

State of South Carolina



Office of the State Auditor

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COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
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October 6, 2005

Mr. Parke Horton, Secretary Treasurer
Lutheran Homes of South Carolina, Inc.
300 Ministry Drive
Irmo, South Carolina 29063

Re: AC# 3-LMN-J3 – Lutheran Homes of S.C.
d/b/a Lowman Home Nursing Center

Dear Mr. Horton:

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/cwc

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

**LUTHERAN HOMES OF S.C.
D/B/A LOWMAN HOME NURSING CENTER
WHITE ROCK, SOUTH CAROLINA**

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2004
AC# 3-LMN-J3**

**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

July 15, 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 Lutheran Homes of S.C. d/b/a Lowman Home Nursing 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 Lutheran Homes of S.C. d/b/a Lowman Home Nursing 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 Lutheran Homes of S.C. d/b/a Lowman Home Nursing 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 S.C. Department of Health and Human Services and Lutheran Homes of South Carolina d/b/a Lowman Home Nursing 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
July 15, 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

LOWMAN HOME NURSING CENTER
Computation of Rate Change
For the Contract Period
Beginning October 1, 2004
AC# 3-LMN-J3

	Beginning <u>10/01/04</u>
Interim Reimbursement Rate (1)	\$134.05
Adjusted Reimbursement Rate	<u>129.58</u>
Decrease in Reimbursement Rate	\$ <u><u>4.47</u></u>

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

LOWMAN HOME NURSING CENTER
 Computation of Adjusted Reimbursement Rate
 For the Contract Period Beginning October 1, 2004
 AC# 3-LMN-J3

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 66.58	\$ 70.99	
Dietary		11.39	12.15	
Laundry/Housekeeping/Maintenance		<u>11.74</u>	<u>10.42</u>	
Subtotal	\$ <u>3.85</u>	89.71	93.56	\$ 89.71
Administration & Medical Records	\$ <u>-</u>	<u>16.20</u>	<u>15.06</u>	<u>15.06</u>
Subtotal		105.91	<u>\$108.62</u>	104.77
<u>Costs Not Subject to Standards:</u>				
Utilities		3.28		3.28
Special Services		.29		.29
Medical Supplies & Oxygen		3.39		3.39
Taxes and Insurance		2.60		2.60
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$115.47</u>		114.33
Inflation Factor (4.70%)				5.37
Cost of Capital				8.13
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				3.85
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(2.10)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$129.58</u>

LOWMAN HOME NURSING CENTER
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2003
 AC# 3-LMN-J3

<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	\$4,109,652	\$ 4,571 (1) 33,000 (3)	\$ 39,183 (4) 1,787 (4)	\$4,106,253
Dietary	898,192	21,653 (2)	4,922 (4) 212,646 (8)	702,277
Laundry	149,662	24,707 (8)	1,690 (4)	172,679
Housekeeping	333,108	-	2,957 (4) 10,238 (8)	319,913
Maintenance	260,447	-	1,003 (4) 20,065 (5) 7,845 (8)	231,534
Administration & Medical Records	1,033,349	10,560 (1) 20,063 (5)	3,532 (4) 165 (4) 61,154 (8)	999,121
Utilities	209,302	-	6,718 (8)	202,584
Special Services	17,750	-	-	17,750
Medical Supplies & Oxygen	318,349	-	21,587 (1) 54,943 (2) 33,000 (3)	208,819
Taxes and Insurance	164,695	-	4,528 (8)	160,167
Legal Fees	-	-	-	-

LOWMAN HOME NURSING CENTER
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2003
 AC# 3-LMN-J3

<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	511,165	89,414 (6)	36,085 (5) 29,728 (7) 15,187 (8) <u>17,952 (9)</u>	501,627
	_____	_____	_____	_____
Subtotal	8,005,671	203,968	586,915	7,622,724
Ancillary	209,315	6,456 (1) 33,290 (2)	-	249,061
Nonallowable	853,353	55,239 (4) 36,087 (5) 29,728 (7) 293,609 (8) <u>17,952 (9)</u>	89,414 (6)	1,196,554
	_____	_____	_____	_____
Total Operating Expenses	<u>\$9,068,339</u>	<u>\$676,329</u>	<u>\$676,329</u>	<u>\$9,068,339</u>
Total Patient Days	<u>61,670</u>	<u>-</u>	<u>-</u>	<u>61,670</u>
Total Beds	<u>176</u>			

LOWMAN HOME NURSING CENTER
Adjustment Report
Cost Report Period Ended September 30, 2003
AC# 3-LMN-J3

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Medical Records	\$10,560	
	Nursing	4,571	
	Ancillary	6,456	
	Medical Supplies		\$21,587
	To reclassify expenses to the proper cost centers State Plan, Attachment 4.19D		
2	Dietary	21,653	
	Ancillary	33,290	
	Medical Supplies		54,943
	To reclassify billable ancillary costs to the proper cost center State Plan, Attachment 4.19D		
3	Restorative	33,000	
	Medical Supplies		33,000
	To reclassify expense to the proper cost center State Plan, Attachment 4.19D		
4	Nonallowable	55,239	
	Nursing		39,183
	Restorative		1,787
	Dietary		4,922
	Laundry		1,690
	Housekeeping		2,957
	Maintenance		1,003
	Administration		3,532
	Medical Records		165
	To adjust fringe benefits and related allocation State Plan, Attachment 4.19D		
5	Nonallowable	36,087	
	Administration	20,063	
	Maintenance		20,065
	Cost of Capital		36,085
	To adjust home office allocation State Plan, Attachment 4.19D		

LOWMAN HOME NURSING CENTER
Adjustment Report
Cost Report Period Ended September 30, 2003
AC# 3-LMN-J3

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Cost of Capital	89,414	
	Other Equity	2,349,319	
	Nonallowable		89,414
	Accumulated Depreciation		1,830,642
	Fixed Assets		518,677
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304		
7	Nonallowable	29,728	
	Cost of Capital		29,728
	To adjust depreciation and amortization expense to comply with capital cost policy State Plan, Attachment 4.19D		
8	Nonallowable	293,609	
	Laundry	24,707	
	Dietary		212,646
	Housekeeping		10,238
	Maintenance		7,845
	Administration		61,154
	Utilities		6,718
	Taxes and Insurance		4,528
	Cost of Capital		15,187
	To adjust indirect cost applicable to nonreimbursable cost centers State Plan, Attachment 4.19D		
9	Nonallowable	17,952	
	Cost of Capital		17,952
	To adjust capital return State Plan, Attachment 4.19D		
		\$3,025,648	\$3,025,648
	TOTAL ADJUSTMENTS	\$3,025,648	\$3,025,648

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.

LOWMAN HOME NURSING CENTER
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2003
 AC# 3-LMN-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>176</u>
Deemed Asset Value	7,250,848
Improvements Since 1981	435,207
Accumulated Depreciation at 9/30/03	<u>(1,940,416)</u>
Deemed Depreciated Value	5,745,639
Market Rate of Return	<u>.0531</u>
Total Annual Return	305,093
Return Applicable to Non-Reimbursable Cost Centers	(10,642)
Allocation of Interest to Non-Reimbursable Cost Centers	<u>11,616</u>
Allowable Annual Return	306,067
Depreciation Expense	200,197
Amortization Expense	12,533
Capital Related Income Offsets	(220)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(16,950)</u>
Allowable Cost of Capital Expense	501,627
Total Patient Days (Minimum 96% Occupancy)	<u>61,670</u>
Cost of Capital Per Diem	\$ <u><u>8.13</u></u>

LOWMAN HOME NURSING CENTER
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2003
AC# 3-LMN-J3

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$ N/A
Adjustment for Maximum Increase	<u>N/A</u>
Maximum Cost of Capital Per Diem	<u>\$8.13</u>
Reimbursable Cost of Capital Per Diem	\$8.13
Cost of Capital Per Diem	<u>8.13</u>
Cost of Capital Per Diem Limitation	<u>\$ -</u>

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