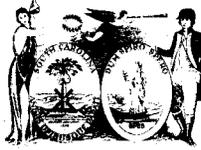


State of South Carolina



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 19, 2004

Mr. Doug Hodges, Controller
Laurel Baye Healthcare, LLC
1205 Two Island Court, Suite 204
Mount Pleasant, South Carolina 29464

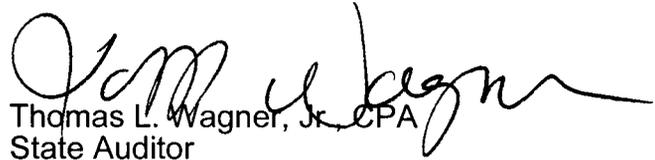
Re: AC# 3-LBB-J0 – Laurel Baye Healthcare of Blackville

Dear Mr. Hodges:

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, 1999 through September 30, 2000. That report was used to set the rate covering the contract period beginning October 1, 2001.

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 BAYE HEALTHCARE OF BLACKVILLE
BLACKVILLE, SOUTH CAROLINA**

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2001
AC# 3-LBB-J0**

**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 Laurel Baye Healthcare of Blackville, for the contract period beginning October 1, 2001, and for the twelve month cost report period ended September 30, 2000, as set forth in the accompanying schedules. The management of Laurel Baye Healthcare of Blackville 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.

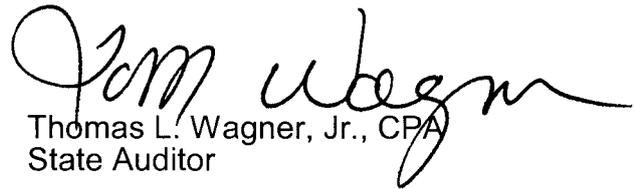
The procedures and the associated findings are as follows:

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 Laurel Baye Healthcare of Blackville, 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(s) between the South Carolina Department of Health and Human Services and Laurel Baye Healthcare of Blackville 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

LAUREL BAYE HEALTHCARE OF BLACKVILLE

Computation of Rate Change
For the Contract Period
Beginning October 1, 2001
AC# 3-LBB-J0

10/01/01-
12/31/02

Interim Reimbursement Rate (1)	\$90.02
Adjusted Reimbursement Rate	<u>86.81</u>
Decrease in Reimbursement Rate	\$ <u><u>3.21</u></u>

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

LAUREL BAYE HEALTHCARE OF BLACKVILLE
 Computation of Adjusted Reimbursement Rate
 For the Contract Period October 1, 2001 Through December 31, 2002
 AC# 3-LBB-J0

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$37.97	\$58.68	
Dietary		10.10	11.36	
Laundry/Housekeeping/Maintenance		<u>7.34</u>	<u>9.21</u>	
Subtotal	\$ <u>5.55</u>	55.41	79.25	\$55.41
Administration & Medical Records	\$ <u>-</u>	<u>14.34</u>	<u>12.38</u>	<u>12.38</u>
Subtotal		69.75	<u>\$91.63</u>	67.79
<u>Costs Not Subject to Standards:</u>				
Utilities		2.82		2.82
Special Services		-		-
Medical Supplies & Oxygen		5.10		5.10
Taxes and Insurance		1.00		1.00
Legal Fees		<u>.03</u>		<u>.03</u>
TOTAL		<u>\$78.70</u>		76.74
Inflation Factor (3.80%)				2.92
Cost of Capital				5.40
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				5.55
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(3.80)</u>
 ADJUSTED REIMBURSEMENT RATE				 <u>\$86.81</u>

LAUREL BAYE HEALTHCARE OF BLACKVILLE
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2000
 For the Contract Periods October 1, 2001 Through December 31, 2002
 AC# 3-LBB-J0

<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	\$1,132,142	\$14,053 (1) 285 (2)	\$ 159 (1) 1,886 (11) 9,968 (12) 331 (12)	\$1,134,136
Dietary	301,623	102 (1)	-	301,725
Laundry	60,315	-	-	60,315
Housekeeping	90,796	-	3 (1)	90,793
Maintenance	67,959	453 (1)	128 (11) 284 (12)	68,000
Administration & Medical Records	469,642	-	4,827 (1) 347 (1) 1,171 (3) 33,455 (6) 125 (11) 1,285 (12) 85 (12)	428,347
Utilities	85,531	-	1,172 (1)	84,359
Special Services	4,529	-	4,529 (13)	-
Medical Supplies & Oxygen	239,655	9,661 (1)	75,954 (8) 10,538 (9) 10,338 (10) 100 (12)	152,386
Taxes and Insurance	32,696	-	2,897 (1)	29,799
Legal Fees	1,076	-	35 (1) 10 (4)	1,031

LAUREL BAYE HEALTHCARE OF BLACKVILLE
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2000
 For the Contract Periods October 1, 2001 Through December 31, 2002
 AC# 3-LBB-J0

<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	159,336	149,536 (7)	144,617 (1) 2,070 (3) <u>837 (5)</u>	161,348
Subtotal	2,645,300	174,090	307,151	2,512,239
Ancillary	19,940	459 (1) 10,538 (9)	-	30,937
Non-Allowable	109,295	149,269 (1) 3,241 (3) 10 (4) 837 (5) 33,455 (6) 75,954 (8) 10,338 (10) 12,053 (12) <u>4,529 (13)</u>	149,536 (7) 285 (2)	249,160
Total Operating Expenses	<u>\$2,774,535</u>	<u>\$474,773</u>	<u>\$456,972</u>	<u>\$2,792,336</u>
Total Patient Days	* <u>29,866</u>	<u>-</u>	<u>-</u>	<u>29,866</u>

* Adjusted to 96% occupancy by DHHS

Total Beds 85

LAUREL BAYE HEALTHCARE OF BLACKVILLE
Adjustment Report
Cost Report Period Ended September 30, 2000
AC# 3-LBB-J0

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Nursing	\$ 14,053	
	Dietary	102	
	Maintenance	453	
	Medical Supplies & Oxygen	9,661	
	Ancillary	459	
	Nonallowable	149,269	
	Restorative		\$ 159
	Housekeeping		3
	Administration		4,827
	Medical Records		347
	Legal		35
	Utilities		1,172
	Taxes, Insurance & Licenses		2,897
	Cost of Capital		144,617
	Other Equity		19,940
	To adjust expenses to the amended cost report totals State Plan, Attachment 4.19D		
2	Restorative	285	
	Nonallowable		285
	To carry forward DH&HS adjustment DH&HS Summary of desk audit adjustments		
3	Nonallowable	3,241	
	Administration		1,171
	Cost of Capital		2,070
	To adjust working capital to Debt and Interest Schedule DH&HS Summary of desk audit adjustments		
4	Nonallowable	10	
	Legal		10
	To disallow unidentified legal fees DH&HS Summary of desk audit adjustments		
5	Fixed Assets	6,405	
	Accumulated Depreciation	3,853	
	Nonallowable	837	
	Cost of Capital		837
	Other Equity		10,258
	To adjust fixed assets and related depreciation State Plan, Attachment 4.19D		

LAUREL BAYE HEALTHCARE OF BLACKVILLE
Adjustment Report
Cost Report Period Ended September 30, 2000
AC# 3-LBB-J0

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Nonallowable Administration	33,455	33,455
	To adjust working capital interest not adequately documented HIM-15-1, Section 2304		
7	Cost of Capital Nonallowable	149,536	149,536
	To adjust capital return State Plan, Attachment 4.19D		
8	Nonallowable Medical Supplies & Oxygen	75,954	75,954
	To adjust speciality beds State Plan, Attachment 4.19D		
9	Ancillary Medical Supplies & Oxygen	10,538	10,538
	To reclass expense to the proper cost center HIM-15-1, Section 2304		
10	Nonallowable Medical Supplies & Oxygen	10,338	10,338
	To disallow expense due to lack of documentation HIM-15-1, Section 2304		
11	Accrued Vacation	2,139	
	Nursing		1,886
	Maintenance		128
	Administration		125
	To remove accrued vacation due to the provider's vacation policy HIM-15-1, Sections 2144.8 and 2304		

LAUREL BAYE HEALTHCARE OF BLACKVILLE
Adjustment Report
Cost Report Period Ended September 30, 2000
AC# 3-LBB-J0

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
12	Nonallowable	12,053	
	Nursing		9,968
	Restorative		331
	Maintenance		284
	Administration		1,285
	Medical Records		85
	Medical Supplies & Oxygen		100
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
13	Nonallowable	4,529	
	Special Services		4,529
	To adjust co-insurance for Medicare Part B services State Plan, Attachment 4.19D		
		_____	_____
	TOTAL ADJUSTMENTS	<u>\$487,170</u>	<u>\$487,170</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 BAYE HEALTHCARE OF BLACKVILLE
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2000
 For the Contract Period October 1, 2001 Through December 31, 2002
 AC# 3-LBB-J0

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.3848</u>
Deemed Asset Value (Per Bed)	37,246
Number of Beds	<u>85</u>
Deemed Asset Value	3,165,910
Improvements Since 1981	171,412
Accumulated Depreciation at 9/30/00	<u>(759,120)</u>
Deemed Depreciated Value	2,578,202
Market Rate of Return	<u>.058</u>
Total Annual Return	149,536
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	149,536
Depreciation Expense	11,803
Home Office COC Expense	56
Amortization Expense	-
Capital Related Income Offsets	(47)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	161,348
Total Patient Days (Minimum 96% Occupancy)	<u>29,866</u>
Cost of Capital Per Diem	\$ <u><u>5.40</u></u>

LAUREL BAYE HEALTHCARE OF BLACKVILLE

Cost of Capital Reimbursement Analysis

For the Cost Report Period Ended September 30, 2000

For the Contract Period October 1, 2001 through December 31, 2002

AC# 3-LBB-J0

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$3.21
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$7.20</u>
Reimbursable Cost of Capital Per Diem	\$5.40
Cost of Capital Per Diem	<u>5.40</u>
Cost of Capital Per Diem Limitation	<u>\$ -</u>

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