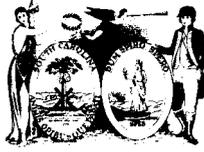


State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
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December 7, 2005

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

Re: AC# 3-HAL-J3 – GranCare South Carolina, Inc. d/b/a Hallmark Health Care Center

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, 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.


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/cwc

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

**GRANCARE SOUTH CAROLINA, INC.
D/B/A HALLMARK HEALTH CARE CENTER**

SUMMERVILLE, SOUTH CAROLINA

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2004
AC# 3-HAL-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 25, 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 GranCare South Carolina, Inc. d/b/a Hallmark Health Care Center, for the contract period beginning October 1, 2004, and for the twelve month cost report period ended September 30, 2003, as set forth in the accompanying schedules. The management of GranCare South Carolina, Inc. d/b/a Hallmark Health Care Center 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 Hallmark Health Care Center, 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 Hallmark Health Care Center 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 25, 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.



Thomas L. Wagner, Jr., CPA
State Auditor

HALLMARK HEALTH CARE CENTER
Computation of Rate Change
For the Contract Period
Beginning October 1, 2004
AC# 3-HAL-J3

	Beginning <u>10/01/04</u>
Interim Reimbursement Rate (1)	\$128.13
Adjusted Reimbursement Rate	<u>126.67</u>
Decrease in Reimbursement Rate	\$ <u><u>1.46</u></u>

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

HALLMARK HEALTH CARE CENTER
 Computation of Adjusted Reimbursement Rate
 For the Contract Period Beginning October 1, 2004
 AC# 3-HAL-J3

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 65.70	\$ 70.36	
Dietary		11.43	12.42	
Laundry/Housekeeping/Maintenance		<u>8.06</u>	<u>11.28</u>	
Subtotal	\$ <u>6.58</u>	85.19	94.06	\$ 85.19
Administration & Medical Records	\$ <u>-</u>	<u>16.15</u>	<u>14.65</u>	<u>14.65</u>
Subtotal		101.34	<u>\$108.71</u>	99.84
<u>Costs Not Subject to Standards:</u>				
Utilities		2.67		2.67
Special Services		.36		.36
Medical Supplies & Oxygen		4.39		4.39
Taxes and Insurance		4.29		4.29
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$113.05</u>		111.55
Inflation Factor (4.70%)				5.24
Cost of Capital				8.13
Cost of Capital Limitation				-
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>\$126.67</u>

HALLMARK HEALTH CARE CENTER
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2003
 AC# 3-HAL-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	\$2,029,209	\$19,026 (6) 1,471 (6)	\$ 917 (4) 10,365 (7) 1,048 (8) 11,560 (11)	\$2,025,816
Dietary	351,591	2,171 (6)	615 (4) 819 (11)	352,328
Laundry	60,867	-	-	60,867
Housekeeping	88,215	514 (9)	511 (10)	88,218
Maintenance	98,943	513 (6) 1,622 (8) 560 (9)	1,684 (4) 565 (10)	99,389
Administration & Medical Records	551,329	1,054 (6) 2,434 (6) 10,365 (7) 527 (9)	6,641 (5) 60,593 (8) 375 (10)	498,100
Utilities	82,344	467 (9)	4 (8) 465 (10)	82,342
Special Services	10,862	3,098 (6) 4,140 (8)	6,960 (11)	11,140
Medical Supplies & Oxygen	154,465	258 (6)	1,679 (4) 17,538 (11)	135,506
Taxes and Insurance	139,327	108 (8) 734 (9)	7,175 (3) 694 (10)	132,300
Legal Fees	-	-	-	-

HALLMARK HEALTH CARE CENTER
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2003
 AC# 3-HAL-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>	
Cost of Capital	266,353	799 (9) 582 (12)	208 (1) 9,367 (2) 6,909 (8) <u>513 (10)</u>	250,737
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Subtotal	3,833,505	50,443	147,205	3,736,743
Ancillary	121,896	-	-	121,896
Nonallowable	1,842,569	208 (1) 9,367 (2) 7,175 (3) 6,641 (5) 62,684 (8) 3,123 (10) <u>36,877 (11)</u>	30,025 (6) 3,601 (9) 582 (12)	1,934,436
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Operating Expenses	<u>\$5,797,970</u>	<u>\$176,518</u>	<u>\$181,413</u>	<u>\$5,793,075</u>
Total Patient Days	<u>30,835</u>	<u>-</u>	<u>-</u>	<u>30,835</u>
Total Beds	<u>88</u>			

HALLMARK HEALTH CARE CENTER
Adjustment Report
Cost Report Period Ended September 30, 2003
AC# 3-HAL-J3

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Other Equity Nonallowable Fixed Assets Accumulated Depreciation Cost of Capital	\$ 174 208	\$ 1 173 208
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable Cost of Capital	9,367	9,367
	To adjust depreciation expense to comply with capital cost policy State Plan, Attachment 4.19D		
3	Nonallowable Taxes and Insurance	7,175	7,175
	To adjust liability insurance expense HIM-15-1, Section 2304		
4	Retained Earnings Nursing Dietary Maintenance Medical Supplies	4,895	917 615 1,684 1,679
	To properly charge expense applicable to the prior period HIM-15-1, Section 2302.1		
5	Nonallowable Administration	6,641	6,641
	To reclassify expense to the proper cost center HIM-15-1, Sections 2102.3 and 2304 DH&HS Expense Crosswalk		

HALLMARK HEALTH CARE CENTER
Adjustment Report
Cost Report Period Ended September 30, 2003
AC# 3-HAL-J3

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Nursing	19,026	
	Restorative	1,471	
	Dietary	2,171	
	Maintenance	513	
	Administration	1,054	
	Medical Records	2,434	
	Medical Supplies	258	
	Special Services	3,098	
	Nonallowable		30,025
	To adjust fringe benefits and related allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
7	Medical Records	10,365	
	Nursing		10,365
	To reclassify expense to the proper cost center		
	HIM-15-1, Section 2304		
	DH&HS Expense Crosswalk		
8	Maintenance	1,622	
	Taxes and Insurance	108	
	Special Services	4,140	
	Nonallowable	62,684	
	Nursing		1,048
	Administration		60,593
	Utilities		4
	Cost of Capital		6,909
	To adjust home office cost allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		

HALLMARK HEALTH CARE CENTER
Adjustment Report
Cost Report Period Ended September 30, 2003
AC# 3-HAL-J3

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
9	Housekeeping	514	
	Maintenance	560	
	Administration	527	
	Utilities	467	
	Taxes and Insurance	734	
	Cost of Capital	799	
	Nonallowable		3,601
	To reverse DH&HS adjustment to remove indirect cost applicable to a non-reimbursable cost center HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
10	Nonallowable	3,123	
	Housekeeping		511
	Maintenance		565
	Administration		375
	Utilities		465
	Taxes and Insurance		694
	Cost of Capital		513
	To remove indirect cost applicable to a non-reimbursable cost center HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
11	Nonallowable	36,877	
	Nursing		11,560
	Dietary		819
	Medical Supplies		17,538
	Special Services		6,960
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		

HALLMARK HEALTH CARE CENTER
Adjustment Report
Cost Report Period Ended September 30, 2003
AC# 3-HAL-J3

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
12	Cost of Capital Nonallowable	582	582
	To adjust capital return State Plan, Attachment 4.19D		
		_____	_____
	TOTAL ADJUSTMENTS	\$ <u>181,587</u>	\$ <u>181,587</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.

HALLMARK HEALTH CARE CENTER
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2003
 AC# 3-HAL-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>88</u>
Deemed Asset Value	3,625,424
Improvements Since 1981	185,187
Accumulated Depreciation at 9/30/03	<u>(915,597)</u>
Deemed Depreciated Value	2,895,014
Market Rate of Return	<u>.0531</u>
Total Annual Return	153,725
Return Applicable to Non-Reimbursable Cost Centers	(802)
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	152,923
Depreciation Expense	101,320
Amortization Expense	211
Capital Related Income Offsets	(3,204)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(513)</u>
Allowable Cost of Capital Expense	250,737
Total Patient Days (Minimum 96% Occupancy)	<u>30,835</u>
Cost of Capital Per Diem	\$ <u><u>8.13</u></u>

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