

State of South Carolina



Office of the State Auditor

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THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

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May 22, 2006

Ms. Sybil B. Neaves, Director of Reimbursement
UHS-Pruitt Corporation
Post Office Box 1210
Toccoa, Georgia 30577

Re: AC# 3-DHC-J3 – Dillon Healthcare, Inc.

Dear Ms. Neaves:

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 December 1, 2002 through September 30, 2003. That report was used to set the rate covering the contract period beginning October 1, 2004.

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.

A handwritten signature in black ink that reads "Tom Wagner".

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/cwc

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

DILLON HEALTHCARE, INC.
DILLON, SOUTH CAROLINA

CONTRACT PERIOD
BEGINNING OCTOBER 1, 2004
AC# 3-DHC-J3

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 22, 2005

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 Dillon Healthcare, Inc., for the contract period beginning October 1, 2004, and for the ten month cost report period ended September 30, 2003, as set forth in the accompanying schedules. The management of Dillon Healthcare, 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.

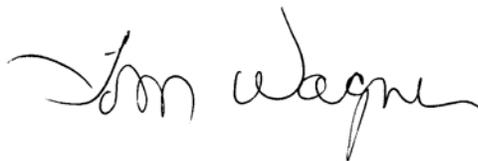
The procedures and the associated findings are as follows:

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 Dillon Healthcare, 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 Summary of Costs and Total Patient Days, Adjustment Report, 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 Dillon Healthcare, 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 22, 2005

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.

A handwritten signature in black ink, appearing to read "Tom Wagner". The signature is fluid and cursive, with a large initial "T" and "W".

Thomas L. Wagner, Jr., CPA
State Auditor

DILLON HEALTHCARE, INC.
Computation of Rate Change
For the Contract Period
Beginning October 1, 2004
AC# 3-DHC-J3

	10/01/04- <u>09/30/05</u>
Interim Reimbursement Rate (1)	\$126.01
Adjusted Reimbursement Rate	<u>124.05</u>
Decrease in Reimbursement Rate	\$ <u>1.96</u>

- (1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 6, 2004

DILLON HEALTHCARE, INC.
 Computation of Adjusted Reimbursement Rate
 For the Contract Period October 1, 2004 Through September 30, 2005
 AC# 3-DHC-J3

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 58.49	\$ 70.36	
Dietary		13.18	12.42	
Laundry/Housekeeping/Maintenance		<u>10.98</u>	<u>11.28</u>	
Subtotal	<u>\$6.58</u>	82.65	94.06	\$ 82.65
Administration & Medical Records	<u>\$ -</u>	<u>14.74</u>	<u>14.65</u>	<u>14.65</u>
Subtotal		97.39	<u>\$108.71</u>	97.30
<u>Costs Not Subject to Standards:</u>				
Utilities		2.62		2.62
Special Services		-		-
Medical Supplies & Oxygen		4.33		4.33
Taxes and Insurance		7.08		7.08
Legal Fees		<u>.17</u>		<u>.17</u>
TOTAL		<u>\$111.59</u>		111.50
Inflation Factor (4.70%)				5.24
Cost of Capital				6.94
Cost of Capital Limitation				(1.38)
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				6.58
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(4.83)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$124.05</u>

DILLON HEALTHCARE, INC.
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2003
 AC# 3-DHC-J3

<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	\$1,485,901	\$6,339 (2) 4,797 (3)	\$32,077 (6) 2,586 (6)	\$1,462,374
Dietary	338,477	1,461 (3)	1,346 (2) 8,950 (6)	329,642
Laundry	46,415	-	1,054 (6)	45,361
Housekeeping	144,695	-	4,400 (6)	140,295
Maintenance	88,812	209 (6)	66 (3)	88,955
Administration & Medical Records	380,435	318 (6)	11,944 (3) 196 (6)	368,613
Utilities	65,603	-	86 (3)	65,517
Special Services	3,457	1,058 (2) 448 (3)	4,962 (4)	1
Medical Supplies & Oxygen	112,922	-	4,699 (4)	108,223
Taxes and Insurance	179,676	-	242 (3) 2,350 (5)	177,084
Legal Fees	1,908	2,383 (3)	-	4,291

DILLON HEALTHCARE, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2003
AC# 3-DHC-J3

<u>Expenses</u>	Totals (From Schedule SC 13) as Adjusted by DH&HS	Adjustments		Adjusted Totals
		<u>Debit</u>	<u>Credit</u>	
Cost of Capital	139,017	276 (1)	472 (3)	173,459
	<u> </u>	<u>34,638</u> (7)	<u> </u>	<u> </u>
Subtotal	2,987,318	51,927	75,430	2,963,815
Ancillary	76,829	10,486 (4)	-	87,315
Nonallowable	489,268	3,721 (3)	276 (1)	502,285
		2,350 (5)	6,051 (2)	
		48,736 (6)	825 (4)	
	<u> </u>	<u> </u>	<u>34,638</u> (7)	<u> </u>
Total Operating Expenses	<u>\$3,553,415</u>	<u>\$117,220</u>	<u>\$117,220</u>	<u>\$3,553,415</u>
Total Patient Days	<u>25,003</u>	<u>-</u>	<u>-</u>	<u>25,003</u>
Total Beds	<u>84</u>			

DILLON HEALTHCARE, INC.
Adjustment Report
Cost Report Period Ended September 30, 2003
AC# 3-DHC-J3

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$36,258	
	Cost of Capital	276	
	Fixed Assets		\$35,188
	Other Equity		1,070
	Nonallowable		276
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nursing	6,339	
	Therapy	1,058	
	Dietary		1,346
	Nonallowable		6,051
	To adjust related party United Clinical expense HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
3	Nursing	4,797	
	Dietary	1,461	
	Legal	2,383	
	Therapy	448	
	Nonallowable	3,721	
	Maintenance		66
	Administration		11,944
	Utilities		86
	Taxes, Licenses & Insurance		242
	Cost of Capital		472
	To adjust home office costs HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
4	Ancillary	10,486	
	Medical Supplies & Oxygen		4,699
	Therapy		4,962
	Nonallowable		825
	To remove special (ancillary) services reimbursed by Medicare and properly classify diabetic testing supplies and legend drugs State Plan, Attachment 4.19D DH&HS Crosswalk		

DILLON HEALTHCARE, INC.
Adjustment Report
Cost Report Period Ended September 30, 2003
AC# 3-DHC-J3

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Nonallowable Taxes, Licenses & Insurance	2,350	2,350
	To adjust liability insurance HIM-15-1, Section 2304		
6	Maintenance Medical Records Nonallowable Nursing Restorative Dietary Laundry Housekeeping Administration	209 318 48,736	32,077 2,586 8,950 1,054 4,400 196
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
7	Cost of Capital Nonallowable	34,638	34,638
	To adjust capital return State Plan, Attachment 4.19D		
	TOTAL ADJUSTMENTS	<hr style="width: 100%; border: 0.5px solid black;"/> \$153,478	<hr style="width: 100%; border: 0.5px solid black;"/> \$153,478

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.

DILLON HEALTHCARE, INC.
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2003
 AC# 3-DHC-J3

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.63785</u>
Deemed Asset Value (Per Bed)	41,198
Number of Beds	<u>84</u>
Deemed Asset Value	3,460,632
Improvements Since 1981	605,076
Accumulated Depreciation at 9/30/03	<u>(992,919)</u>
Deemed Depreciated Value	3,072,789
Market Rate of Return	<u>.0531</u>
Total Annual Return	163,165
Number of Days in Period	<u>304/365</u>
Adjusted Annual Return	135,896
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	135,896
Depreciation Expense	37,787
Amortization Expense	-
Capital Related Income Offsets	(224)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	173,459
Total Patient Days (Actual)	<u>25,003</u>
Cost of Capital Per Diem	\$ <u><u>6.94</u></u>

DILLON HEALTHCARE, INC.
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2003
AC# 3-DHC-J3

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$ 1.57
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	\$ <u>5.56</u>
Reimbursable Cost of Capital Per Diem	\$ 5.56
Cost of Capital Per Diem	<u>6.94</u>
Cost of Capital Per Diem Limitation	\$ <u>(1.38)</u>

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