

State of South Carolina



Office of the State Auditor

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

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

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June 15, 2004

Ms. Linda A. Holtzscheiter, Reimbursement Manager
Mariner Health Care
5300 West Sam Houston Parkway North
Houston, Texas 77041

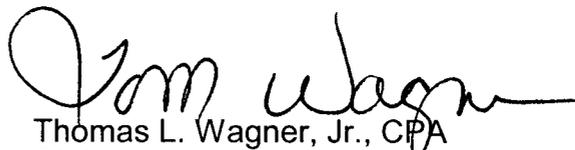
Re: AC# 3-LCS-J1 – GranCare South Carolina, Inc.
d/b/a Lake City – Scranton Healthcare Center

Dear Ms. Holtzscheiter:

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, 2000 through September 30, 2001. That report was used to set the rate covering the contract period beginning January 1, 2003.

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.


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/cwc

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Joseph P. Hayes

**GRANCARE SOUTH CAROLINA, INC.
D/B/A LAKE CITY – SCRANTON HEALTHCARE CENTER
SCRANTON, SOUTH CAROLINA**

**CONTRACT PERIOD
BEGINNING JANUARY 1, 2003
AC# 3-LCS-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

April 27, 2004

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 GranCare South Carolina, Inc. d/b/a Lake City – Scranton Healthcare Center, for the contract period beginning January 1, 2003, and for the twelve month cost report period ended September 30, 2001, as set forth in the accompanying schedules. The management of GranCare South Carolina, Inc. d/b/a Lake City – Scranton Healthcare Center 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.

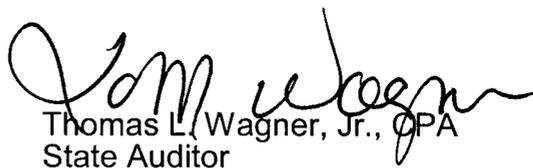
The procedures and the associated findings are as follows:

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 GranCare South Carolina, Inc. d/b/a Lake City – Scranton Healthcare Center, 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 Adjustment Report, Summary of Costs and Total Patient Days, 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 GranCare South Carolina, Inc. d/b/a Lake City – Scranton Healthcare Center 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
April 27, 2004

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.



Thomas L. Wagner, Jr., CPA
State Auditor

LAKE CITY – SCRANTON HEALTHCARE CENTER

Computation of Rate Change
For the Contract Period
Beginning January 1, 2003
AC# 3-LCS-J1

	01/01/03- <u>09/30/03</u>
Interim Reimbursement Rate (1)	\$90.03
Adjusted Reimbursement Rate	<u>89.04</u>
Decrease in Reimbursement Rate	\$ <u>.99</u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated May 8, 2003

LAKE CITY – SCRANTON HEALTHCARE CENTER
 Computation of Adjusted Reimbursement Rate
 For the Contract Period January 1, 2003 Through September 30, 2003
 AC# 3-LCS-J1

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$39.60	\$63.44	
Dietary		10.39	11.63	
Laundry/Housekeeping/Maintenance		<u>7.16</u>	<u>10.22</u>	
Subtotal	\$ <u>5.97</u>	57.15	85.29	\$57.15
Administration & Medical Records	\$ <u>1.73</u>	<u>10.90</u>	<u>12.63</u>	<u>10.90</u>
Subtotal		68.05	<u>\$97.92</u>	68.05
<u>Costs Not Subject to Standards:</u>				
Utilities		2.82		2.82
Special Services		.22		.22
Medical Supplies & Oxygen		4.04		4.04
Taxes and Insurance		2.11		2.11
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$77.24</u>		77.24
Inflation Factor (3.70%)				2.86
Cost of Capital				7.19
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				1.73
Cost Incentive				5.97
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(5.95)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$89.04</u>

LAKE CITY – SCRANTON HEALTHCARE CENTER
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2001
 AC# 3-LCS-J1

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$1,228,128	\$ -	\$ 3,512 (2) 3,521 (3)	\$1,221,095
Dietary	320,376	-	-	320,376
Laundry	69,215	-	-	69,215
Housekeeping	95,485	559 (4)	558 (5)	95,486
Maintenance	54,931	1,017 (2) 321 (4)	327 (5)	55,942
Administration & Medical Records	343,899	296 (4)	6,594 (2) 1,280 (3) 336 (5)	335,985
Utilities	86,947	508 (4)	1 (2) 509 (5)	86,945
Special Services	6,739	2,489 (2)	2,300 (3)	6,928
Medical Supplies & Oxygen	132,206	-	7,565 (3)	124,641
Taxes and Insurance	65,143	368 (4)	54 (2) 368 (5)	65,089
Legal Fees	-	-	-	-
Cost of Capital	230,475	421 (4) 885 (6)	1,677 (1) 7,993 (2) 366 (5)	221,745
Subtotal	2,633,544	6,864	36,961	2,603,447

LAKE CITY – SCRANTON HEALTHCARE CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2001
AC# 3-LCS-J1

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Ancillary	18,001	-	-	18,001
Nonallowable	239,323	1,677 (1) 14,648 (2) 14,666 (3) <u>2,464 (5)</u>	2,473 (4) 885 (6) <u> </u>	269,420
Total Operating Expenses	<u>\$2,890,868</u>	<u>\$40,319</u>	<u>\$40,319</u>	<u>\$2,890,868</u>
Total Patient Days	<u>30,835</u>	<u>-</u>	<u>-</u>	<u>30,835</u>
Total Beds	<u>88</u>			

LAKE CITY – SCRANTON HEALTHCARE CENTER
Adjustment Report
Cost Report Period Ended September 30, 2001
AC# 3-LCS-J1

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$41,695	
	Other Equity	13,291	
	Nonallowable	1,677	
	Fixed Assets		\$54,986
	Cost of Capital		1,677
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Maintenance	1,017	
	Special Services	2,489	
	Nonallowable	14,648	
	Nursing		3,512
	Administration		6,594
	Utilities		1
	Taxes and Insurance		54
	Cost of Capital		7,993
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
3	Nonallowable	14,666	
	Nursing		3,521
	Administration		1,280
	Medical Supplies		7,565
	Special Services		2,300
	To adjust special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
4	Housekeeping	559	
	Maintenance	321	
	Administration	296	
	Utilities	508	
	Taxes and Insurance	368	
	Cost of Capital	421	
	Nonallowable		2,473
	To reverse DH&HS adjustment to remove indirect cost applicable to a non-reimbursable cost center HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		

LAKE CITY – SCRANTON HEALTHCARE CENTER
Adjustment Report
Cost Report Period Ended September 30, 2001
AC# 3-LCS-J1

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Nonallowable	2,464	
	Housekeeping		558
	Maintenance		327
	Administration		336
	Utilities		509
	Taxes and Insurance		368
	Cost of Capital		366
	To remove indirect cost applicable to a non-reimbursable cost center HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
6	Cost of Capital	885	
	Nonallowable		885
	To adjust capital return State Plan, Attachment 4.19D		
	TOTAL ADJUSTMENTS	\$95,305	\$95,305

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.

LAKE CITY – SCRANTON HEALTHCARE CENTER
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2001
 AC# 3-LCS-J1

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.4607</u>
Deemed Asset Value (Per Bed)	38,431
Number of Beds	<u>88</u>
Deemed Asset Value	3,381,928
Improvements Since 1981	396,347
Accumulated Depreciation at 9/30/01	(<u>1,042,016</u>)
Deemed Depreciated Value	2,736,259
Market Rate of Return	<u>.0577</u>
Total Annual Return	157,882
Return Applicable to Non-Reimbursable Cost Centers	(887)
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	156,995
Depreciation Expense	72,160
Amortization Expense	442
Capital Related Income Offsets	(7,486)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(366)</u>
Allowable Cost of Capital Expense	221,745
Total Patient Days (Minimum 96% Occupancy)	<u>30,835</u>
Cost of Capital Per Diem	\$ <u><u>7.19</u></u>

LAKE CITY – SCRANTON HEALTHCARE CENTER
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2001
AC# 3-LCS-J1

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$4.64
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$8.63</u>
Reimbursable Cost of Capital Per Diem	\$7.19
Cost of Capital Per Diem	<u>7.19</u>
Cost of Capital Per Diem Limitation	<u>\$ -</u>

2 copies of this document were published at an estimated printing cost of \$1.38 each, and a total printing cost of \$2.76. The FY 2003-04 Appropriation Act requires that this information on printing costs be added to the document.