

State of South Carolina



Office of the State Auditor

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

RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

June 21, 2006

Mr. Doug Ruth, Director of Reimbursement
Life Care Centers of America
3570 Keith Street NW
Cleveland, Tennessee 37312

Re: AC# 3-LCH-J1 – Life Care Center of America, Inc.
d/b/a Life Care Center of Charleston

Dear Mr. Ruth:

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.

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr." with a stylized flourish at the end.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

RHGjr/ms

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

**LIFE CARE CENTER OF AMERICA, INC.
D/B/A LIFE CARE CENTER OF CHARLESTON
NORTH CHARLESTON, SOUTH CAROLINA**

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

May 15, 2006

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 Life Care Center of America, Inc. d/b/a Life Care Center of Charleston, 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 Life Care Center of America, Inc. d/b/a Life Care Center of Charleston 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 Life Care Center of America, Inc. d/b/a Life Care Center of Charleston, 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 Life Care Center of America, Inc. d/b/a Life Care Center of Charleston 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
May 15, 2006

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 "Richard H. Gilbert, Jr.", written in a cursive style.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

LIFE CARE CENTER OF CHARLESTON
Computation of Rate Change
For the Contract Period
Beginning January 1, 2003
AC# 3-LCH-J1

	01/01/03- <u>09/30/03</u>
Interim Reimbursement Rate (1)	\$110.38
Adjusted Reimbursement Rate	<u>109.33</u>
Decrease in Reimbursement Rate	\$ <u><u>1.05</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated March 1, 2006

LIFE CARE CENTER OF CHARLESTON
 Computation of Adjusted Reimbursement Rate
 For the Contract Period January 1, 2003 Through September 30, 2003
 AC# 3-LCH-J1

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 57.61	\$54.11	
Dietary		11.45	11.21	
Laundry/Housekeeping/Maintenance		<u>9.67</u>	<u>9.67</u>	
Subtotal	\$ <u>-</u>	78.73	74.99	\$ 74.99
Administration & Medical Records	\$ <u>-</u>	<u>15.54</u>	<u>12.77</u>	<u>12.77</u>
Subtotal		94.27	<u>\$87.76</u>	87.76
<u>Costs Not Subject to Standards:</u>				
Utilities		4.02		4.02
Special Services		-		-
Medical Supplies & Oxygen		2.55		2.55
Taxes and Insurance		2.72		2.72
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$103.56</u>		97.05
Inflation Factor (3.70%)				3.59
Cost of Capital				8.69
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				-
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>-</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$109.33</u>

LIFE CARE CENTER OF CHARLESTON
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2001
 AC# 3-LCH-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>	
General Services	\$2,985,722	\$1,719 (4) 36 (4)	\$ 4 (6)	\$2,987,473
Dietary	592,633	956 (4)	9 (6)	593,580
Laundry	97,789	-	-	97,789
Housekeeping	251,002	850 (4)	4,448 (6)	247,404
Maintenance	159,067	-	2,727 (6)	156,340
Administration & Medical Records	811,399	293 (4)	6,056 (6)	805,636
Utilities	211,973	-	3,632 (6)	208,341
Special Services	-	-	-	-
Medical Supplies & Oxygen	160,700	-	15,214 (4) 13,075 (5)	132,411
Taxes and Insurance	143,539	-	2,340 (6)	141,199
Legal Fees	-	-	-	-

LIFE CARE CENTER OF CHARLESTON
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2001
AC# 3-LCH-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>	
Cost of Capital	468,805	26,282 (3)	15,355 (1)	453,797
		706 (7)	21,120 (2)	
	<u> </u>	<u> </u>	<u>5,521 (6)</u>	<u> </u>
Subtotal	5,882,629	30,842	89,501	5,823,970
Ancillary	235,700	11,360 (4)	-	247,060
Nonallowable	1,649,341	15,355 (1)	26,282 (3)	1,696,640
		21,120 (2)	706 (7)	
		13,075 (5)		
	<u> </u>	<u>24,737 (6)</u>	<u> </u>	<u> </u>
Total Operating Expenses	<u>\$7,767,670</u>	<u>\$116,489</u>	<u>\$116,489</u>	<u>\$7,767,670</u>
Total Patient Days	<u>51,859</u>	<u>-</u>	<u>-</u>	<u>51,859</u>
			Cost of Capital Patient Days	<u>52,242</u>
Total Beds	<u>148</u>			

LIFE CARE CENTER OF CHARLESTON
Adjustment Report
Cost Report Period Ended September 30, 2001
AC# 3-LCH-J1

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Other Equity	\$262,939	
	Nonallowable	15,355	
	Fixed Assets		\$224,979
	Accumulated Depreciation		37,960
	Cost of Capital		15,355
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Other Equity	217,716	
	Nonallowable	21,120	
	Loan Cost		213,088
	Accumulated Amortization		4,628
	Cost of Capital		21,120
	To adjust loan cost and related amortization HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
3	Cost of Capital	26,282	
	Nonallowable		26,282
	To adjust depreciation and amortization expense to comply with capital cost policy State Plan, Attachment 4.19D		
4	Nursing	1,719	
	Restorative	36	
	Dietary	956	
	Housekeeping	850	
	Administration	293	
	Ancillary	11,360	
	Medical Supplies		15,214
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		
5	Nonallowable	13,075	
	Medical Supplies		13,075
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		

LIFE CARE CENTER OF CHARLESTON
Adjustment Report
Cost Report Period Ended September 30, 2001
AC# 3-LCH-J1

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Nonallowable	24,737	
	Restorative		4
	Dietary		9
	Housekeeping		4,448
	Maintenance		2,727
	Administration		6,056
	Utilities		3,632
	Taxes and Insurance		2,340
	Cost of Capital		5,521
	To remove indirect cost applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
7	Cost of Capital	706	
	Nonallowable		706
	To adjust capital return State Plan, Attachment 4.19D		
		_____	_____
	TOTAL ADJUSTMENTS	\$ <u>597,144</u>	\$ <u>597,144</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.

LIFE CARE CENTER OF CHARLESTON
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2001
 AC# 3-LCH-J1

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.4607</u>	<u>2.4607</u>	
Deemed Asset Value (Per Bed)	38,431	38,431	
Number of Beds	<u>88</u>	<u>60</u>	
Deemed Asset Value	3,381,928	2,305,860	
Improvements Since 1981	104,176	15,116	
Accumulated Depreciation at 9/30/01	<u>(660,568)</u>	<u>(164,497)</u>	
Deemed Depreciated Value	2,825,536	2,156,479	
Market Rate of Return	<u>.0577</u>	<u>.0577</u>	
Total Annual Return	163,033	124,429	
Return Applicable to Non-Reimbursable Cost Centers	(2,463)	(2,195)	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>119</u>	<u>2,595</u>	
Allowable Annual Return	160,689	124,829	
Depreciation Expense	101,663	70,620	
Amortization Expense	621	1,256	
Capital Related Income Offsets	(214)	(146)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(1,661)</u>	<u>(3,860)</u>	<u>Total</u>
Allowable Cost of Capital Expense	261,098	192,699	\$453,797
Total Patient Days	<u>30,835</u>	<u>21,407</u>	<u>52,242</u>
Cost of Capital Per Diem	\$ <u>8.47</u>	\$ <u>9.00</u>	\$ <u>8.69</u>

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