

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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May 23, 2006

Mr. Gregory Williams, Reimbursement Manager
Sava Senior Care
5300 West Sam Houston Parkway North
Houston, Texas 77041

Re: AC# 3-LCS-J2 – GranCare South Carolina, Inc.
d/b/a Lake City – Scranton Healthcare Center

Dear Mr. Williams:

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

**GRANCARE SOUTH CAROLINA, INC.
D/B/A LAKE CITY – SCRANTON HEALTHCARE CENTER
SCRANTON, SOUTH CAROLINA**

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2003
AC# 3-LCS-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

April 10, 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 GranCare South Carolina, Inc. d/b/a Lake City – Scranton Healthcare Center, 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 GranCare South Carolina, Inc. d/b/a Lake City – Scranton Healthcare 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 Lake City – Scranton Healthcare 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 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 GranCare South Carolina, Inc. d/b/a Lake City – Scranton Healthcare 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
April 10, 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 "Tom Wagner". The signature is fluid and cursive, with a large initial "T" and "W".

Thomas L. Wagner, Jr., CPA
State Auditor

LAKE CITY - SCRANTON HEALTHCARE CENTER

Computation of Rate Change
For the Contract Period
Beginning October 1, 2003
AC# 3-LCS-J2

10/01/03-
09/30/04

Interim Reimbursement Rate (1)	\$94.72
Adjusted Reimbursement Rate	<u>93.63</u>
Decrease in Reimbursement Rate	\$ <u>1.09</u>

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

LAKE CITY - SCRANTON HEALTHCARE CENTER
 Computation of Adjusted Reimbursement Rate
 For the Contract Period October 1, 2003 Through September 30, 2004
 AC# 3-LCS-J2

<u>Costs Subject to Standards:</u>	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
General Services		\$43.01	\$ 67.92	
Dietary		10.68	11.76	
Laundry/Housekeeping/Maintenance		<u>7.21</u>	<u>10.49</u>	
Subtotal	<u>\$6.31</u>	60.90	90.17	\$60.90
Administration & Medical Records	<u>\$2.67</u>	<u>10.58</u>	<u>13.25</u>	<u>10.58</u>
Subtotal		71.48	<u>\$103.42</u>	71.48
 <u>Costs Not Subject to Standards:</u>				
Utilities		3.05		3.05
Special Services		.22		.22
Medical Supplies & Oxygen		3.12		3.12
Taxes and Insurance		3.59		3.59
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$81.46</u>		81.46
Inflation Factor (4.70%)				3.83
Cost of Capital				6.59
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				2.67
Cost Incentive				6.31
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(7.23)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$93.63</u>

LAKE CITY - SCRANTON HEALTHCARE CENTER
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2002
 AC# 3-LCS-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	\$1,369,499	\$ -	\$ 5,766 (3) 207 (3) 6,531 (4) 3,627 (5)	\$1,353,368
Dietary	333,701	2,970 (5)	750 (3)	335,921
Laundry	65,511	-	-	65,511
Housekeeping	95,930	-	-	95,930
Maintenance	63,604	1,894 (4)	138 (3)	65,360
Administration & Medical Records	334,498	7,208 (4)	6,083 (2) 1,891 (3) 53 (3) 778 (5)	332,901
Utilities	95,848	-	4 (4)	95,844
Special Services	6,721	2,544 (4)	289 (3) 2,048 (5)	6,928
Medical Supplies & Oxygen	103,234	-	4,946 (5)	98,288
Taxes and Insurance	110,986	1,994 (4)	-	112,980
Legal Fees	-	-	-	-
Cost of Capital	224,856	583 (6)	1,491 (1) 16,670 (4)	207,278
Subtotal	2,804,388	17,193	51,272	2,770,309

LAKE CITY - SCRANTON HEALTHCARE CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2002
AC# 3-LCS-J2

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		Adjusted <u>Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Ancillary	26,381	-	-	26,381
Nonallowable	2,484,712	1,491 (1)	583 (6)	2,518,791
		6,083 (2)		
		9,094 (3)		
		9,565 (4)		
	_____	<u>8,429 (5)</u>	_____	_____
Total Operating Expenses	<u>\$5,315,481</u>	<u>\$51,855</u>	<u>\$51,855</u>	<u>\$5,315,481</u>
Total Patient Days	<u>31,468</u>	<u>-</u>	<u>-</u>	<u>31,468</u>
Total Beds	<u>88</u>			

LAKE CITY - SCRANTON HEALTHCARE CENTER
Adjustment Report
Cost Report Period Ended September 30, 2002
AC# 3-LCS-J2

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$42,403	
	Other Equity	11,613	
	Nonallowable	1,491	
	Fixed Assets		\$54,016
	Cost of Capital		1,491
	To adjust fixed assets and related depreciation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
2	Nonallowable	6,083	
	Administration		6,083
	To reclassify expense to the proper cost center		
	HIM-15-1, Section 2304		
	DH&HS Expense Crosswalk		
3	Nonallowable	9,094	
	Nursing		5,766
	Restorative		207
	Dietary		750
	Maintenance		138
	Administration		1,891
	Medical Records		53
	Special Services		289
	To adjust fringe benefits and related allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
4	Maintenance	1,894	
	Administration	7,208	
	Special Services	2,544	
	Taxes and Insurance	1,994	
	Nonallowable	9,565	
	Nursing		6,531
	Utilities		4
	Cost of Capital		16,670
	To adjust home office cost allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		

LAKE CITY - SCRANTON HEALTHCARE CENTER
Adjustment Report
Cost Report Period Ended September 30, 2002
AC# 3-LCS-J2

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Dietary	2,970	
	Nonallowable	8,429	
	Nursing		3,627
	Administration		778
	Special Services		2,048
	Medical Supplies		4,946
	To adjust special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
6	Cost of Capital	583	
	Nonallowable		583
	To adjust capital return State Plan, Attachment 4.19D		
		\$105,871	\$105,871
	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.

LAKE CITY - SCRANTON HEALTHCARE CENTER
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2002
 AC# 3-LCS-J2

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.55013</u>
Deemed Asset Value (Per Bed)	39,828
Number of Beds	<u>88</u>
Deemed Asset Value	3,504,864
Improvements Since 1981	417,729
Accumulated Depreciation at 9/30/02	<u>(1,097,466)</u>
Deemed Depreciated Value	2,825,127
Market Rate of Return	<u>.0561</u>
Total Annual Return	158,490
Return Applicable to Non-Reimbursable Cost Centers	(892)
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	157,598
Depreciation Expense	62,338
Amortization Expense	323
Capital Related Income Offsets	(12,597)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(384)</u>
Allowable Cost of Capital Expense	207,278
Total Patient Days (Actual)	<u>31,468</u>
Cost of Capital Per Diem	\$ <u><u>6.59</u></u>

LAKE CITY - SCRANTON HEALTHCARE CENTER
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2002
AC# 3-LCS-J2

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$4.64
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$8.63</u>
Reimbursable Cost of Capital Per Diem	\$6.59
Cost of Capital Per Diem	<u>6.59</u>
Cost of Capital Per Diem Limitation	<u>\$ -</u>

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