment 4.19D		
11	Nonallowable Nursing	75,425	75,425
	To adjust provider allocation of nursing cost to a non-reimbursable cost center HIM-15-1, Sections 2102.3 and 2304 State Plan, Attachment 4.19D		

NHC HEALTHCARE, NORTH AUGUSTA
 Adjustment Report
 Cost Report Period Ended September 30, 2012
 AC# 3-NAG-J2

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
12	Restorative	116,809	
	Dietary	315,823	
	Laundry	61,677	
	Housekeeping	115,099	
	Maintenance	102,639	
	Administration	294,701	
	Medical Records	60,861	
	Legal	582	
	Utilities	107,291	
	Taxes and Insurance	192,404	
	Medical Supplies	118,034	
	Cost of Capital	55,845	
	Nonallowable		1,541,765
	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		
13	Nonallowable	1,245,939	
	Restorative		104,330
	Dietary		302,399
	Laundry		59,237
	Housekeeping		146,603
	Maintenance		125,676
	Administration		197,407
	Medical Records		53,917
	Utilities		137,626
	Taxes and Insurance		67,074
	Medical Supplies		34,602
	Cost of Capital		17,068
	To remove indirect cost applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		

NHC HEALTHCARE, NORTH AUGUSTA
Adjustment Report
Cost Report Period Ended September 30, 2012
AC# 3-NAG-J2

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
14	Nonallowable	375,446	
	Nursing		1,343
	Dietary		91
	Maintenance		47
	Administration		196,470
	Legal		614
	Taxes and Insurance		8,714
	Cost of Capital		168,167
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
15	Dietary	929	
	Medical Supplies	20,290	
	Special Services	376,412	
	Ancillary	4,979	
	Maintenance		336
	Nonallowable		402,274
	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		
	TOTAL ADJUSTMENTS	<u>\$6,083,462</u>	<u>\$6,083,462</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, NORTH AUGUSTA
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2012
 AC# 3-NAG-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>44</u>	
Deemed Asset Value	4,419,624	2,209,812	
Improvements Since 1981	970,229	1,052,644	
Accumulated Depreciation at 9/30/12	<u>(2,073,882)</u>	<u>(1,900,082)</u>	
Deemed Depreciated Value	3,315,971	1,362,374	
Market Rate of Return	<u>.0369</u>	<u>.0369</u>	
Total Annual Return	122,359	50,272	
Return Applicable to Non-Reimbursable Cost Centers	(10,336)	(4,246)	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	
Allowable Annual Return	112,023	46,026	
Depreciation Expense	106,073	100,965	
Amortization Expense	-	-	
Capital Related Income Offsets	(112,023)	(46,026)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(8,680)</u>	<u>(8,388)</u>	<u>Total</u>
Allowable Cost of Capital Expense	97,393	92,577	\$189,970
Total Patient Days (Minimum 92% Occupancy)	<u>29,631</u>	<u>14,816</u>	<u>44,447</u>
Cost of Capital Per Diem	\$ <u>3.29</u>	\$ <u>6.25</u>	\$ <u>4.27</u>

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