

State of South Carolina



Office of the State Auditor

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January 20, 2005

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

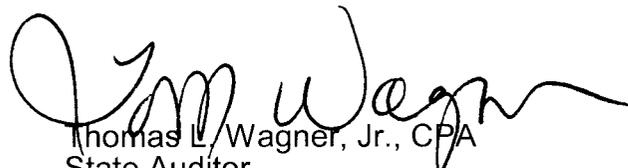
Re: AC# 3-MAE-J2 – GranCare South Carolina, Inc. d/b/a Mariner Health Care of Sumter -
East

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, 2001 through September 30, 2002. That report was used to set the rate covering the contract period beginning October 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/sag

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Ms. Kathleen C. Snider

**GRANCARE SOUTH CAROLINA, INC.
D/B/A MARINER HEALTH CARE OF SUMTER - EAST**

SUMTER, SOUTH CAROLINA

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2003
AC# 3-MAE-J2**

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

November 9, 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 Mariner Health Care of Sumter - East, for the contract period beginning October 1, 2003, and for the twelve month cost report period ended September 30, 2002, as set forth in the accompanying schedules. The management of GranCare South Carolina, Inc. d/b/a Mariner Health Care of Sumter - East 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.

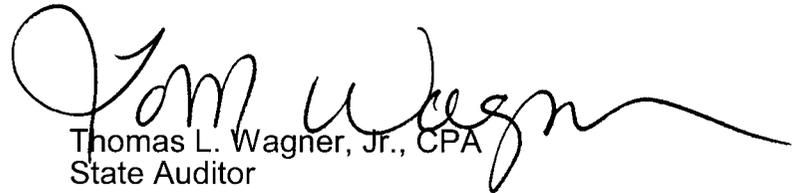
The procedures and the associated findings are as follows:

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 Mariner Health Care of Sumter - East, 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 Mariner Health Care of Sumter - East 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
November 9, 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

MARINER HEALTH CARE OF SUMTER - EAST

Computation of Rate Change
For the Contract Period
Beginning October 1, 2003
AC# 3-MAE-J2

10/01/03-
09/30/04

Interim Reimbursement Rate (1)	\$98.26
Adjusted Reimbursement Rate	<u>96.34</u>
Decrease in Reimbursement Rate	\$ <u><u>1.92</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing as of July 12, 2004

MARINER HEALTH CARE OF SUMTER - EAST
 Computation of Adjusted Reimbursement Rate
 For the Contract Period October 1, 2003 Through September 30, 2004
 AC# 3-MAE-J2

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$46.72	\$ 66.44	
Dietary		8.83	11.55	
Laundry/Housekeeping/Maintenance		<u>7.56</u>	<u>9.83</u>	
Subtotal	<u>\$6.15</u>	63.11	87.82	\$63.11
Administration & Medical Records	<u>\$2.31</u>	<u>11.15</u>	<u>13.46</u>	<u>11.15</u>
Subtotal		74.26	<u>\$101.28</u>	74.26
<u>Costs Not Subject to Standards:</u>				
Utilities		2.74		2.74
Special Services		-		-
Medical Supplies & Oxygen		3.28		3.28
Taxes and Insurance		3.94		3.94
Legal Fees		<u>.01</u>		<u>.01</u>
TOTAL		<u>\$84.23</u>		84.23
Inflation Factor (4.70%)				3.96
Cost of Capital				6.54
Cost of Capital Limitation				(.14)
Profit Incentive (Maximum 3.5% of Allowable Cost)				2.31
Cost Incentive				6.15
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(6.71)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$96.34</u>

MARINER HEALTH CARE OF SUMTER - EAST
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2002
 AC# 3-MAE-J2

<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	\$ 2,962,724	\$ -	\$ 26,069 (4) 1,487 (4) 4,676 (5) 12,035 (6)	\$ 2,918,457
Dietary	557,718	-	2,757 (2) 3,219 (4)	551,742
Laundry	112,594	-	905 (4)	111,689
Housekeeping	225,851	-	1,928 (4)	223,923
Maintenance	133,805	3,710 (5)	837 (4)	136,678
Administration & Medical Records	719,139	24,931 (5)	43,915 (1) 3,420 (4) 471 (4)	696,264
Utilities	170,914	-	5 (5)	170,909
Special Services	-	5,265 (5)	1,164 (4) 4,101 (6)	-
Medical Supplies & Oxygen	241,477	-	36,393 (6)	205,084
Taxes and Insurance	244,221	4,239 (5)	2,365 (3)	246,095
Legal Fees	345	-	-	345

MARINER HEALTH CARE OF SUMTER - EAST
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2002
 AC# 3-MAE-J2

<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	406,910	10,244 (1) 22,763 (7)	31,267 (5)	408,650
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Subtotal	5,775,698	71,152	177,014	5,669,836
Ancillary	160,438	-	-	160,438
Nonallowable	11,587,430	2,757 (2) 2,365 (3) 39,500 (4) <u>52,529 (6)</u>	10,244 (1) 2,197 (5) 22,763 (7)	11,649,377
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Operating Expenses	<u>\$17,523,566</u>	<u>\$168,303</u>	<u>\$212,218</u>	<u>\$17,479,651</u>
Total Patient Days	<u>62,470</u>	<u>-</u>	<u>-</u>	<u>62,470</u>
Total Beds	<u>176</u>			

MARINER HEALTH CARE OF SUMTER - EAST
Adjustment Report
Cost Report Period Ended September 30, 2002
AC# 3-MAE-J2

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$219,503	
	Other Equity	54,703	
	Cost of Capital	10,244	
	Accumulated Depreciation		\$230,291
	Administration		43,915
	Nonallowable		10,244
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	2,757	
	Dietary		2,757
	To disallow expense due to lack of documentation HIM-15-1, Section 2304		
3	Nonallowable	2,365	
	Taxes and Insurance		2,365
	To adjust liability insurance expense HIM-15-1, Section 2304		
4	Nonallowable	39,500	
	Nursing		26,069
	Restorative		1,487
	Dietary		3,219
	Laundry		905
	Housekeeping		1,928
	Maintenance		837
	Administration		3,420
	Medical Records		471
	Special Services		1,164
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

MARINER HEALTH CARE OF SUMTER - EAST
Adjustment Report
Cost Report Period Ended September 30, 2002
AC# 3-MAE-J2

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Maintenance	3,710	
	Administration	24,931	
	Taxes and Insurance	4,239	
	Special Services	5,265	
	Nursing		4,676
	Utilities		5
	Cost of Capital		31,267
	Nonallowable		2,197
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
6	Nonallowable	52,529	
	Nursing		12,035
	Medical Supplies		36,393
	Special Services		4,101
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
7	Cost of Capital	22,763	
	Nonallowable		22,763
	To adjust capital return State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	\$ <u>442,509</u>	\$ <u>442,509</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.

MARINER HEALTH CARE OF SUMTER - EAST
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2002
 AC# 3-MAE-J2

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.55013</u>	<u>2.55013</u>	
Deemed Asset Value (Per Bed)	39,828	39,828	
Number of Beds	<u>88</u>	<u>88</u>	
Deemed Asset Value	3,504,864	3,504,864	
Improvements Since 1981	648,665	668,993	
Accumulated Depreciation at 9/30/02	<u>(1,501,717)</u>	<u>(1,278,007)</u>	
Deemed Depreciated Value	2,651,812	2,895,850	
Market Rate of Return	<u>.0561</u>	<u>.0561</u>	
Total Annual Return	148,767	162,457	
Return Applicable to Non-Reimbursable Cost Centers	-	-	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	
Allowable Annual Return	148,767	162,457	
Depreciation Expense	71,971	49,544	
Amortization Expense	317	317	
Capital Related Income Offsets	(12,362)	(12,361)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	<u>Total</u>
Allowable Cost of Capital Expense	208,693	199,957	\$408,650
Total Patient Days (Actual)	<u>31,235</u>	<u>31,235</u>	<u>62,470</u>
Cost of Capital Per Diem	\$ <u>6.68</u>	\$ <u>6.40</u>	\$ <u>6.54</u>

MARINER HEALTH CARE OF SUMTER - EAST
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2002
 AC# 3-MAE-J2

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$4.13	\$2.13
Adjustment for Maximum Increase	<u>3.99</u>	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$8.12</u>	<u>\$6.12</u>
Reimbursable Cost of Capital Per Diem	\$6.40	
Cost of Capital Per Diem	<u>6.54</u>	
Cost of Capital Per Diem Limitation	<u>\$(.14)</u>	

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