

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

August 31, 2004

Ms. Carol W. Disbro, Director of Reimbursement  
Trans Healthcare, Inc.  
The Highlands  
910 Ridgebrook Road  
Sparks, Maryland 21152

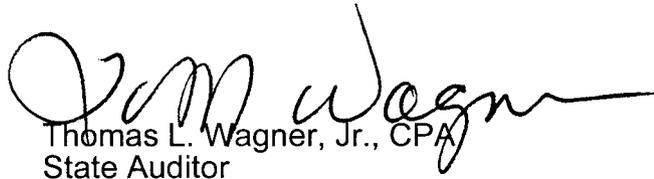
Re: AC# 3-DRF-J1 – Integrated Health Services of Charleston at Driftwood

Dear Ms. Disbro:

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  
Mrs. Kathleen C. Snider

**INTEGRATED HEALTH SERVICES  
OF CHARESTON AT DRIFTWOOD  
NORTH CHARLESTON, SOUTH CAROLINA**

**CONTRACT PERIOD  
BEGINNING JANUARY 1, 2003  
AC# 3-DRF-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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# State of South Carolina



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### INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

July 26, 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 Integrated Health Services of Charleston at Driftwood, 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 Integrated Health Services of Charleston at Driftwood 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.

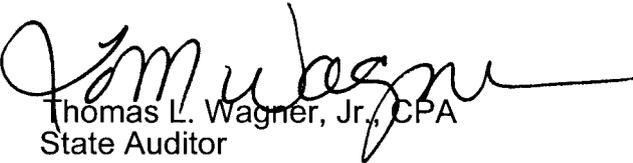
The procedures and the associated findings are as follows:

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 Integrated Health Services of Charleston at Driftwood, 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 Integrated Health Services of Charleston at Driftwood 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 26, 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

**INTEGRATED HEALTH SERVICES OF CHARLESTON AT DRIFTWOOD**

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

|                                | 01/01/03-<br><u>09/30/03</u> |
|--------------------------------|------------------------------|
| Interim Reimbursement Rate (1) | \$104.15                     |
| Adjusted Reimbursement Rate    | <u>102.64</u>                |
| Decrease in Reimbursement Rate | \$ <u><u>1.51</u></u>        |

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

**INTEGRATED HEALTH SERVICES OF CHARLESTON AT DRIFTWOOD**  
 Computation of Adjusted Reimbursement Rate  
 For the Contract Period January 1, 2003 Through September 30, 2003  
 AC# 3-DRF-J1

|   | <u>Incentives</u> | <u>Allowable<br/>Cost</u> | <u>Cost<br/>Standard</u> | <u>Computed<br/>Rate</u> |
|---|-------------------|---------------------------|--------------------------|--------------------------|
| <u>Costs Subject to Standards:</u>                |                   |                           |                          |                          |
| General Services                                  |                   | \$49.75                   | \$62.89                  |                          |
| Dietary   |                   | 8.46                      | 11.21                    |                          |
| Laundry/Housekeeping/Maintenance                  |                   | <u>10.88</u>              | <u>9.67</u>              |                          |
| Subtotal  | \$ <u>5.86</u>    | 69.09                     | 83.77                    | \$ 69.09                 |
| Administration & Medical Records                  | \$ <u>-</u>       | <u>12.84</u>              | <u>12.77</u>             | <u>12.77</u>             |
| Subtotal  |                   | 81.93                     | <u>\$96.54</u>           | 81.86                    |
| <u>Costs Not Subject to Standards:</u>            |                   |                           |                          |                          |
| Utilities   |                   | 2.63                      |                          | 2.63                     |
| Special Services                                  |                   | .01                       |                          | .01                      |
| Medical Supplies & Oxygen                         |                   | 3.07                      |                          | 3.07                     |
| Taxes and Insurance                               |                   | 1.68                      |                          | 1.68                     |
| Legal Fees  |                   | <u>.01</u>                |                          | <u>.01</u>               |
| <b>TOTAL</b>                                      |                   | <u>\$89.33</u>            |                          | 89.26                    |
| Inflation Factor (3.70%)                          |                   |                           |                          | 3.30                     |
| Cost of Capital                                   |                   |                           |                          | 8.33                     |
| Cost of Capital Limitation                        |                   |                           |                          | -                        |
| Profit Incentive (Maximum 3.5% of Allowable Cost) |                   |                           |                          | -                        |
| Cost Incentive                                    |                   |                           |                          | 5.86                     |
| Effect of \$1.75 Cap on Cost/Profit Incentives    |                   |                           |                          | <u>(4.11)</u>            |
| <br>  |                   |                           |                          |                          |
| ADJUSTED REIMBURSEMENT RATE                       |                   |                           |                          | <u>\$102.64</u>          |

**INTEGRATED HEALTH SERVICES OF CHARLESTON AT DRIFTWOOD**

Summary of Costs and Total Patient Days  
 For the Cost Report Period Ended September 30, 2001  
 AC# 3-DRF-J1

| <u>Expenses</u>                     | Totals (From<br>Schedule SC 13) as<br><u>Adjusted by DH&amp;HS</u> | Adjustments  |   | <u>Adjusted<br/>Totals</u> |
|-------------------------------------|--|--|---|----------------------------|
|                                     |  | <u>Debit</u>   | <u>Credit</u>   |                            |
| General Services                    | \$2,911,693  | \$ 160 (1)<br>11,120 (5)<br>2,371 (6)                            | \$ 4,044 (3)<br>67,311 (4)<br>56,097 (4)<br>8,717 (5) | \$2,789,175                |
| Dietary                             | 472,331  | 2,878 (5)  | 715 (6)   | 474,494                    |
| Laundry                             | 239,271  | -  | -   | 239,271                    |
| Housekeeping                        | 218,357  | -  | -   | 218,357                    |
| Maintenance                         | 159,495  | 640 (5)  | 7,992 (2)<br>1 (6)                                    | 152,142                    |
| Administration &<br>Medical Records | 659,736  | 4,044 (3)<br>56,097 (4)<br>48,272 (4)<br>13,744 (5)<br>9,743 (5) | 71,679 (6)  | 719,957                    |
| Utilities                           | 147,317  | 1 (6)  | -   | 147,318                    |
| Special Services                    | 373  | 2,645 (5)  | 2,304 (7)   | 714                        |
| Medical Supplies &<br>Oxygen        | 148,477  | 19,039 (4)<br>4,730 (5)  | -   | 172,246                    |
| Taxes and Insurance                 | 95,312   | -  | 1,337 (6)   | 93,975                     |
| Legal Fees                          | 353  | -  | -   | 353                        |

**INTEGRATED HEALTH SERVICES OF CHARLESTON AT DRIFTWOOD**

Summary of Costs and Total Patient Days  
 For the Cost Report Period Ended September 30, 2001  
 AC# 3-DRF-J1

| <u>Expenses</u>             | Totals (From<br>Schedule SC 13) as<br><u>Adjusted by DH&amp;HS</u> | Adjustments        |                             | <u>Adjusted<br/>Totals</u>  |
|-----------------------------|--|--------------------|-----------------------------|-----------------------------|
|                             |  | <u>Debit</u>       | <u>Credit</u>               |                             |
| Cost of Capital             | 500,080  | 1,585 (1)          | 56,354 (6)                  | 466,771                     |
|                             | <u>                    </u>  | <u>21,460 (8)</u>  | <u>                    </u> | <u>                    </u> |
| Subtotal                    | 5,552,795  | 198,529            | 276,551                     | 5,474,773                   |
| Ancillary                   | 215,191  | -                  | -                           | 215,191                     |
| Nonallowable                | 453,383  | 7,992 (2)          | 1,745 (1)                   | 531,405                     |
|                             | <u>                    </u>  | <u>127,714 (6)</u> | <u>36,783 (5)</u>           | <u>                    </u> |
|                             |  | <u>2,304 (7)</u>   | <u>21,460 (8)</u>           | <u>                    </u> |
| Total Operating<br>Expenses | <u>\$6,221,369</u>   | <u>\$336,539</u>   | <u>\$336,539</u>            | <u>\$6,221,369</u>          |
| Total Patient Days          | * <u>56,064</u>  | <u>-</u>           | <u>-</u>                    | <u>56,064</u>               |

\* Adjusted to 96% occupancy

Total Beds 160

**INTEGRATED HEALTH SERVICES OF CHARLESTON AT DRIFTWOOD**

Adjustment Report  
Cost Report Period Ended September 30, 2001  
AC# 3-DRF-J1

| <u>ADJUSTMENT</u><br><u>NUMBER</u> | <u>ACCOUNT TITLE</u>   | <u>DEBIT</u> | <u>CREDIT</u> |
|------------------------------------|--|--------------|---------------|
| 1                                  | Fixed Assets   | \$14,677     |               |
|                                    | Accumulated Depreciation   | 3,556        |               |
|                                    | Restorative  | 160          |               |
|                                    | Cost of Capital  | 1,585        |               |
|                                    | Other Equity   |              | \$18,233      |
|                                    | Nonallowable   |              | 1,745         |
|                                    | To adjust fixed assets and related depreciation<br>HIM-15-1, Section 2304<br>State Plan, Attachment 4.19D                |              |               |
| 2                                  | Nonallowable   | 7,992        |               |
|                                    | Maintenance  |              | 7,992         |
|                                    | To remove expense that should be capitalized<br>HIM-15-1, Section 108  |              |               |
| 3                                  | Administration   | 4,044        |               |
|                                    | Nursing  |              | 4,044         |
|                                    | To correct cost report adjustment number twenty-five by properly classifying MSU amortization<br>DH&HS Expense Checklist |              |               |
| 4                                  | Administration   | 56,097       |               |
|                                    | Medical Records  | 48,272       |               |
|                                    | Medical Supplies & Oxygen  | 19,039       |               |
|                                    | Nursing  |              | 67,311        |
|                                    | Restorative  |              | 56,097        |
|                                    | To reclassify salaries to the proper cost centers<br>DH&HS Expense Checklist   |              |               |

**INTEGRATED HEALTH SERVICES OF CHARLESTON AT DRFTWOOD**

Adjustment Report  
Cost Report Period Ended September 30, 2001  
AC# 3-DRF-J1

| <u>ADJUSTMENT</u><br><u>NUMBER</u> | <u>ACCOUNT TITLE</u>  | <u>DEBIT</u> | <u>CREDIT</u> |
|------------------------------------|---|--------------|---------------|
| 5                                  | Nursing   | 11,120       |               |
|                                    | Dietary   | 2,878        |               |
|                                    | Maintenance   | 640          |               |
|                                    | Administration  | 13,744       |               |
|                                    | Medical Records   | 9,743        |               |
|                                    | Medical Supplies & Oxygen                                     | 4,730        |               |
|                                    | Therapy   | 2,645        |               |
|                                    | Restorative   |              | 8,717         |
|                                    | Nonallowable  |              | 36,783        |
|                                    | To adjust fringe benefits and related allocation              |              |               |
|                                    | HIM-15-1, Section 2304  |              |               |
|                                    | State Plan, Attachment 4.19D                                  |              |               |
| 6                                  | Nursing   | 2,371        |               |
|                                    | Utilities   | 1            |               |
|                                    | Nonallowable  | 127,714      |               |
|                                    | Dietary   |              | 715           |
|                                    | Maintenance   |              | 1             |
|                                    | Administration  |              | 71,679        |
|                                    | Taxes, License & Insurance                                    |              | 1,337         |
|                                    | Cost of Capital   |              | 56,354        |
|                                    | To adjust the IHS home office allocation                      |              |               |
|                                    | HIM-15-1, Section 2304  |              |               |
|                                    | State Plan, Attachment 4.19D                                  |              |               |
| 7                                  | Nonallowable  | 2,304        |               |
|                                    | Therapy   |              | 2,304         |
|                                    | To remove special (ancillary) services reimbursed by Medicare |              |               |
|                                    | State Plan, Attachment 4.19D                                  |              |               |

**INTEGRATED HEALTH SERVICES OF CHARLESTON AT DRIFTWOOD**

Adjustment Report  
Cost Report Period Ended September 30, 2001  
AC# 3-DRF-J1

| <u>ADJUSTMENT<br/>NUMBER</u> | <u>ACCOUNT TITLE</u>                                     | <u>DEBIT</u> | <u>CREDIT</u> |
|------------------------------|--|--------------|---------------|
| 8                            | Cost of Capital<br>Nonallowable                          | 21,460       | 21,460        |
|                              | To adjust capital return<br>State Plan, Attachment 4.19D |              |               |
|                              | TOTAL ADJUSTMENTS  | \$354,772    | \$354,772     |

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.

**INTEGRATED HEALTH SERVICES OF CHARLESTON AT DRIFTWOOD**  
 Cost of Capital Reimbursement Analysis  
 For the Cost Report Period Ended September 30, 2001  
 AC# 3-DRF-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>160</u>            |
| Deemed Asset Value   | 6,148,960             |
| Improvements Since 1981  | 1,427,370             |
| Accumulated Depreciation at 9/30/01                                | ( <u>2,553,900</u> )  |
| Deemed Depreciated Value   | 5,022,430             |
| Market Rate of Return  | <u>0.0577</u>         |
| Total Annual Return  | 289,794               |
| Return Applicable to Non-Reimbursable<br>Cost Centers              | -                     |
| Allocation of Interest to Non-Reimbursable<br>Cost Centers         | <u>-</u>              |
| Allowable Annual Return  | 289,794               |
| Depreciation Expense   | 201,544               |
| Amortization Expense   | (9,377)               |
| Capital Related Income Offsets                                     | (15,190)              |
| Allocation of Capital Expenses to Non-Reimbursable<br>Cost Centers | <u>-</u>              |
| Allowable Cost of Capital Expense                                  | 466,771               |
| Total Patient Days (Minimum 96% occupancy)                         | <u>56,064</u>         |
| Cost of Capital Per Diem   | \$ <u><u>8.33</u></u> |

**INTEGRATED HEALTH SERVICES OF CHARLESTON AT DRIFTWOOD**

Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 2001  
AC# 3-DRF-J1

|  |                |
|--|----------------|
| 6/30/89 Cost of Capital and Return on Equity<br>Capital Per Diem Reimbursement | \$ 7.79        |
| Adjustment for Maximum Increase  | <u>3.99</u>    |
| Maximum Cost of Capital Per Diem   | <u>\$11.78</u> |
| <br>   |                |
| Reimbursable Cost of Capital Per Diem  | \$ 8.33        |
| Cost of Capital Per Diem   | <u>8.33</u>    |
| Cost of Capital Per Diem Limitation  | <u>\$ -</u>    |

2 copies of this document were published at an estimated printing cost of \$1.41 each, and a total printing cost of \$2.82. The FY 2004-05 Appropriation Act requires that this information on printing costs be added to the document.