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**Description**

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AUDIT OBJECTIVE:

To determine whether the provider is in compliance with all applicable provisions of Attachment 4.19D of the South Carolina State Plan under Title XIX of the Social Security Act for the fiscal year under audit.

PROCEDURES:

- I. Listed below are specific requirements stated in the FY 04 State Plan for T-19 services. Compliance with each requirement should be tested. Tests can be accomplished by inquiry, by scan, and/or review of the appropriate records or by specifically designed audit test. When applicable, a workpaper reference should be included.
- II. Prior to applying the procedures outlined in this program, review current Medicaid bulletins on file in the library. Some restrictions are lifted or modified in FY 04. Note changes as appropriate.
- III. The method used to reimburse cost of capital has been significantly changed by DHHS. The State Plan 4.19D pages 3 through 12 must be reviewed prior to starting an audit or a review of a cost report setting a rate for FY 04.

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STATE PLAN FOR T-19 FACILITIES FY 04

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FINANCIAL AND STATISTICAL REPORT (F & S REPORT)

1. F & S reports will be certified by the responsible officer of the facility.
2. All applicable sections of the F & S report will be completed including identification of related organizations and cost.

COST OF CAPITAL

The Cost of Capital (COC) plan effective 7/1/89 replaces the prior COC & ROE policy with a plan that reimburses costs on the basis of market returns for the current reasonable value of the assets. Actual depreciation based on original cost of the asset for those facilities in operation prior to 7/1/89 will continue to be paid. Effective 10/1/90, for those facilities after 7/1/89 depreciation payments will be based on the lower of actual construction costs or the Deemed Asset Value when the facility begins operation. DHHS will calculate an annual return based on the Deemed Asset Value. To this value, depreciation expense, amortization expense and income offsets, and nonreimbursable cost center expenses will be adjusted to obtain the total COC per diem.

1. Effective 10/1/90 the COC plan has been updated therefore various restrictions/changes occurred at 10/1/90.
2. For new facilities/new beds on line on or after 7/1/91 will be assigned a useful life of 40 years for depreciation.
3. Accumulated depreciation for new facilities will be based on accumulated allowed depreciation (the lesser of actual depreciation or that determined by the Deemed Asset Value).
4. Deemed Asset Value for cost year 01-02 is \$39,828 per bed.
5. Market rate of return for cost year 01-02 is 5.61%.
6. Effective 10/1/93 non-related party home office building rent will be classified in the administrative cost center. Related depreciation expense will continue to be classified in COC.
7. Effective 7/1/89 capital expenditures incurred after the certification date of new beds and during the initial cost report period will be considered as part of actual construction costs and not as improvements.

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MAXIMUMS AND MINIMUMS

1. Patient days - actual days will be adjusted to reflect a 96% occupancy level. For new facilities and counties with occupancy less than 90%, see State Plan for adjusted occupancy levels. Also, see memo dated October 8, 2003 for Beaufort, Berkeley, and Hampton counties.
2. Cost and profit will be capped at \$1.75 per patient day.
3. Owner/lessee compensation guidelines will be adjusted annually by annual cost of living raises provided to state employees.
4. Cost of Capital under the new methodology is capped at \$3.99 over the allowable cost of the capital reimbursement and return on equity paid prior to 7/1/89. Effective 10/1/96, the cap will be frozen at \$3.99.
5. Effective for the rate paid beginning 10/1/90 lease costs associated with equipment rentals will be reflected in the affected cost center.
6. Income offsets will be limited to the amount of the annual return per facility (see table 1 page 12) plus working capital and specialty vehicle interest, in lieu of actual interest expense.
7. Inflation of 4.7% is effective 10/1/03.
8. Effective 12/1/93 newly constructed facilities and existing facilities increasing total beds by more than 50%, reimbursement for cost subject to standards will be at 120% of the standards during the initial six month period.
9. Effective October 1, 1997, the General Services, Dietary, and Laundry, Housekeeping, and Maintenance cost centers are combined. Therefore, compare the sum of the allowable cost of these three cost centers to the sum of these three cost standards.
10. Profit will be allowed if the provider's allowable cost is lower than the standard:  
If a facility's allowable costs for the sum of General Services, Dietary, and Laundry, Housekeeping, and Maintenance are below the sum of these three cost standards the cost incentive is equal to the difference between the sum of the standards and the sum of the facility's actual costs, up to 7% of the sum of the standards.  
Administration & Medical Records - 100% of difference with no limit

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MAXIMUMS AND MINIMUMS (CONTINUED)

11. Ceiling on profit will be limited to 3 1/2% of the sum of the providers allowable cost.
12. T-19 will not pay more than the provider's customary charge for private pay patients.
13. Disposable diapers, nursing supplies, and over-the-counter (OTC)/non-legend drug costs will be classified under Medical Supplies & Oxygen cost center. Effective 10/1/96 underpads will be classified under medical supplies and oxygen cost center.
14. Effective 7/1/94 per diem costs after the initial 6 month cost report period will be adjusted to reflect the higher of
  - 1) actual occupancy in the 6th month
  - 2) average occupancy for those facilities who are new or increasing beds by more than 50% or
  - 3) 90% occupancy
15. Effective 10/1/96 nurse aid training will be classified under non-allowable cost center.

ALLOWABILITY OF CERTAIN COSTS

1. Auto Expenses
  - a. Administrative Vehicles - allowable costs will be limited to the documented business miles multiplied by the current mileage rate for South Carolina state employees.
  - b. Specialty Vehicles - (Vans, trucks & station wagons with seating of more than six passengers) - allowable costs will include the actual costs of the vehicles depreciated over 5 years. Sedans or station wagons with seating of less than six, used for patient transport, will be limited to the state mileage rate in the appropriate cost center.
  - c. Auto expense will be charged to the cost center benefiting from the vehicle (i.e. a laundry truck to laundry).

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ALLOWABILITY OF CERTAIN COSTS (CONTINUED)2. Dues

Association dues related to legal action against the state, lobbying, and entertaining legislators will not be recognized. At desk review, 90% of association dues should be allowed.

3. Legal Fees

a. Reasonable legal fees and charges (not to exceed \$75/hr.) arising from normal day to day business activities related to patient care is allowable. Legal fees related to specialized areas, if higher, require DHHS approval.

b. Legal fees incurred in administrative appeals and/or litigation involving state agencies are not allowable.

c. Reasonable legal fees incurred in administrative appeals of audit exceptions may be refundable, not to exceed 15% of the amount recovered or \$1,000, whichever is lower.

4. Travel

a. Patient care related travel will be recognized in accordance with the South Carolina employees' per diem and travel regulations.

b. Out of state travel is limited to the continental United States (48 states) only.

c. Out of state travel will be limited to either the reasonable portion of cost for chain facilities with out of state offices or for travel to meet continuing education requirement and to participate in seminars or meetings approved by the S.C. Board of Examiners for Nursing Home Administrators.

d. Allowable cost for attendance at out of state meetings and seminars will be limited to two trips per year per facility. Out of state does not include travel to counties boarding South Carolina.

e. Effective for 7/1/90 payment rates, travel to and from the following are treated as in state travel and not subject to the limits on out of state travel: Georgia, North Carolina, Washington, D.C., and Baltimore, Maryland.

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| <p>5. <u>Director Fees</u></p> <p>a. Director fees and costs associated with attending board meetings or other top management responsibilities will <u>not</u> be allowed.</p> <p>b. Travel to and from the directors' meetings will be allowed at the per mile rate and in-state travel for South Carolina state employees.</p>   |              |                  |
| <p>6. <u>Compensation for Owners and/or Relatives</u></p> <p>a. Allowable compensation for owners/lessors and/or their relatives and lessees and/or their relatives is limited to the ranges for compensation per attachment 4.19D.</p> <p>b. The ranges are maximum limits in performing these duties 100% of a normal work week. Part time is prorated based on time spent.</p> <p>c. No individual will have more than one full time equivalent (40 hrs./week) job.</p> <p>d. For facilities with less than 60 beds, only one administrator and/or business manager is allowed.</p> <p>e. Allowable compensation detailed in 4.19D will be adjusted annually by annual cost of living raises provided to state employees.</p> |              |                  |
| <p>7. <u>Compensation for Owners and/or Relatives Employed by Parent Companies</u></p> <p>a. Allowable compensation for owners and/or relatives employed by the parent company is limited to the ranges for compensation per 4.19D.</p> <p>b. The ranges are maximum limits in performing these duties 100% of a normal week. Part time is prorated as a percentage of time spent.</p> <p>c. No individual will have more than one full time equivalent (40 hrs./week) job.</p> <p>d. No assistant operating executive is allowed for a chain with 257 beds or less.</p> <p>e. Allowable limits will be adjusted annually by annual cost of living raises provided to state employees.</p>                                       |              |                  |

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| 8. <u>Management Fees</u>   |              |                  |
| <p>Each centrally managed facility will submit a home office cost report which identifies cost by cost categories except for facilities that report their management fee as a single line item in the administrative cost center.</p>   |              |                  |
| 9. <u>Other Benefits</u>  |              |                  |
| <p>Benefits such as pensions, group life insurance, and health insurance not provided in accordance with sound financial/management practices (i.e. not available to all employees) will not be allowed.</p>  |              |                  |
| 10. <u>Payroll Taxes and Benefits</u>   |              |                  |
| <p>a. Payroll taxes and benefits will be reported in the cost applicable to the salaries to which they relate.</p>  |              |                  |
| <p>b. Payroll taxes and benefits will be limited in the same proportion that compensation is limited.</p>   |              |                  |
| 11. <u>Routine Laundry Services</u>   |              |                  |
| <p>Effective 10/1/93 personal laundry costs will be allowed to all medicaid and medicare patients of the facility free of charge. Specialty services such as handwashing, dry cleaning and mending can be charged to the patient.</p>   |              |                  |
| 12. <u>Specialty Bed Expense</u>  |              |                  |
| <p>Effective 10/01/94 specialty bed expense reimbursable under the Medicaid reimbursement rate will consist of only those costs incurred for Medicaid patients in which the facility did not receive reimbursement from Medicare. Direct costs will be excluded from allowable costs but no indirect costs will be removed from allowable costs.</p>  |              |                  |
| 13. <u>Special (Ancillary) Services</u>   |              |                  |
| <p>Effective 1/1/97 Special (ancillary) services costs which are reimbursed by Medicare include physical therapy, speech therapy, oxygen therapy, occupational therapy, medical supplies, specialty beds, PEN therapy, and other special services. In order to avoid dual reimbursement of these costs from both the Medicare and Medicaid Programs, only those special services costs not reimbursed by the Medicare Program as an ancillary service will be recognized in the facility's Medicaid reimbursement rate. (Program U)</p> |              |                  |

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14. Eden Alternative Expenses

The costs incurred by nursing facilities which participate in adopting the Eden Alternative concept will be considered an allowable cost for Medicaid rate setting purposes.

Eden Alternative expenses must be offset by grant income. Costs associated with fund raising activities applicable to the Eden Alternative concept or any other fund raising program will not be considered an allowable cost for Medicaid rate setting purposes.