

# 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 28, 2009

Ms. Martha Hughey  
Assistant Vice President of Reimbursement  
National Healthcare Corporation  
100 East Vine Street  
Murfreesboro, Tennessee 37130

Re: AC# 3-AND-J5 – NHC Healthcare - Anderson

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, 2004 through September 30, 2005. That report was used to set the rate covering the contract period beginning October 1, 2006.

We are recommending that the Department of Health and Human Services certify an accounts payable for amounts underpaid as a result of the rate changes shown on Exhibit A. You will be notified of settlement terms by that agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976, as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

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

**NHC HEALTHCARE - ANDERSON  
ANDERSON, SOUTH CAROLINA**

**CONTRACT PERIOD  
BEGINNING OCTOBER 1, 2006  
AC# 3-AND-J5**

**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

September 25, 2008

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 - Anderson, for the contract period beginning October 1, 2006, and for the twelve month cost report period ended September 30, 2005, as set forth in the accompanying schedules. The management of NHC Healthcare - Anderson 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 - Anderson, 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 - Anderson dated as of October 1, 2006, 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  
September 25, 2008

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 - ANDERSON**  
Computation of Rate Change  
For the Contract Period  
Beginning October 1, 2006  
AC# 3-AND-J5

	10/01/06- <u>09/30/07</u>
Adjusted Reimbursement Rate	\$154.02
Interim Reimbursement Rate (1)	<u>153.11</u>
Increase in Reimbursement Rate	\$ <u><u>.91</u></u>

- (1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated May 17, 2007.

**NHC HEALTHCARE - ANDERSON**  
 Computation of Adjusted Reimbursement Rate  
 For the Contract Period October 1, 2006 Through September 30, 2007  
 AC# 3-AND-J5

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 81.85	\$ 79.77	
Dietary		13.54	13.46	
Laundry/Housekeeping/Maintenance		<u>11.25</u>	<u>12.03</u>	
Subtotal	\$ <u>-</u>	106.64	105.26	\$105.26
Administration & Medical Records	\$ <u>-</u>	<u>23.48</u>	<u>16.87</u>	<u>16.87</u>
Subtotal		130.12	<u>\$122.13</u>	122.13
<u>Costs Not Subject to Standards:</u>				
Utilities		1.97		1.97
Special Services		.05		.05
Medical Supplies & Oxygen		6.20		6.20
Taxes and Insurance		8.69		8.69
Legal Fees		<u>-</u>		<u>-</u>
<b>TOTAL</b>		<u>\$147.03</u>		139.04
Inflation Factor (4.60%)				6.40
Cost of Capital				12.18
Cost of Capital Limitation				(3.60)
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				-
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>-</u>
<b>ADJUSTED REIMBURSEMENT RATE</b>				<u>\$154.02</u>

**NHC HEALTHCARE - ANDERSON**  
 Summary of Costs and Total Patient Days  
 For the Cost Report Period Ended September 30, 2005  
 AC# 3-AND-J5

<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	\$6,697,328	\$ 89,189 (5)	\$ 495,791 (3) 65,201 (4) 67,154 (6) 160,335 (6)	\$5,998,036
Dietary	1,178,875	234,430 (5)	421,429 (6)	991,876
Laundry	209,992	41,760 (5)	75,069 (6)	176,683
Housekeeping	451,169	73,657 (5)	166,918 (6)	357,907
Maintenance	370,726	61,614 (5)	142,845 (6)	289,495
Administration & Medical Records	1,982,411	225,233 (5) 37,623 (5)	457,381 (6) 67,630 (6)	1,720,256
Utilities	181,298	29,600 (5)	66,562 (6)	144,336
Special Services	3,497	-	-	3,497
Medical Supplies & Oxygen	540,346	107,453 (5)	193,165 (6)	454,634
Taxes and Insurance	785,268	120,947 (5)	269,242 (6)	636,973
Legal Fees	-	-	-	-
Cost of Capital	747,249	19,679 (5) 8,577 (7) <u>484,789 (8)</u>	201,430 (1) 166,161 (6)	892,703
Subtotal	13,148,159	1,534,551	3,016,314	11,666,396



**NHC HEALTHCARE - ANDERSON**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 2005  
AC# 3-AND-J5

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	<u>Debit</u>	Adjustments <u>Credit</u>	<u>Adjusted Totals</u>
Ancillary	-	-	-	-
Nonallowable	4,083,461	201,430 (1) 100,809 (2) 495,791 (3) 65,201 (4) 67,443 (5) 2,253,892 (6)	100,809 (2) 1,108,628 (5) 8,577 (7) 484,789 (8)	5,565,224
CNA Training and Testing	<u>108,103</u>	<u>-</u>	<u>-</u>	<u>108,103</u>
Total Operating Expenses	<u>\$17,339,723</u>	<u>\$4,719,117</u>	<u>\$4,719,117</u>	<u>\$17,339,723</u>
Total Patient Days	<u>87,092</u>	<u>-</u>	<u>13,815</u>	<u>73,277</u>
Total Beds	<u>202</u>			

**NHC HEALTHCARE - ANDERSON**  
Adjustment Report  
Cost Report Period Ended September 30, 2005  
AC# 3-AND-J5

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$2,383,386	
	Nonallowable	201,430	
	Other Equity	332,440	
	Fixed Assets		\$2,715,826
	Cost of Capital		201,430
	To adjust fixed assets and depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Fixed Assets - PPW	2,551,155	
	Nonallowable - Depreciation		
	Expense - PPW	100,809	
	Other Equity		1,132,340
	Accumulated Depreciation - PPW		1,418,815
	Nonallowable		100,809
	To adjust fixed assets and depreciation related to the non-certified wings HIM-15-1, Sections 100 and 2102.3		
3	Nonallowable - PPW	495,791	
	Nursing		495,791
	To adjust nursing for salaries and fringes related to PPW HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
4	Nonallowable - PPW	65,201	
	Nursing		65,201
	To adjust fringes related to PPW HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		

**NHC HEALTHCARE - ANDERSON**  
Adjustment Report  
Cost Report Period Ended September 30, 2005  
AC# 3-AND-J5

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Cost of Capital	19,679	
	Taxes and Insurance	120,947	
	Administration	225,233	
	Maintenance	61,614	
	Utilities	29,600	
	Laundry	41,760	
	Housekeeping	73,657	
	Dietary	234,430	
	Medical Records	37,623	
	Restorative	89,189	
	Medical Supplies	107,453	
	Nonallowable	67,443	
	Nonallowable - PPW		1,108,628
	To reverse DH&HS adjustment to remove costs applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
6	Nonallowable	2,253,892	
	Cost of Capital		166,161
	Nursing		67,154
	Taxes and Insurance		269,242
	Administration		457,381
	Maintenance		142,845
	Utilities		66,562
	Laundry		75,069
	Housekeeping		166,919
	Dietary		421,429
	Medical Records		67,630
	Restorative		160,335
	Medical Supplies		193,165
	To remove indirect costs applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		

**NHC HEALTHCARE - ANDERSON**  
Adjustment Report  
Cost Report Period Ended September 30, 2005  
AC# 3-AND-J5

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
7	Cost of Capital Nonallowable	8,577	8,577
	To remove portion of home office costs and income offsets applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
8	Cost of Capital Nonallowable	484,789	484,789
	To adjust capital return State Plan, Attachment 4.19D		
9	<u>Memo Adjustment:</u> To increase total square footage by 864 square feet from 101,540 square feet to 102,404 square feet		
10	<u>Memo Adjustment:</u> To adjust total noncertified wing days by 13,815 from 17,319 days to 31,134 days		
11	<u>Memo Adjustment:</u> To adjust total patient days by 13,815 from 87,092 days to 73,277 days		
	<b>TOTAL ADJUSTMENTS</b>	\$9,986,098	\$9,986,098

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 - ANDERSON**  
 Cost of Capital Reimbursement Analysis  
 For the Cost Report Period Ended September 30, 2005  
 AC# 3-AND-J5

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.77878</u>
Deemed Asset Value (Per Bed)	43,399
Number of Beds	<u>202</u>
Deemed Asset Value	8,766,598
Improvements Since 1981	8,084,372
Accumulated Depreciation at 9/30/05	<u>(6,304,910)</u>
Deemed Depreciated Value	10,546,060
Market Rate of Return	<u>.0490</u>
Total Annual Return	516,757
Return Applicable to Non-Reimbursable Cost Centers	(40,529)
Allocation of Interest to Non-Reimbursable Cost Centers	<u>131,422</u>
Allowable Annual Return	607,650
Depreciation Expense	474,719
Amortization Expense	-
Capital Related Income Offsets	(23,505)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(166,161)</u>
Allowable Cost of Capital Expense	892,703
Total Patient Days (Actual)	<u>73,277</u>
Cost of Capital Per Diem	\$ <u><u>12.18</u></u>

**NHC HEALTHCARE - ANDERSON**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 2005  
AC# 3-AND-J5

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$ 4.59
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	\$ <u>8.58</u>
Reimbursable Cost of Capital Per Diem	\$ 8.58
Cost of Capital Per Diem	<u>12.18</u>
Cost of Capital Per Diem Limitation	\$ <u>(3.60)</u>

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