

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  
FAX (803) 343-0723

December 7, 2005

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

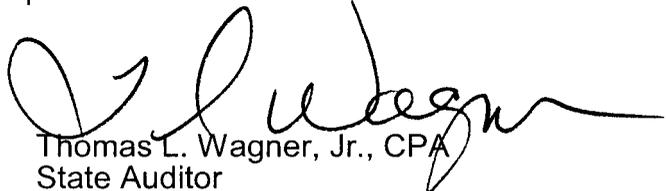
Re: AC# 3-LCS-J3 – GranCare South Carolina, Inc. d/b/a Lake City–Scranton Healthcare  
Center

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/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, 2004  
AC# 3-LCS-J3**

**AGREED-UPON PROCEDURES REPORT**

**ON CONTRACT**

**FOR**

**PURCHASE OF NURSING CARE SERVICES**

**WITH**

**STATE OF SOUTH CAROLINA**

**DEPARTMENT OF HEALTH AND HUMAN SERVICES**

## CONTENTS

	<u>EXHIBIT OR SCHEDULE</u>	<u>PAGE</u>
INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES		1
COMPUTATION OF RATE CHANGE FOR THE CONTRACT PERIOD BEGINNING OCTOBER 1, 2004	A	3
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIOD OCTOBER 1, 2004 THROUGH SEPTEMBER 30, 2005	B	4
SUMMARY OF COSTS AND TOTAL PATIENT DAYS FOR THE COST REPORT PERIOD ENDED SEPTEMBER 30, 2003	C	5
ADJUSTMENT REPORT	1	7
COST OF CAPITAL REIMBURSEMENT ANALYSIS	2	10

# 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  
FAX (803) 343-0723

### INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

October 27, 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 Lake City–Scranton Healthcare 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 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.

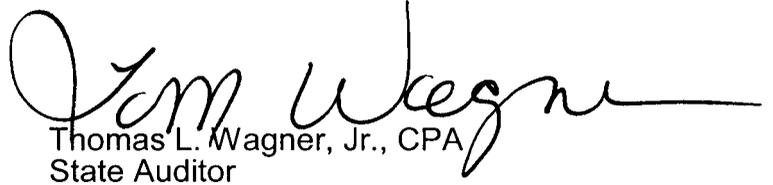
The procedures and the associated findings are as follows:

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 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 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  
October 27, 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

**LAKE CITY-SCRANTON HEALTHCARE CENTER**

Computation of Rate Change  
For the Contract Period  
Beginning October 1, 2004  
AC# 3-LCS-J3

10/01/04-  
09/30/05

Interim Reimbursement Rate (1)	\$103.82
Adjusted Reimbursement Rate	<u>99.32</u>
Decrease in Reimbursement Rate	\$ <u>4.50</u>

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

**LAKE CITY-SCRANTON HEALTHCARE CENTER**  
 Computation of Adjusted Reimbursement Rate  
 For the Contract Period October 1, 2004 Through September 30, 2005  
 AC# 3-LCS-J3

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$47.90	\$ 70.36	
Dietary		10.19	12.42	
Laundry/Housekeeping/Maintenance		<u>7.73</u>	<u>11.28</u>	
Subtotal	<u>\$6.58</u>	65.82	94.06	\$65.82
Administration & Medical Records	<u>\$2.12</u>	<u>12.53</u>	<u>14.65</u>	<u>12.53</u>
Subtotal		78.35	<u>\$108.71</u>	78.35
<u>Costs Not Subject to Standards:</u>				
Utilities		2.73		2.73
Special Services		.44		.44
Medical Supplies & Oxygen		3.11		3.11
Taxes and Insurance		2.26		2.26
Legal Fees		<u>-</u>		<u>-</u>
<b>TOTAL</b>		<u>\$86.89</u>		86.89
Inflation Factor (4.70%)				4.08
Cost of Capital				6.60
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				2.12
Cost Incentive				6.58
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(6.95)</u>
<b>ADJUSTED REIMBURSEMENT RATE</b>				<u>\$99.32</u>

**LAKE CITY-SCRANTON HEALTHCARE CENTER**  
 Summary of Costs and Total Patient Days  
 For the Cost Report Period Ended September 30, 2003  
 AC# 3-LCS-J3

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$1,558,753	\$ -	\$ 31,666 (4) 1,282 (4) 13,281 (5) 1,370 (6) 2,064 (10)	\$1,509,090
Dietary	330,149	-	3,448 (4) 5,518 (10)	321,183
Laundry	63,535	-	-	63,535
Housekeeping	94,586	553 (8)	553 (9)	94,586
Maintenance	84,699	1,211 (6) 495 (8)	597 (4) 499 (9)	85,309
Administration & Medical Records	452,531	411 (8)	6,773 (3) 5,413 (4) 254 (4) 45,200 (6) 33 (7) 333 (9)	394,936
Utilities	87,025	509 (8)	3 (6) 1,010 (7) 503 (9)	86,018
Special Services	12,195	1,645 (4) 13,281 (5) 3,088 (6)	16,244 (10)	13,965
Medical Supplies & Oxygen	105,935	-	207 (4) 7,649 (10)	98,079
Taxes and Insurance	78,164	82 (6) 442 (8)	7,174 (2) 402 (9)	71,112

**LAKE CITY-SCRANTON HEALTHCARE CENTER**  
 Summary of Costs and Total Patient Days  
 For the Cost Report Period Ended September 30, 2003  
 AC# 3-LCS-J3

<u>Expenses</u>	Totals (From Schedule SC 13) as Adjusted by DH&HS	Adjustments <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
Legal Fees	111	-	-	111
Cost of Capital	213,662	412 (8) 120 (11)	862 (1) 5,155 (6) 378 (9)	207,799
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Subtotal	3,081,345	22,249	157,871	2,945,723
Ancillary	47,838	-	-	47,838
Nonallowable	913,803	862 (1) 7,174 (2) 6,773 (3) 41,222 (4) 47,347 (6) 2,668 (9) 31,475 (10)	2,822 (8) 120 (11)	1,048,382
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Operating Expenses	<u>\$4,042,986</u>	<u>\$159,770</u>	<u>\$160,813</u>	<u>\$4,041,943</u>
Total Patient Days	<u>31,508</u>	<u>-</u>	<u>-</u>	<u>31,508</u>
Total Beds	<u>88</u>			

**LAKE CITY-SCRANTON HEALTHCARE CENTER**  
Adjustment Report  
Cost Report Period Ended September 30, 2003  
AC# 3-LCS-J3

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$ 2,659	
	Other Equity	11,870	
	Nonallowable	862	
	Fixed Assets		\$14,529
	Cost of Capital		862
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	7,174	
	Taxes and Insurance		7,174
	To adjust liability insurance expense HIM-15-1, Section 2304		
3	Nonallowable	6,773	
	Administration		6,773
	To reclassify expense to the proper cost center HIM-15-1, Sections 2102.3 and 2304 DH&HS Expense Crosswalk		
4	Special Services	1,645	
	Nonallowable	41,222	
	Nursing		31,666
	Restorative		1,282
	Dietary		3,448
	Maintenance		597
	Administration		5,413
	Medical Records		254
	Medical Supplies		207
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
5	Special Services	13,281	
	Nursing		13,281
	To reclassify expense to the proper cost center HIM-15-1, Section 2304 DH&HS Expense Crosswalk		

**LAKE CITY-SCRANTON HEALTHCARE CENTER**  
 Adjustment Report  
 Cost Report Period Ended September 30, 2003  
 AC# 3-LCS-J3

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>	
6	Maintenance	1,211		
	Taxes and Insurance	82		
	Special Services	3,088		
	Nonallowable	47,347		
	Nursing		1,370	
	Administration		45,200	
	Utilities		3	
	Cost of Capital		5,155	
		To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
	7	Other Income	1,043	
Administration			33	
Utilities			1,010	
		To offset income against related expense HIM-15-1, Sections 2106 and 2328 State Plan, Attachment 4.19D		
8	Housekeeping	553		
	Maintenance	495		
	Administration	411		
	Utilities	509		
	Taxes and Insurance	442		
	Cost of Capital	412		
	Nonallowable		2,822	
		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		

**LAKE CITY-SCRANTON HEALTHCARE CENTER**  
Adjustment Report  
Cost Report Period Ended September 30, 2003  
AC# 3-LCS-J3

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
9	Nonallowable	2,668	
	Housekeeping		553
	Maintenance		499
	Administration		333
	Utilities		503
	Taxes and Insurance		402
	Cost of Capital		378
	To remove indirect cost applicable to a non-reimbursable cost center HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
10	Nonallowable	31,475	
	Nursing		2,064
	Dietary		5,518
	Medical Supplies		7,649
	Special Services		16,244
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
11	Cost of Capital	120	
	Nonallowable		120
	To adjust capital return State Plan, Attachment 4.19D		
		\$175,342	\$175,342

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, 2003  
 AC# 3-LCS-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	450,184
Accumulated Depreciation at 9/30/03	<u>(1,145,083)</u>
Deemed Depreciated Value	2,930,525
Market Rate of Return	<u>.0531</u>
Total Annual Return	155,611
Return Applicable to Non-Reimbursable Cost Centers	(876)
Allocation of Interest to Non-Reimbursable Cost Centers	<u>78</u>
Allowable Annual Return	154,813
Depreciation Expense	55,592
Amortization Expense	157
Capital Related Income Offsets	(2,385)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(378)</u>
Allowable Cost of Capital Expense	207,799
Total Patient Days (Actual)	<u>31,508</u>
Cost of Capital Per Diem	\$ <u><u>6.60</u></u>

**LAKE CITY-SCRANTON HEALTHCARE CENTER**  
 Cost of Capital Reimbursement Analysis  
 For the Cost Report Period Ended September 30, 2003  
 AC# 3-LCS-J3

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	\$6.60
Cost of Capital Per Diem	<u>6.60</u>
Cost of Capital Per Diem Limitation	<u>\$ -</u>

2 copies of this document were published at an estimated printing cost of \$1.40 each, and a total printing cost of \$2.80. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.