

# 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-J4 – 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, 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/sag

cc: Ms. Brenda L. Hyleman  
Mr. Jeff Saxon  
Ms. Kathleen C. Snider

**NHC HEALTHCARE – ANDERSON  
ANDERSON, SOUTH CAROLINA**

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

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, 2005, and for the twelve month cost report period ended September 30, 2004, 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, 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  
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.", with a stylized flourish at the end.

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

**NHC HEALTHCARE – ANDERSON**  
Computation of Rate Change  
For the Contract Period  
Beginning October 1, 2005  
AC# 3-AND-J4

	10/01/05- <u>09/30/06</u>
Interim Reimbursement Rate (1)	\$144.61
Adjusted Reimbursement Rate	<u>144.12</u>
Decrease in Reimbursement Rate	\$ <u><u>.49</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, 2005 Through September 30, 2006  
 AC# 3-AND-J4

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 78.33	\$ 75.11	
Dietary		13.22	12.63	
Laundry/Housekeeping/Maintenance		<u>10.02</u>	<u>10.97</u>	
Subtotal	\$ <u>-</u>	101.57	98.71	\$ 98.71
Administration & Medical Records	\$ <u>-</u>	<u>22.69</u>	<u>16.13</u>	<u>16.13</u>
Subtotal		124.26	<u>\$114.84</u>	114.84
<u>Costs Not Subject to Standards:</u>				
Utilities		2.03		2.03
Special Services		.01		.01
Medical Supplies & Oxygen		5.67		5.67
Taxes and Insurance		6.91		6.91
Legal Fees		<u>-</u>		<u>-</u>
<b>TOTAL</b>		<u>\$138.88</u>		129.46
Inflation Factor (4.70%)				6.08
Cost of Capital				12.71
Cost of Capital Limitation				(4.13)
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>\$144.12</u>

**NHC HEALTHCARE – ANDERSON**  
 Summary of Costs and Total Patient Days  
 For the Cost Report Period Ended September 30, 2004  
 AC# 3-AND-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	\$6,212,113	\$109,437 (6)	\$348,857 (4) 62,636 (7) 149,631 (7)	\$5,760,426
Dietary	1,082,842	300,921 (6)	411,446 (7)	972,317
Laundry	190,735	53,006 (6)	72,474 (7)	171,267
Housekeeping	343,288	109,996 (6)	144,268 (7)	309,016
Maintenance	289,696	93,978 (6)	127,096 (7)	256,578
Administration & Medical Records	1,832,482	310,002 (6) 47,559 (6)	456,306 (7) 65,025 (7)	1,668,712
Utilities	165,772	52,830 (6)	68,987 (7)	149,615
Special Services	906	-	-	906
Medical Supplies & Oxygen	464,405	129,058 (6)	176,459 (7)	417,004
Taxes and Insurance	604,434	180,881 (6)	27,098 (3) 34,864 (5) 215,076 (7)	508,277
Legal Fees	-	-	-	-



**NHC HEALTHCARE – ANDERSON**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 2004  
AC# 3-AND-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>	
Cost of Capital	702,702	31,796 (6)	216,933 (1)	934,425
		2,862 (8)	164,864 (7)	
	<u>                    </u>	<u>578,862 (9)</u>	<u>                    </u>	<u>                    </u>
Subtotal	11,889,375	2,001,188	2,742,020	11,148,543
Ancillary	-	-	-	-
Nonallowable	4,571,917	216,933 (1)	81,527 (2)	5,312,749
		81,527 (2)	1,419,464 (6)	
		27,098 (3)	2,862 (8)	
		348,857 (4)	578,862 (9)	
		34,864 (5)		
	<u>                    </u>	<u>2,114,268 (7)</u>	<u>                    </u>	<u>                    </u>
Total Operating Expenses	<u>\$16,461,292</u>	<u>\$4,824,735</u>	<u>\$4,824,735</u>	<u>\$16,461,292</u>
Total Patient Days	<u>81,900</u>	<u>-</u>	<u>8,358</u>	<u>73,542</u>
Total Beds	<u>202</u>			

**NHC HEALTHCARE – ANDERSON**  
Adjustment Report  
Cost Report Period Ended September 30, 2004  
AC# 3-AND-J4

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Nonallowable	\$ 216,933	
	Accumulated Depreciation	1,982,784	
	Other Equity	410,966	
	Fixed Assets		\$2,393,750
	Depreciation Expense		216,933
	To adjust fixed assets and depreciation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
2	Fixed Assets - PPW	2,167,948	
	Nonallowable - Depreciation Expense - PPW	81,527	
	Other Equity		1,092,913
	Nonallowable		81,527
	Accumulated Depreciation - PPW		1,075,035
	To adjust fixed assets and depreciation		
	related to the non-certified wings		
	HIM-15-1, Sections 100 and 2102.3		
	State Plan, Attachment 4.19D		
3	Nonallowable	27,098	
	Taxes and Insurance		27,098
	To adjust property tax expense		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
4	Nonallowable - PPW	348,857	
	Nursing		348,857
	To adjust nursing salaries and fringes		
	for costs related to the non-certified wing		
	HIM-15-1, Section 2102.3		
	State Plan, Attachment 4.19D		

**NHC HEALTHCARE – ANDERSON**  
Adjustment Report  
Cost Report Period Ended September 30, 2004  
AC# 3-AND-J4

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Nonallowable Taxes and Insurance	34,864	34,864
	To adjust liability insurance expense HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
6	Cost of Capital Taxes and Insurance Administration Maintenance Utilities Laundry Housekeeping Dietary Medical Records Restorative Medical Supplies Nonallowable - PPW	31,796 180,881 310,002 93,978 52,830 53,006 109,996 300,921 47,559 109,437 129,058	1,419,464
	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		
7	Nonallowable Cost of Capital Nursing Taxes and Insurance Administration Maintenance Utilities Laundry Housekeeping Dietary Medical Records Restorative Medical Supplies	2,114,268	164,864 62,636 215,076 456,306 127,096 68,987 72,474 144,268 411,446 65,025 149,631 176,459
	To remove 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, 2004  
AC# 3-AND-J4

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
8	Cost of Capital Nonallowable	2,862	2,862
	To remove amounts applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
9	Cost of Capital Nonallowable	578,862	578,862
	To adjust capital return State Plan, Attachment 4.19D		
10	<u>Memo Adjustment:</u> To increase total square footage by 864 square feet from 101,540 square feet to 102,404 square feet		
11	<u>Memo Adjustment:</u> To adjust total non-certified wing days by 8,360 from 22,760 days to 31,120 days		
12	<u>Memo Adjustment:</u> To adjust total patient days by 8,358 from 81,900 days to 73,542 days		
	<b>TOTAL ADJUSTMENTS</b>	\$9,386,433	\$9,386,433

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, 2004  
 AC# 3-AND-J4

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.7149</u>
Deemed Asset Value (Per Bed)	42,402
Number of Beds	<u>202</u>
Deemed Asset Value	8,565,204
Improvements Since 1981	8,735,627
Accumulated Depreciation at 9/30/04	<u>(6,760,831)</u>
Deemed Depreciated Value	10,540,000
Market Rate of Return	<u>.0516</u>
Total Annual Return	543,864
Return Applicable to Non-Reimbursable Cost Centers	(42,817)
Allocation of Interest to Non-Reimbursable Cost Centers	<u>128,074</u>
Allowable Annual Return	629,121
Depreciation Expense	481,102
Amortization Expense	-
Capital Related Income Offsets	(10,934)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(164,864)</u>
Allowable Cost of Capital Expense	934,425
Total Patient Days	<u>73,542</u>
Cost of Capital Per Diem	<u>\$ 12.71</u>

**NHC HEALTHCARE – ANDERSON**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 2004  
AC# 3-AND-J4

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	12.71
Cost of Capital Per Diem Limitation	<u>\$(4.13)</u>

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