

# 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

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June 21, 2006

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

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

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 HILTON HEAD  
HILTON HEAD ISLAND, SOUTH CAROLINA**

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

April 28, 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 Hilton Head, 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 Hilton Head 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 Hilton Head, 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 Hilton Head 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 28, 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 HILTON HEAD**  
Computation of Rate Change  
For the Contract Period  
Beginning January 1, 2003  
AC# 3-LHH-J1

	01/01/03- <u>09/30/03</u>
Interim Reimbursement Rate (1)	\$114.04
Adjusted Reimbursement Rate	<u>113.45</u>
Decrease in Reimbursement Rate	\$ <u><u>.59</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 HILTON HEAD**  
 Computation of Adjusted Reimbursement Rate  
 For the Contract Period January 1, 2003 Through September 30, 2003  
 AC# 3-LHH-J1

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 54.70	\$63.44	
Dietary		11.92	11.63	
Laundry/Housekeeping/Maintenance		<u>10.84</u>	<u>10.22</u>	
Subtotal	\$ <u>5.97</u>	77.46	85.29	\$ 77.46
Administration & Medical Records	\$ <u>-</u>	<u>16.11</u>	<u>12.63</u>	<u>12.63</u>
Subtotal		93.57	<u>\$97.92</u>	90.09
<u>Costs Not Subject to Standards:</u>				
Utilities		2.97		2.97
Special Services		.11		.11
Medical Supplies & Oxygen		4.41		4.41
Taxes and Insurance		2.75		2.75
Legal Fees		<u>-</u>		<u>-</u>
<b>TOTAL</b>		<u>\$103.81</u>		100.33
Inflation Factor (3.70%)				3.71
Cost of Capital				7.66
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				5.97
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(4.22)</u>
<b>ADJUSTED REIMBURSEMENT RATE</b>				<u>\$113.45</u>

**LIFE CARE CENTER OF HILTON HEAD**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 2001  
AC# 3-LHH-J1

<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	\$1,624,103	\$ 1 (1) 110,814 (7) 2,612 (7)	\$12,034 (4) 19,715 (5) 19,071 (6)	\$1,686,710
Dietary	353,056	14,590 (7)	-	367,646
Laundry	121,817	1,005 (7)	26,276 (6)	96,546
Housekeeping	102,156	6,602 (7)	-	108,758
Maintenance	122,468	6,447 (7)	-	128,915
Administration & Medical Records	450,761	12,034 (4) 19,715 (5) 4,632 (7) 9,576 (7)	-	496,718
Utilities	91,555	-	-	91,555
Special Services	3,397	-	-	3,397
Medical Supplies & Oxygen	136,126	-	-	136,126
Taxes and Insurance	84,730	-	-	84,730
Legal Fees	-	-	-	-

**LIFE CARE CENTER OF HILTON HEAD**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 2001  
AC# 3-LHH-J1

<u>Expenses</u>	Totals (From Schedule SC 13) as Adjusted by DH&HS	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Cost of Capital	321,609	635 (2)	128,754 (1)	238,931
		36,260 (3)		
	<u>                    </u>	<u>9,181 (8)</u>	<u>                    </u>	<u>                    </u>
Subtotal	3,411,778	234,104	205,850	3,440,032
Ancillary	76,769	-	-	76,769
Nonallowable	567,483	128,753 (1)	635 (2)	539,229
		45,347 (6)	36,260 (3)	
			156,278 (7)	
	<u>                    </u>	<u>                    </u>	<u>9,181 (8)</u>	<u>                    </u>
Total Operating Expenses	<u>\$4,056,030</u>	<u>\$408,204</u>	<u>\$408,204</u>	<u>\$4,056,030</u>
Total Patient Days	<u>30,835</u>	<u>-</u>	<u>-</u>	<u>30,835</u>
			Cost of Capital Patient Days	<u>31,203</u>
Total Beds	<u>88</u>			

**LIFE CARE CENTER OF HILTON HEAD**  
Adjustment Report  
Cost Report Period Ended September 30, 2001  
AC# 3-LHH-J1

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$ 81,229	
	Other Equity	140,958	
	Restorative	1	
	Nonallowable	128,753	
	Fixed Assets		\$222,187
	Cost of Capital		128,754
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Cost of Capital	635	
	Nonallowable		635
	To adjust loan cost amortization State Plan, Attachment 4.19D		
3	Cost of Capital	36,260	
	Nonallowable		36,260
	To adjust depreciation expense to comply with capital cost policy State Plan, Attachment 4.19D		
4	Administration	12,034	
	Nursing		12,034
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		
5	Medical Records	19,715	
	Nursing		19,715
	To reclassify expense to the proper cost center HIM-15-1, Section 2304 DH&HS Expense Crosswalk		

**LIFE CARE CENTER OF HILTON HEAD**  
Adjustment Report  
Cost Report Period Ended September 30, 2001  
AC# 3-LHH-J1

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Nonallowable	45,347	
	Restorative		19,071
	Laundry		26,276
	To adjust salary expense HIM-15-1, Sections 2302.1 and 2304		
7	Nursing	110,814	
	Restorative	2,612	
	Dietary	14,590	
	Laundry	1,005	
	Housekeeping	6,602	
	Maintenance	6,447	
	Administration	4,632	
	Medical Records	9,576	
	Nonallowable		156,278
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
8	Cost of Capital	9,181	
	Nonallowable		9,181
	To adjust capital return State Plan, Attachment 4.19D		
	TOTAL ADJUSTMENTS	<u>\$630,391</u>	<u>\$630,391</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 HILTON HEAD**  
 Cost of Capital Reimbursement Analysis  
 For the Cost Report Period Ended September 30, 2001  
 AC# 3-LHH-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>44</u>	<u>44</u>	
Deemed Asset Value	1,690,964	1,690,964	
Improvements Since 1981	157,020	119,648	
Accumulated Depreciation at 9/30/01	<u>(684,648)</u>	<u>(594,401)</u>	
Deemed Depreciated Value	1,163,336	1,216,211	
Market Rate of Return	<u>.0577</u>	<u>.0577</u>	
Total Annual Return	67,124	70,175	
Return Applicable to Non-Reimbursable Cost Centers	-	-	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	
Allowable Annual Return	67,124	70,175	
Depreciation Expense	34,759	65,758	
Amortization Expense	875	240	
Capital Related Income Offsets	-	-	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	<u>Total</u>
Allowable Cost of Capital Expense	102,758	136,173	\$238,931
Total Patient Days	<u>15,418</u>	<u>15,785</u>	<u>31,203</u>
Cost of Capital Per Diem	\$ <u><u>6.66</u></u>	\$ <u><u>8.63</u></u>	\$ <u><u>7.66</u></u>

**LIFE CARE CENTER OF HILTON HEAD**  
 Cost of Capital Reimbursement Analysis  
 For the Cost Report Period Ended September 30, 2001  
 AC# 3-LHH-J1

6/30/89 Cost of Capital and Return on Equity		
Capital Per Diem Reimbursement	\$ 8.11	\$ N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	<u>\$12.10</u>	<u>\$8.63</u>
Reimbursable Cost of Capital Per Diem	\$ 7.66	
Cost of Capital Per Diem	<u>7.66</u>	
Cost of Capital Per Diem Limitation	\$ <u>-</u>	

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