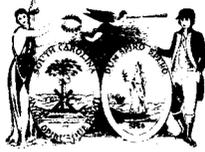


State of South Carolina



Office of the State Auditor

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

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
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May 27, 2004

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

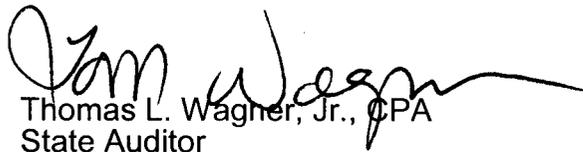
Re: AC# 3-STG-J1 – GranCare South Carolina, Inc.
d/b/a St. George Health Care Center, Inc.

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 ST. GEORGE HEALTH CARE CENTER, INC.**

ST. GEORGE, SOUTH CAROLINA

**CONTRACT PERIOD
BEGINNING JANUARY 1, 2003
AC# 3-STG-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 22, 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 St. George Health Care Center, 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 GranCare South Carolina, Inc. d/b/a St. George Health Care Center, Inc. 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.

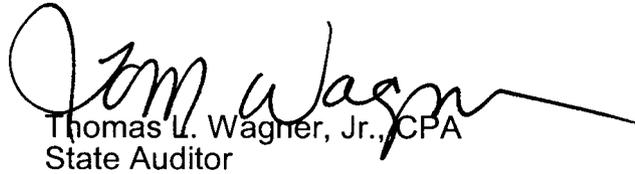
The procedures and the associated findings are as follows:

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 St. George Health Care Center, 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 South Carolina Department of Health and Human Services and GranCare South Carolina, Inc. d/b/a St. George Health Care Center, 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
April 22, 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

ST. GEORGE HEALTH CARE CENTER, INC.
Computation of Rate Change
For the Contract Period
Beginning January 1, 2003
AC# 3-STG-J1

	01/01/03- <u>09/30/03</u>
Interim Reimbursement Rate (1)	\$94.59
Adjusted Reimbursement Rate	<u>94.05</u>
Decrease in Reimbursement Rate	\$ <u>.54</u>

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

ST. GEORGE HEALTH CARE CENTER, INC.
 Computation of Adjusted Reimbursement Rate
 For the Contract Period January 1, 2003 Through September 30, 2003
 AC# 3-STG-J1

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$41.31	\$63.44	
Dietary		8.85	11.63	
Laundry/Housekeeping/Maintenance		<u>9.12</u>	<u>10.22</u>	
Subtotal	\$ <u>5.97</u>	59.28	85.29	\$59.28
Administration & Medical Records	\$ <u>.52</u>	<u>12.11</u>	<u>12.63</u>	<u>12.11</u>
Subtotal		71.39	<u>\$97.92</u>	71.39
<u>Costs Not Subject to Standards:</u>				
Utilities		2.83		2.83
Special Services		.02		.02
Medical Supplies & Oxygen		3.88		3.88
Taxes and Insurance		3.22		3.22
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$81.34</u>		81.34
Inflation Factor (3.70%)				3.01
Cost of Capital				7.95
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				.52
Cost Incentive				5.97
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(4.74)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$94.05</u>

ST. GEORGE HEALTH CARE CENTER, INC.
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2001
 AC# 3-STG-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	\$1,275,126	\$ 2,024 (2) 160 (2)	\$ 3,542 (3)	\$1,273,768
Dietary	272,792	212 (2)	-	273,004
Laundry	47,988	69 (2)	-	48,057
Housekeeping	115,016	172 (2) 482 (5)	483 (6)	115,187
Maintenance	116,858	57 (2) 1,061 (3) 477 (5)	482 (6)	117,971
Administration & Medical Records	379,894	289 (2) 53 (2) 291 (5)	6,884 (3) 284 (6)	373,359
Utilities	87,322	356 (5)	356 (6)	87,322
Special Services	726	178 (2) 2,598 (3)	2,758 (4)	744
Medical Supplies & Oxygen	119,514	-	-	119,514
Taxes and Insurance	99,254	398 (5)	57 (3) 398 (6)	99,197
Legal Fees	-	-	-	-

ST. GEORGE HEALTH CARE CENTER, INC.
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2001
 AC# 3-STG-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>	
Cost of Capital	255,020	379 (5)	3,077 (1)	245,066
		1,418 (7)	8,342 (3)	
			<u>332 (6)</u>	
Subtotal	2,769,510	10,674	26,995	2,753,189
Ancillary	82,682	-	-	82,682
Nonallowable	159,204	3,077 (1)	3,214 (2)	175,525
		15,166 (3)	2,383 (5)	
		2,758 (4)	1,418 (7)	
		<u>2,335 (6)</u>		
Total Operating Expenses	<u>\$3,011,396</u>	<u>\$34,010</u>	<u>\$34,010</u>	<u>\$3,011,396</u>
Total Patient Days	<u>30,835</u>	<u>-</u>	<u>-</u>	<u>30,835</u>
Total Beds	<u>88</u>			

ST. GEORGE HEALTH CARE CENTER, INC.
Adjustment Report
Cost Report Period Ended September 30, 2001
AC# 3-STG-J1

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$27,822	
	Other Equity	17,071	
	Nonallowable	3,077	
	Fixed Assets		\$44,893
	Cost of Capital		3,077
	To adjust fixed assets and related depreciation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
2	Nursing	2,024	
	Restorative	160	
	Dietary	212	
	Laundry	69	
	Housekeeping	172	
	Maintenance	57	
	Administration	289	
	Medical Records	53	
	Special Services	178	
	Nonallowable		3,214
	To adjust fringe benefits and related allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
3	Maintenance	1,061	
	Special Services	2,598	
	Nonallowable	15,166	
	Nursing		3,542
	Administration		6,884
	Taxes and Insurance		57
	Cost of Capital		8,342
	To adjust home office cost allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
4	Nonallowable	2,758	
	Special Services		2,758
	To adjust special (ancillary) services reimbursed by Medicare		
	State Plan, Attachment 4.19D		

ST. GEORGE HEALTH CARE CENTER, INC.
Adjustment Report
Cost Report Period Ended September 30, 2001
AC# 3-STG-J1

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Housekeeping	482	
	Maintenance	477	
	Administration	291	
	Utilities	356	
	Taxes and Insurance	398	
	Cost of Capital	379	
	Nonallowable		2,383
	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		
6	Nonallowable	2,335	
	Housekeeping		483
	Maintenance		482
	Administration		284
	Utilities		356
	Taxes and Insurance		398
	Cost of Capital		332
	To remove indirect cost applicable to a non-reimbursable cost center HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
7	Cost of Capital	1,418	
	Nonallowable		1,418
	To adjust capital return State Plan, Attachment 4.19D		
	TOTAL ADJUSTMENTS	<u>\$78,903</u>	<u>\$78,903</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.

ST. GEORGE HEALTH CARE CENTER, INC.
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2001
 AC# 3-STG-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	524,447
Accumulated Depreciation at 9/30/01	<u>(1,087,945)</u>
Deemed Depreciated Value	2,818,430
Market Rate of Return	<u>.0577</u>
Total Annual Return	162,623
Return Applicable to Non-Reimbursable Cost Centers	(647)
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	161,976
Depreciation Expense	90,743
Amortization Expense	462
Capital Related Income Offsets	(7,783)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(332)</u>
Allowable Cost of Capital Expense	245,066
Total Patient Days (Minimum 96% Occupancy)	<u>30,835</u>
Cost of Capital Per Diem	\$ <u><u>7.95</u></u>

ST. GEORGE HEALTH CARE CENTER, INC.
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2001
AC# 3-STG-J1

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$ 6.57
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$10.56</u>
Reimbursable Cost of Capital Per Diem	\$ 7.95
Cost of Capital Per Diem	<u>7.95</u>
Cost of Capital Per Diem Limitation	<u>\$ -</u>

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