

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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March 31, 2006

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

Re: AC# 3-LCH-J2 – 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, 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.

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

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/sag

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 OCTOBER 1, 2003
AC# 3-LCH-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

September 30, 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 Life Care Center of America, Inc. d/b/a Life Care Center of Charleston, 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 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.

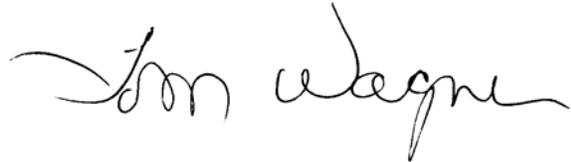
The procedures and the associated findings are as follows:

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
September 30, 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

LIFE CARE CENTER OF CHARLESTON
Computation of Rate Change
For the Contract Period
Beginning October 1, 2003
AC# 3-LCH-J2

10/01/03-
09/30/04

Interim Reimbursement Rate (1)	\$124.22
Adjusted Reimbursement Rate	<u>118.22</u>
Decrease in Reimbursement Rate	\$ <u><u>6.00</u></u>

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

LIFE CARE CENTER OF CHARLESTON
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 2003 Through September 30, 2004
AC# 3-LCH-J2

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 58.04	\$61.80	
Dietary		10.94	11.55	
Laundry/Housekeeping/Maintenance		<u>9.51</u>	<u>9.83</u>	
Subtotal	\$ <u>4.69</u>	78.49	83.18	\$ 78.49
Administration & Medical Records	\$ <u>-</u>	<u>15.58</u>	<u>13.46</u>	<u>13.46</u>
Subtotal		94.07	\$ <u>96.64</u>	91.95
<u>Costs Not Subject to Standards:</u>				
Utilities		4.24		4.24
Special Services		.06		.06
Medical Supplies & Oxygen		2.47		2.47
Taxes and Insurance		4.40		4.40
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$105.24</u>		103.12
Inflation Factor (4.70%)				4.85
Cost of Capital				8.50
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				4.69
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(2.94)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$118.22</u>

LIFE CARE CENTER OF CHARLESTON
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2002
 AC# 3-LCH-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	\$3,149,093	\$ 4,444 (8)	\$ 1,350 (8) 100,350 (10) 5,071 (10) 12,571 (11) 1,173 (12) 7,344 (13) 1,615 (14)	\$3,024,063
Dietary	575,282	11,745 (8)	10,866 (10) 3,790 (13) 2,556 (14)	569,815
Laundry	93,859	-	3,467 (10)	90,392
Housekeeping	255,915	853 (8)	9,266 (10) 11,614 (14)	235,888
Maintenance	186,795	-	6,776 (5) 2,532 (10) 8,082 (14)	169,405
Administration & Medical Records	1,021,159	333 (8) 598 (10) 12,571 (11) 11,388 (13)	183,153 (2) 13,445 (9) 22,653 (10) 15,041 (14)	811,757
Utilities	209,794	6,776 (5) 13,175 (7) 1,401 (13)	10,498 (14)	220,648
Special Services	3,245	14,613 (12)	14,717 (10)	3,141
Medical Supplies & Oxygen	202,826	-	45,557 (8) 28,475 (12)	128,794

LIFE CARE CENTER OF CHARLESTON
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2002
AC# 3-LCH-J2

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
Taxes and Insurance	276,498	-	14,266 (6) 25,174 (7) 7,598 (14)	229,460
Legal Fees	-	-	-	-
Cost of Capital	478,701	61 (3) 3,974 (4)	11,151 (1) 13,195 (14) <u>13,284 (15)</u>	445,106
Subtotal	<u>6,453,167</u>	<u>81,932</u>	<u>606,630</u>	<u>5,928,469</u>
Ancillary	295,098	22,925 (8)	2,518 (10)	315,505
Nonallowable	1,273,310	11,151 (1) 183,153 (2) 13,445 (9) 170,842 (10) 15,035 (12) 7,344 (13) 70,199 (14) <u>13,284 (15)</u>	61 (3) 3,974 (4)	1,753,728
Total Operating Expenses	<u>\$8,021,575</u>	<u>\$589,310</u>	<u>\$613,183</u>	<u>\$7,997,702</u>
Total Patient Days	<u>52,099</u>	<u>-</u>	<u>-</u>	<u>52,099</u>
Total Beds	<u>148</u>	Cost of Capital Patient Days		<u>52,335</u>

LIFE CARE CENTER OF CHARLESTON
 Adjustment Report
 Cost Report Period Ended September 30, 2002
 AC# 3-LCH-J2

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$4,265,280	
	Nonallowable	11,151	
	Fixed Assets		\$ 459,926
	Other Equity		3,805,354
	Cost of Capital		11,151
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	183,153	
	Administration		183,153
	To disallow related party interest expense HIM-15-1, Section 218.1		
3	Other Equity	219,993	
	Cost of Capital	61	
	Loan Cost		213,088
	Accumulated Amortization		6,905
	Nonallowable		61
	To adjust loan cost and related amortization HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
4	Cost of Capital	3,974	
	Nonallowable		3,974
	To adjust depreciation and amortization expense to comply with capital cost policy State Plan, Attachment 4.19D		
5	Utilities	6,776	
	Maintenance		6,776
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		

LIFE CARE CENTER OF CHARLESTON
Adjustment Report
Cost Report Period Ended September 30, 2002
AC# 3-LCH-J2

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Accrued Property Taxes	6,729	
	Retained Earnings	7,537	
	Taxes and Insurance		14,266
	To adjust property taxes and related accrual HIM-15-1, Sections 2302.1 and 2304		
7	Accrued Franchise Fee	11,999	
	Utilities	13,175	
	Taxes and Insurance		25,174
	To reverse franchise fee accrual and reclassify expense to the proper cost center HIM-15-1, Section 2304 DH&HS Expense Crosswalk		
8	Retained Earnings	6,607	
	Nursing	4,444	
	Dietary	11,745	
	Housekeeping	853	
	Administration	333	
	Ancillary	22,925	
	Restorative		1,350
	Medical Supplies		45,557
	To reclassify expense to the proper cost center and properly charge expense to the prior period HIM-15-1, Sections 2302.1 and 2304 DH&HS Expense Crosswalk		
9	Nonallowable	13,445	
	Administration		13,445
	To remove cost not related to patient care HIM-15-1, Sections 2102.3 and 2304		

LIFE CARE CENTER OF CHARLESTON
Adjustment Report
Cost Report Period Ended September 30, 2002
AC# 3-LCH-J2

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
10	Medical Records	598	
	Nonallowable	170,842	
	Nursing		100,350
	Restorative		5,071
	Dietary		10,866
	Laundry		3,467
	Housekeeping		9,266
	Maintenance		2,532
	Administration		22,653
	Special Services		14,717
	Ancillary		2,518
	To adjust fringe benefits and related allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
11	Medical Records	12,571	
	Nursing		12,571
	To reclassify expense to the proper cost center		
	HIM-15-1, Section 2304		
	DH&HS Expense Crosswalk		
12	Special Services	14,613	
	Nonallowable	15,035	
	Nursing		1,173
	Medical Supplies		28,475
	To remove special (ancillary) services reimbursed by Medicare		
	State Plan, Attachment 4.19D		
13	Administration	11,388	
	Utilities	1,401	
	Nonallowable	7,344	
	Other Income		8,999
	Restorative		7,344
	Dietary		3,790
	To properly offset income against related expense and reclassify expense to the proper cost center		
	HIM-15-1, Sections 2102.3, 2304 and 2328		
	DH&HS Expense Crosswalk		

LIFE CARE CENTER OF CHARLESTON
Adjustment Report
Cost Report Period Ended September 30, 2002
AC# 3-LCH-J2

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
14	Nonallowable	70,199	
	Restorative		1,615
	Dietary		2,556
	Housekeeping		11,614
	Maintenance		8,082
	Administration		15,041
	Utilities		10,498
	Taxes and Insurance		7,598
	Cost of Capital		13,195
	To remove indirect cost applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
15	Nonallowable	13,284	
	Cost of Capital		13,284
	To adjust capital return State Plan, Attachment 4.19D		
		\$5,107,455	\$5,107,455
	TOTAL ADJUSTMENTS		

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, 2002
 AC# 3-LCH-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>60</u>	
Deemed Asset Value	3,504,864	2,389,680	
Improvements Since 1981	154,612	32,464	
Accumulated Depreciation at 9/30/02	<u>(755,212)</u>	<u>(229,423)</u>	
Deemed Depreciated Value	2,904,264	2,192,721	
Market Rate of Return	<u>.0561</u>	<u>.0561</u>	
Total Annual Return	162,929	123,012	
Return Applicable to Non-Reimbursable Cost Centers	(2,926)	(8,664)	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>113</u>	<u>6,070</u>	
Allowable Annual Return	160,116	120,418	
Depreciation Expense	104,653	71,749	
Amortization Expense	344	1,067	
Capital Related Income Offsets	(27)	(19)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(1,998)</u>	<u>(11,197)</u>	<u>Total</u>
Allowable Cost of Capital Expense	263,088	182,018	\$445,106
Total Patient Days	<u>30,835</u>	<u>21,500</u>	<u>52,335</u>
Cost of Capital Per Diem	\$ <u>8.53</u>	\$ <u>8.47</u>	\$ <u>8.50</u>

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