

*State of South Carolina*



*Office of the State Auditor*

1401 MAIN STREET, SUITE 1200  
COLUMBIA, S.C. 29201

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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-NHS-J1 – National Health Corporation d/b/a NHC Healthcare - Sumter

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/cwc

cc: Ms. Brenda L. Hyleman  
Mr. Jeff Saxon  
Ms. Kathleen C. Snider  
Ms. Nicole Mitchell Threat  
Ms. Melissa Simmons

**NATIONAL HEALTH CORPORATION D/B/A  
NHC HEALTHCARE - SUMTER**

**SUMTER, SOUTH CAROLINA**

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

October 6, 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 National Health Corporation d/b/a NHC Healthcare - Sumter, 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 National Health Corporation d/b/a NHC Healthcare - Sumter 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 National Health Corporation d/b/a NHC Healthcare - Sumter, 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 National Health Corporation d/b/a NHC Healthcare - Sumter 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  
October 6, 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.", written in a cursive style.

Richard H. Gilbert, Jr., CPA  
Deputy State Auditor

**NHC HEALTHCARE - SUMTER**  
Computation of Rate Change  
For the Contract Period  
Beginning October 1, 2012  
AC# 3-NHS-J1

	10/01/12- <u>09/30/13</u>
Interim Reimbursement Rate (1)	\$153.07
Adjusted Reimbursement Rate	<u>141.73</u>
Decrease in Reimbursement Rate	\$ <u><u>11.34</u></u>

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

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

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 79.33	\$ 94.06	
Dietary		17.10	17.37	
Laundry/Housekeeping/Maintenance		<u>11.13</u>	<u>15.73</u>	
Subtotal	<u>\$8.90</u>	107.56	127.16	\$107.56
Administration & Medical Records	<u>\$4.15</u>	<u>18.80</u>	<u>22.95</u>	<u>18.80</u>
Subtotal		126.36	<u>\$150.11</u>	126.36
<u>Costs Not Subject to Standards:</u>				
Utilities		3.62		3.62
Special Services		.02		.02
Medical Supplies & Oxygen		6.81		6.81
Taxes and Insurance		2.63		2.63
Legal Fees		<u>.06</u>		<u>.06</u>
<b>TOTAL</b>		<u>\$139.50</u>		139.50
Inflation Factor (N/A)				-
Cost of Capital				6.09
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				4.15
Cost Incentive				8.90
Effect of \$1.75 Cap on Cost/Profit Incentives				(11.30)
Budget Neutrality Adjustment (3.805%)				<u>(5.61)</u>
<b>ADJUSTED REIMBURSEMENT RATE</b>				<u>\$141.73</u>

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

<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	\$3,803,127	\$ -	\$ 1,323 (6) 2,768 (6) 48 (7) 10,399 (8)	\$3,788,589
Dietary	816,634	-	5 (7)	816,629
Laundry	103,446	-	-	103,446
Housekeeping	195,700	-	-	195,700
Maintenance	239,151	-	3,340 (3) 3,420 (4) 2 (7)	232,389
Administration & Medical Records	993,914	-	324 (4) 1,151 (6) 94,466 (7)	897,973
Utilities	173,098	-	-	173,098
Special Services	1,122	-	-	1,122
Medical Supplies & Oxygen	337,736	-	1,158 (3) 257 (4) 11,183 (6)	325,138
Taxes and Insurance	440,889	-	315,168 (6) 333 (7)	125,388
Legal Fees	2,860	-	40 (7)	2,820
Cost of Capital	408,270	83,814 (5)	49,682 (1) 4,856 (2) 146,703 (7)	290,843
Subtotal	7,515,947	83,814	646,626	6,953,135

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

<u>Expenses</u>	Totals (From Schedule SC 13) as Adjusted by DH&HS	Adjustments		Adjusted Totals
		<u>Debit</u>	<u>Credit</u>	
Ancillary	-	2,173 (4)	-	2,173
Nonallowable	765,286	49,682 (1) 4,856 (2) 1,158 (3) 1,828 (4) 331,593 (6) 241,597 (7) 10,399 (8)	83,814 (5)	1,322,585
CNA Training & Testing	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Operating Expenses	<u>\$8,281,233</u>	<u>\$727,100</u>	<u>\$730,440</u>	<u>\$8,277,893</u>
Total Patient Days	<u>47,756</u>	<u>-</u>	<u>-</u>	<u>47,756</u>
Total Beds	<u>138</u>			

**NHC HEALTHCARE - SUMTER**  
Adjustment Report  
Cost Report Period Ended September 30, 2011  
AC# 3-NHS-J1

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$ 538,957	
	Other Equity	1,075,193	
	Nonallowable	49,682	
	Fixed Assets		\$1,614,150
	Cost of Capital		49,682
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	4,856	
	Cost of Capital		4,856
	To adjust depreciation expense to comply with capital cost policy State Plan, Attachment 4.19D		
3	Retained Earnings	3,340	
	Nonallowable	1,158	
	Maintenance		3,340
	Medical Supplies		1,158
	To properly charge expense applicable to the prior period and reclassify expense to the proper cost center HIM-15-1, Section 2302.1 DH&HS Expense Crosswalk		
4	Ancillary	2,173	
	Nonallowable	1,828	
	Maintenance		3,420
	Administration		324
	Medical Supplies		257
	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		
5	Cost of Capital	83,814	
	Nonallowable		83,814
	To adjust capital return State Plan, Attachment 4.19D		

**NHC HEALTHCARE - SUMTER**  
Adjustment Report  
Cost Report Period Ended September 30, 2011  
AC# 3-NHS-J1

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Nonallowable	331,593	
	Nursing		1,323
	Restorative		2,768
	Medical Records		1,151
	Taxes and Insurance		315,168
	Medical Supplies		11,183
	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	241,597	
	Nursing		48
	Dietary		5
	Maintenance		2
	Administration		94,466
	Legal		40
	Taxes and Insurance		333
	Cost of Capital		146,703
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
8	Nonallowable	10,399	
	Restorative		10,399
	To disallow cable TV expense HIM-15-1, Section 2106.1 DH&HS Expense Crosswalk		
	<b>TOTAL ADJUSTMENTS</b>	<b><u>\$2,344,590</u></b>	<b><u>\$2,344,590</u></b>

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 - SUMTER**  
 Cost of Capital Reimbursement Analysis  
 For the Cost Report Period Ended September 30, 2011  
 AC# 3-NHS-J1

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>3.1821</u>	<u>3.1821</u>	<u>3.1821</u>	
Deemed Asset Value (Per Bed)	49,698	49,698	49,698	
Number of Beds	<u>100</u>	<u>23</u>	<u>15</u>	
Deemed Asset Value	4,969,800	1,143,054	745,470	
Improvements Since 1981	2,215,113	143,721	165,600	
Accumulated Depreciation at 9/30/11	<u>(2,434,256)</u>	<u>(408,634)</u>	<u>(254,739)</u>	
Deemed Depreciated Value	4,750,657	878,141	656,331	
Market Rate of Return	<u>.0408</u>	<u>.0408</u>	<u>.0408</u>	
Total Annual Return	193,827	35,828	26,778	
Return Applicable to Non-Reimbursable Cost Centers	-	-	-	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	<u>-</u>	
Allowable Annual Return	193,827	35,828	26,778	
Depreciation Expense	140,297	23,003	25,233	
Amortization Expense	-	-	-	
Capital Related Income Offsets	(111,683)	(25,687)	(16,753)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	<u>-</u>	<u>Total</u>
Allowable Cost of Capital Expense	222,441	33,144	35,258	\$290,843
Total Patient Days (Actual)	<u>34,593</u>	<u>7,970</u>	<u>5,193</u>	<u>47,756</u>
Cost of Capital Per Diem	<u>\$ 6.43</u>	<u>\$ 4.16</u>	<u>\$ 6.79</u>	<u>\$ 6.09</u>

**NHC HEALTHCARE - SUMTER**  
 Cost of Capital Reimbursement Analysis  
 For the Cost Report Period Ended September 30, 2011  
 AC# 3-NHS-J1

6/30/89 Cost of Capital and Return on Equity			
Capital Per Diem Reimbursement	\$4.92	\$ N/A	\$ N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	<u>\$8.91</u>	<u>\$4.16</u>	<u>\$6.79</u>
Reimbursable Cost of Capital Per Diem		\$6.09	
Cost of Capital Per Diem		<u>6.09</u>	
Cost of Capital Per Diem Limitation		<u>\$ -</u>	

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