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## 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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*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

(803) 253-4160  
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August 29, 2007

Mr. John Barber, Executive Vice President and CFO  
White Oak Management, Inc.  
Post Office Box 3347  
Spartanburg, South Carolina 29304-3347

Re: AC# 3-WOR-J4 – White Oak Manor – Rock Hill

Dear Mr. Barber:

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, 2003 through September 30, 2004. That report was used to set the rate covering the contract period beginning October 1, 2005.

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.

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

**WHITE OAK MANOR – ROCK HILL  
ROCK HILL, SOUTH CAROLINA**

**CONTRACT PERIOD  
BEGINNING OCTOBER 1, 2005  
AC# 3-WOR-J4**

**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

July 13, 2007

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 White Oak Manor – Rock Hill, for the contract period beginning October 1, 2005, and for the twelve month cost report period ended September 30, 2004, as set forth in the accompanying schedules. The management of White Oak Manor – Rock Hill 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 White Oak Manor – Rock Hill, 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 White Oak Manor – Rock Hill dated as of October 1, 2001, 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  
July 13, 2007

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

**WHITE OAK MANOR – ROCK HILL**  
Computation of Rate Change  
For the Contract Period  
Beginning October 1, 2005  
AC# 3-WOR-J4

	<u>10/01/05-</u> <u>09/30/06</u>
Interim Reimbursement Rate (1)	\$149.41
Adjusted Reimbursement Rate (2)	<u>147.25</u>
Decrease in Reimbursement Rate	\$ <u>2.16</u>

- (1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated March 1, 2006.
  
- (2) As provided under Article IV, Section E of the Provider's contract dated October 1, 2001 as amended, "The Provider agrees that the rate charged to SCDH&HS for services to an eligible Medicaid recipient under this contract will not be greater than that charged for a similar service to a private pay patient." Accordingly, the reimbursement rate is limited to the customary charges to private pay clients.

**WHITE OAK MANOR – ROCK HILL**  
 Computation of Adjusted Reimbursement Rate  
 For the Contract Period October 1, 2005 Through September 30, 2006  
 AC# 3-WOR-J4

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 82.06	\$ 85.59	
Dietary		13.82	12.63	
Laundry/Housekeeping/Maintenance		<u>11.31</u>	<u>10.97</u>	
Subtotal	\$ <u>2.00</u>	107.19	109.19	\$107.19
Administration & Medical Records	\$ <u>2.99</u>	<u>13.14</u>	<u>16.13</u>	<u>13.14</u>
Subtotal		120.33	<u>\$125.32</u>	120.33
<u>Costs Not Subject to Standards:</u>				
Utilities		2.80		2.80
Special Services		.02		.02
Medical Supplies & Oxygen		5.06		5.06
Taxes and Insurance		3.80		3.80
Legal Fees		<u>2.31</u>		<u>2.31</u>
<b>TOTAL</b>		<u>\$134.32</u>		134.32
Inflation Factor (4.70%)				6.31
Cost of Capital				7.00
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				2.99
Cost Incentive				2.00
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(3.24)</u>
<b>ADJUSTED REIMBURSEMENT RATE</b>				<u>\$149.38</u>



**WHITE OAK MANOR – ROCK HILL**  
 Summary of Costs and Total Patient Days  
 For the Cost Report Period Ended September 30, 2004  
 AC# 3-WOR-J4

<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	\$4,179,531	\$ -	\$ -	\$4,179,531
Dietary	703,961	-	-	703,961
Laundry	135,920	-	-	135,920
Housekeeping	255,092	-	-	255,092
Maintenance	185,260	-	-	185,260
Administration & Medical Records	669,082	-	-	669,082
Utilities	142,833	-	-	142,833
Special Services	1,038	-	-	1,038
Medical Supplies & Oxygen	257,895	-	-	257,895
Taxes and Insurance	308,370	-	114,683 (2)	193,687
Legal Fees	3,069	114,683 (2)	-	117,752
Cost of Capital	<u>358,224</u>	<u>355 (3)</u>	<u>2,084 (1)</u>	<u>356,495</u>
Subtotal	7,200,275	115,038	116,767	7,198,546

**WHITE OAK MANOR – ROCK HILL**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 2004  
AC# 3-WOR-J4

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
Ancillary	151,653	-	-	151,653
Nonallowable	<u>509,234</u>	<u>2,084</u> (1)	<u>355</u> (3)	<u>510,963</u>
Total Operating Expenses	<u>\$7,861,162</u>	<u>\$117,122</u>	<u>\$117,122</u>	<u>\$7,861,162</u>
Total Patient Days	<u>50,935</u>	<u>-</u>	<u>-</u>	<u>50,935</u>
Total Beds	<u>141</u>			

**WHITE OAK MANOR – ROCK HILL**  
Adjustment Report  
Cost Report Period Ended September 30, 2004  
AC# 3-WOR-J4

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$ 46,952	
	Nonallowable	2,084	
	Fixed Assets		\$ 41,465
	Cost of Capital		2,084
	Other Equity		5,487
	To adjust fixed assets and related depreciation expense HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Legal	114,683	
	Taxes and Insurance		114,683
	To adjust legal fees HIM-15-1, Section 2103 State Plan, Attachment 4.19D		
3	Cost of Capital	355	
	Nonallowable		355
	To adjust capital return State Plan, Attachment 4.19D		
	TOTAL ADJUSTMENTS	<u>\$164,074</u>	<u>\$164,074</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.

**WHITE OAK MANOR – ROCK HILL**  
 Cost of Capital Reimbursement Analysis  
 For the Cost Report Period Ended September 30, 2004  
 AC# 3-WOR-J4

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2,71494</u>
Deemed Asset Value (Per Bed)	42,402
Number of Beds	<u>141</u>
Deemed Asset Value	5,978,682
Improvements Since 1981	1,104,178
Accumulated Depreciation at 9/30/04	<u>(1,828,062)</u>
Deemed Depreciated Value	5,254,798
Market Rate of Return	<u>.0516</u>
Total Annual Return	271,148
Return Applicable to Non-Reimbursable Cost Centers	(273)
Allocation of Interest to Non-Reimbursable Cost Centers	<u>5</u>
Allowable Annual Return	270,880
Depreciation Expense	86,804
Amortization Expense	-
Capital Related Income Offsets	(1,096)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(93)</u>
Allowable Cost of Capital Expense	356,495
Total Patient Days	<u>50,935</u>
Cost of Capital Per Diem	\$ <u><u>7.00</u></u>

**WHITE OAK MANOR – ROCK HILL**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 2004  
AC# 3-WOR-J4

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$3.24
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$7.23</u>
Reimbursable Cost of Capital Per Diem	\$7.00
Cost of Capital Per Diem	<u>7.00</u>
Cost of Capital Per Diem Limitation	<u>\$ -</u>

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