

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

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August 31, 2004

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

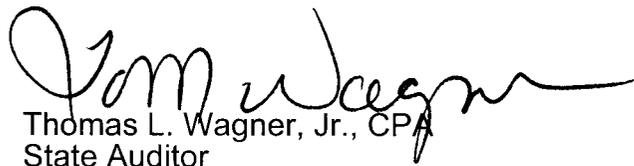
Re: AC# 3-MSP-J1 – Magnolia Manor – Spartanburg, Inc.

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/sag

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

MAGNOLIA MANOR – SPARTANBURG, INC.

SPARTANBURG, SOUTH CAROLINA

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

August 3, 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 Magnolia Manor – Spartanburg, 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 Magnolia Manor – Spartanburg, 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 Magnolia Manor – Spartanburg, 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 Magnolia Manor – Spartanburg, 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
August 3, 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

MAGNOLIA MANOR - SPARTANBURG, INC.

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

	01/01/03- <u>09/30/03</u>
Interim Reimbursement Rate (1)	\$116.74
Adjusted Reimbursement Rate	<u>114.84</u>
Decrease in Reimbursement Rate	\$ <u><u>1.90</u></u>

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

MAGNOLIA MANOR - SPARTANBURG, INC.
 Computation of Adjusted Reimbursement Rate
 For the Contract Period January 1, 2003 Through September 30, 2003
 AC# 3-MSP-J1

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 61.27	\$63.44	
Dietary		10.55	11.63	
Laundry/Housekeeping/Maintenance		<u>10.18</u>	<u>10.22</u>	
Subtotal	\$ <u>3.29</u>	82.00	85.29	\$ 82.00
Administration & Medical Records	\$ <u>.21</u>	<u>12.42</u>	<u>12.63</u>	<u>12.42</u>
Subtotal		94.42	<u>\$97.92</u>	94.42
<u>Costs Not Subject to Standards:</u>				
Utilities		1.78		1.78
Special Services		.07		.07
Medical Supplies & Oxygen		3.81		3.81
Taxes and Insurance		1.66		1.66
Legal Fees		<u>.01</u>		<u>.01</u>
TOTAL		<u>\$101.75</u>		101.75
Inflation Factor (3.70%)				3.76
Cost of Capital				7.58
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				.21
Cost Incentive				3.29
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(1.75)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$114.84</u>

MAGNOLIA MANOR - SPARTANBURG, INC.
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2001
 AC# 3-MSP-J1

<u>Expenses</u>	<u>Totals (From Schedule SC 13) as Adjusted by DH&HS</u>	<u>Debit</u>	<u>Adjustments</u>	<u>Credit</u>	<u>Adjusted Totals</u>
General Services	\$2,081,385	\$ 654 (5)		\$ 6,289 (3) 33,837 (4) 2,448 (4) 19 (7)	\$2,039,446
Dietary	355,658	-		3,953 (4) 422 (5)	351,283
Laundry	106,884	229 (6)		559 (4)	106,554
Housekeeping	133,808	-		2,039 (4)	131,769
Maintenance	101,135	-		734 (4)	100,401
Administration & Medical Records	473,281	6,289 (3) 8,239 (6)		30,060 (2) 1,585 (4) 372 (4) 42,295 (5)	413,497
Utilities	59,316	-		-	59,316
Special Services	2,263	432 (7)		434 (4)	2,261
Medical Supplies & Oxygen	126,957	4 (7)		-	126,961
Taxes and Insurance	56,103	-		789 (5)	55,314
Legal Fees	334	-		-	334
Cost of Capital	255,985	4,491 (1) 1,668 (6) <u>23,391 (8)</u>		33,252 (5)	252,283
Subtotal	3,753,109	45,397		159,087	3,639,419

MAGNOLIA MANOR - SPARTANBURG, INC.
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2001
 AC# 3-MSP-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	95,489	-	-	95,489
Nonallowable	163,722	30,060 (2)	4,491 (1)	277,412
		45,961 (4)	10,136 (6)	
		76,104 (5)	417 (7)	
	<u> </u>	<u> </u>	<u>23,391 (8)</u>	<u> </u>
 Total Operating Expenses	 <u>\$4,012,320</u>	 <u>\$197,522</u>	 <u>\$197,522</u>	 <u>\$4,012,320</u>
 Total Patient Days	 * <u>33,288</u>	 <u>-</u>	 <u>-</u>	 <u>33,288</u>

*Adjusted to 96% Occupancy

Total Beds 95

MAGNOLIA MANOR - SPARTANBURG, INC.
Adjustment Report
Cost Report Period Ended September 30, 2001
AC# 3-MSP-J1

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$111,210	
	Cost of Capital	4,491	
	Fixed Assets		\$ 49,544
	Other Equity		61,666
	Nonallowable		4,491
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	30,060	
	Administration		30,060
	To remove rental payments on the capital lease HIM-15-1, Section 110B		
3	Administration	6,289	
	Restorative		6,289
	To reclassify salaries to the proper cost center DH&HS Expense Crosswalk		
4	Nonallowable	45,961	
	Nursing		33,837
	Restorative		2,448
	Dietary		3,953
	Laundry		559
	Housekeeping		2,039
	Maintenance		734
	Administration		1,585
	Medical Records		372
	Therapy		434
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

MAGNOLIA MANOR - SPARTANBURG, INC.
Adjustment Report
Cost Report Period Ended September 30, 2001
AC# 3-MSP-J1

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Nursing	654	
	Nonallowable	76,104	
	Dietary		422
	Administration		42,295
	Taxes, Insurance & Licenses		789
	Cost of Capital		33,252
	To adjust IHS home office costs		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
6	Laundry	229	
	Administration	8,239	
	Cost of Capital	1,668	
	Nonallowable		10,136
	To adjust the central accounting		
	office and laundry home office		
	allocations		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
7	Medical Supplies & Oxygen	4	
	Therapy	432	
	Nursing		19
	Nonallowable		417
	To remove special (ancillary)		
	services reimbursed by Medicare		
	State Plan, Attachment 4.19D		

MAGNOLIA MANOR - SPARTANBURG, INC.
Adjustment Report
Cost Report Period Ended September 30, 2001
AC# 3-MSP-J1

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
8	Cost of Capital Nonallowable	23,391	23,391
	To adjust capital return State Plan, Attachment 4.19D		
		_____	_____
	TOTAL ADJUSTMENTS	\$ <u>308,732</u>	\$ <u>308,732</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.

MAGNOLIA MANOR - SPARTANBURG, INC.
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2001
 AC# 3-MSP-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>95</u>
Deemed Asset Value	3,650,945
Improvements Since 1981	569,418
Accumulated Depreciation at 9/30/01	<u>(999,466)</u>
Deemed Depreciated Value	3,220,897
Market Rate of Return	<u>.0577</u>
Total Annual Return	185,846
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	185,846
Depreciation Expense	75,370
Amortization Expense	-
Capital Related Income Offsets	(8,933)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	252,283
Total Patient Days (Minimum 96% Occupancy)	<u>33,288</u>
Cost of Capital Per Diem	\$ <u><u>7.58</u></u>

MAGNOLIA MANOR - SPARTANBURG, INC.
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2001
AC# 3-MSP-J1

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$3.70
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$7.69</u>
Reimbursable Cost of Capital Per Diem	\$7.58
Cost of Capital Per Diem	<u>7.58</u>
Cost of Capital Per Diem Limitation	<u>\$ -</u>

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