

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

(803) 253-4160
FAX (803) 343-0723

May 25, 2004

Mr. John Twitty, Controller
Health Management Resources
101 Grace Drive
Easley, South Carolina 29640

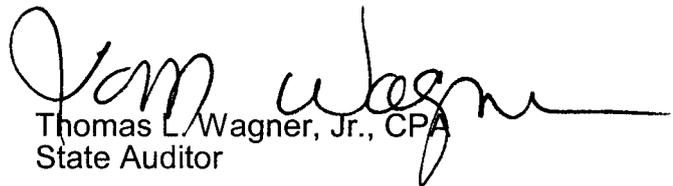
Re: AC# 3-LRH-J1 – Laurel Hill, Inc.

Dear Mr. Twitty:

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/kss

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

**LAUREL HILL, INC.
PICKENS, SOUTH CAROLINA**

**CONTRACT PERIOD
BEGINNING JANUARY 1, 2003
AC# 3-LRH-J1**

**AGREED-UPON PROCEDURES REPORT
ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

CONTENTS

	<u>EXHIBIT OR SCHEDULE</u>	<u>PAGE</u>
INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES		1
COMPUTATION OF RATE CHANGE FOR THE CONTRACT PERIOD BEGINNING JANUARY 1, 2003	A	3
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIOD JANUARY 1, 2003 THROUGH SEPTEMBER 30, 2003	B	4
SUMMARY OF COSTS AND TOTAL PATIENT DAYS FOR THE COST REPORT PERIOD ENDED SEPTEMBER 30, 2001	C	5
ADJUSTMENT REPORT	1	7
COST OF CAPITAL REIMBURSEMENT ANALYSIS	2	9

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

(803) 253-4160
FAX (803) 343-0723

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

March 15, 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 Laurel Hill, Inc., 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 Laurel Hill, Inc. is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was performed 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 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.

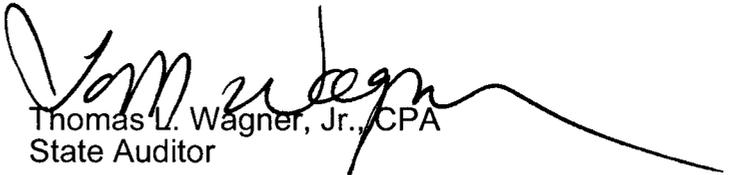
The procedures and the associated findings are as follows:

1. We tested 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 Laurel Hill, Inc., 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 Department of Health and Human Services and Laurel Hill, Inc. 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
March 15, 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

LAUREL HILL, INC.
Computation of Rate Change
For the Contract Period
Beginning January 1, 2003
AC# 3-LRH-J1

	01/01/03- <u>09/30/03</u>
Interim Reimbursement Rate (1)	\$106.16
Adjusted Reimbursement Rate	<u>105.36</u>
Decrease in Reimbursement Rate	\$ <u><u>.80</u></u>

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

LAUREL HILL, INC.
 Computation of Adjusted Reimbursement Rate
 For the Contract Period January 1, 2003 Through September 30, 2003
 AC# 3-LRH-J1

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$55.02	\$ 67.86	
Dietary		10.56	11.63	
Laundry/Housekeeping/Maintenance		<u>9.51</u>	<u>10.22</u>	
Subtotal	<u>\$6.28</u>	75.09	89.71	\$ 75.09
Administration & Medical Records	<u>\$1.91</u>	<u>10.72</u>	<u>12.63</u>	<u>10.72</u>
Subtotal		85.81	<u>\$102.34</u>	85.81
<u>Costs Not Subject to Standards:</u>				
Utilities		1.83		1.83
Special Services		-		-
Medical Supplies & Oxygen		3.51		3.51
Taxes and Insurance		2.63		2.63
Legal Fees		<u>.02</u>		<u>.02</u>
TOTAL		<u>\$93.80</u>		93.80
Inflation Factor (3.70%)				3.47
Cost of Capital				7.18
Cost of Capital Limitation				(.84)
Profit Incentive (Maximum 3.5% of Allowable Cost)				1.91
Cost Incentive				6.28
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(6.44)</u>
 ADJUSTED REIMBURSEMENT RATE				 <u>\$105.36</u>

LAUREL HILL, INC.
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2001
 AC# 3-LRH-J1

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
General Services	\$1,604,667	\$ -	\$13,100 (1) 790 (1) 3,600 (5)	\$1,587,177
Dietary	306,207	-	1,478 (1)	304,729
Laundry	82,102	-	-	82,102
Housekeeping	125,332	-	-	125,332
Maintenance	67,143	-	274 (1)	66,869
Administration & Medical Records	310,370	-	1,186 (1)	309,184
Utilities	52,832	-	-	52,832
Special Services	-	-	-	-
Medical Supplies & Oxygen	101,207	-	-	101,207
Taxes and Insurance	77,458	-	1,562 (2)	75,896
Legal Fees	604	-	-	604
Cost of Capital	<u>182,890</u>	<u>25,508</u> (4)	<u>1,297</u> (3)	<u>207,101</u>
Subtotal	2,910,812	25,508	23,287	2,913,033

LAUREL HILL, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2001
AC# 3-LRH-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	68,463	-	-	68,463
Nonallowable	349,300	16,828 (1) 1,562 (2) <u>3,600 (5)</u>	25,508 (4)	345,782
Total Operating Expenses	<u>\$3,328,575</u>	<u>\$47,498</u>	<u>\$48,795</u>	<u>\$3,327,278</u>
Total Patient Days	<u>28,847</u>	<u>-</u>	<u>-</u>	<u>28,847</u>
Total Beds	<u>80</u>			

LAUREL HILL, INC.
Adjustment Report
Cost Report Period Ended September 30, 2001
AC# 3-LRH-J1

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Nonallowable	\$16,828	
	Nursing		\$13,100
	Restorative		790
	Dietary		1,478
	Maintenance		274
	Administration		1,186
	To adjust workers compensation expense HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	1,562	
	Taxes and Insurance		1,562
	To adjust general insurance expense HIM-15-1, Section 2302.1 State Plan, Attachment 4.19D		
3	Accumulated Depreciation	6,706	
	Other Equity		5,301
	Fixed Assets		108
	Cost of Capital		1,297
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
4	Cost of Capital	25,508	
	Nonallowable		25,508
	To adjust capital return State Plan, Attachment 4.19D		

LAUREL HILL, INC.
Adjustment Report
Cost Report Period Ended September 30, 2001
AC# 3-LRH-J1

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Nonallowable Nursing	3,600	3,600
	To reclassify expense to the proper cost center HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
	TOTAL ADJUSTMENTS	<u>\$54,204</u>	<u>\$54,204</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.

LAUREL HILL, INC.
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2001
 AC# 3-LRH-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>80</u>
Deemed Asset Value	3,074,480
Improvements Since 1981	576,668
Accumulated Depreciation at 9/30/01	<u>(699,915)</u>
Deemed Depreciated Value	2,951,233
Market Rate of Return	<u>.0577</u>
Total Annual Return	170,286
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	170,286
Depreciation Expense	36,815
Amortization Expense	-
Capital Related Income Offsets	-
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	207,101
Total Patient Days (Actual)	<u>28,847</u>
Cost of Capital Per Diem	\$ <u><u>7.18</u></u>

LAUREL HILL, INC.
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2001
AC# 3-LRH-J1

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$2.35
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$6.34</u>
Reimbursable Cost of Capital Per Diem	\$6.34
Cost of Capital Per Diem	<u>7.18</u>
Cost of Capital Per Diem Limitation	<u>\$(.84)</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.