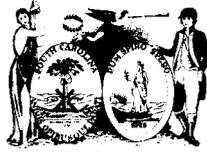


State of South Carolina



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-STG-J3 – GranCare South Carolina, Inc. d/b/a St. George Health Care Center, Inc.

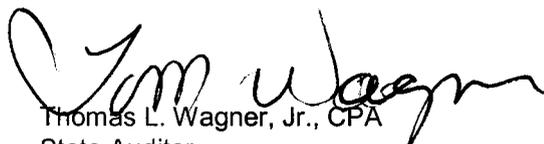
Dear Ms. Holtzscheiter:

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.

By request of the state medicaid agency this letter also serves as an official notice of your requirement to respond with a report of planned corrective actions on the recommendations and deficiencies noted in this report within forty-five (45) days of the date of this letter. Your response should reference the audit control number and be addressed to: Division of Home Health and Nursing Facility Services, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina, 29202-8206. You are also required to simultaneously furnish a copy of your corrective action report to the State Auditor's Office.

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

**GRANCARE SOUTH CAROLINA, INC.
D/B/A ST. GEORGE HEALTH CARE CENTER, INC.**

ST. GEORGE, SOUTH CAROLINA

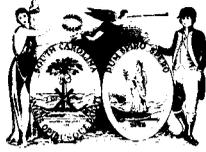
**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2004
AC# 3-STG-J3**

**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

August 26, 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 St. George Health Care Center, Inc., 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 St. George Health Care Center, Inc. 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.

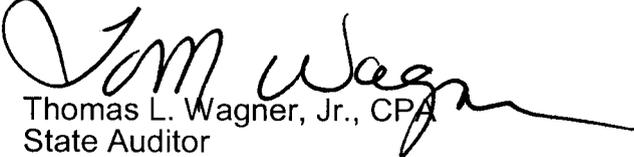
The procedures and the associated findings are as follows:

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 St. George Health Care Center, Inc., 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, Cost of Capital Reimbursement Analysis, and the Comments and Recommendations 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 St. George Health Care Center, Inc. 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
August 26, 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

ST. GEORGE HEALTH CARE CENTER, INC.
Computation of Rate Change
For the Contract Period
Beginning October 1, 2004
AC# 3-STG-J3

	Beginning <u>10/01/04</u>
Interim Reimbursement Rate (1)	\$115.11
Adjusted Reimbursement Rate	<u>110.86</u>
Decrease in Reimbursement Rate	\$ <u><u>4.25</u></u>

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

ST. GEORGE HEALTH CARE CENTER, INC.
 Computation of Adjusted Reimbursement Rate
 For the Contract Period Beginning October 1, 2004
 AC# 3-STG-J3

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$52.85	\$ 70.36	
Dietary		9.57	12.42	
Laundry/Housekeeping/Maintenance		<u>9.69</u>	<u>11.28</u>	
Subtotal	\$ <u>6.58</u>	72.11	94.06	\$ 72.11
Administration & Medical Records	\$ <u>-</u>	<u>15.88</u>	<u>14.65</u>	<u>14.65</u>
Subtotal		87.99	<u>\$108.71</u>	86.76
<u>Costs Not Subject to Standards:</u>				
Utilities		3.25		3.25
Special Services		.04		.04
Medical Supplies & Oxygen		3.34		3.34
Taxes and Insurance		3.87		3.87
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$98.49</u>		97.26
Inflation Factor (4.70%)				4.57
Cost of Capital				7.28
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				6.58
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(4.83)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$110.86</u>

ST. GEORGE HEALTH CARE CENTER, INC.
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2003
 AC# 3-STG-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	\$1,707,071	\$ -	\$63,892 (5) 3,904 (5) 1,276 (6) 8,276 (10)	\$1,629,723
Dietary	304,355	-	6,097 (5) 3,136 (10)	295,122
Laundry	53,714	-	1,909 (5)	51,805
Housekeeping	136,399	572 (8)	4,768 (5) 551 (9)	131,652
Maintenance	115,621	1,360 (6) 472 (8)	1,656 (5) 471 (9)	115,326
Administration & Medical Records	559,019	437 (8)	6,514 (4) 11,198 (5) 883 (5) 50,794 (6) 343 (9)	489,724
Utilities	103,929	424 (8)	3 (6) 3,818 (7) 409 (9)	100,123
Special Services	1,247	3,470 (6) 2,321 (10)	5,811 (5)	1,227
Medical Supplies & Oxygen	111,650	-	8,726 (10)	102,924

ST. GEORGE HEALTH CARE CENTER, INC.
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2003
 AC# 3-STG-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>
Taxes and Insurance	129,773	91 (6) 520 (8)	3,314 (2) 7,174 (3) 479 (9)	119,417
Legal Fees	-	-	-	-
Cost of Capital	233,523	365 (8) 232 (11)	3,498 (1) 5,793 (6) 266 (9)	224,563
Subtotal	3,456,301	10,264	204,959	3,261,606
Ancillary	97,745	-	-	97,745
Nonallowable	424,102	3,498 (1) 1,782 (2) 7,174 (3) 6,514 (4) 100,118 (5) 52,945 (6) 3,818 (7) 2,519 (9) 17,817 (10)	2,790 (8) 232 (11)	617,265
Total Operating Expenses	<u>\$3,978,148</u>	<u>\$206,449</u>	<u>\$207,981</u>	<u>\$3,976,616</u>
Total Patient Days	<u>30,835</u>	<u>-</u>	<u>-</u>	<u>30,835</u>
Total Beds	<u>88</u>			

ST. GEORGE HEALTH CARE CENTER, INC.
Adjustment Report
Cost Report Period Ended September 30, 2003
AC# 3-STG-J3

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$ 4,935	
	Accumulated Depreciation	1,802	
	Nonallowable	3,498	
	Other Equity		\$ 6,737
	Cost of Capital		3,498
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Accrued Property Taxes	1,532	
	Nonallowable	1,782	
	Taxes and Insurance		3,314
	To adjust property taxes and related accrual HIM-15-1, Sections 2302.1 and 2304		
3	Nonallowable	7,174	
	Taxes and Insurance		7,174
	To adjust liability insurance expense HIM-15-1, Section 2304		
4	Nonallowable	6,514	
	Administration		6,514
	To reclassify expense to the proper cost center HIM-15-1, Sections 2102.3 and 2304 DH&HS Expense Crosswalk		
5	Nonallowable	100,118	
	Nursing		63,892
	Restorative		3,904
	Dietary		6,097
	Laundry		1,909
	Housekeeping		4,768
	Maintenance		1,656
	Administration		11,198
	Medical Records		883
	Special Services		5,811
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

ST. GEORGE HEALTH CARE CENTER, INC.
Adjustment Report
Cost Report Period Ended September 30, 2003
AC# 3-STG-J3

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Maintenance	1,360	
	Taxes and Insurance	91	
	Special Services	3,470	
	Nonallowable	52,945	
	Nursing		1,276
	Administration		50,794
	Utilities		3
	Cost of Capital		5,793
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
7	Nonallowable	3,818	
	Utilities		3,818
	To offset income against related expense HIM-15-1, Sections 2102.3 and 2304 State Plan, Attachment 4.19D		
8	Housekeeping	572	
	Maintenance	472	
	Administration	437	
	Utilities	424	
	Taxes and Insurance	520	
	Cost of Capital	365	
	Nonallowable		2,790
	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		
9	Nonallowable	2,519	
	Housekeeping		551
	Maintenance		471
	Administration		343
	Utilities		409
	Taxes and Insurance		479
	Cost of Capital		266
	To remove indirect cost applicable to a non-reimbursable cost center HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		

ST. GEORGE HEALTH CARE CENTER, INC.
Adjustment Report
Cost Report Period Ended September 30, 2003
AC# 3-STG-J3

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
10	Special Services	2,321	
	Nonallowable	17,817	
	Nursing		8,276
	Dietary		3,136
	Medical Supplies		8,726
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
11	Cost of Capital	232	
	Nonallowable		232
	To adjust capital return State Plan, Attachment 4.19D		
		_____	_____
	TOTAL ADJUSTMENTS	\$ <u>214,718</u>	\$ <u>214,718</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.

ST. GEORGE HEALTH CARE CENTER, INC.
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2003
 AC# 3-STG-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	598,455
Accumulated Depreciation at 9/30/03	<u>(1,231,236)</u>
Deemed Depreciated Value	2,992,643
Market Rate of Return	<u>.0531</u>
Total Annual Return	158,909
Return Applicable to Non-Reimbursable Cost Centers	(635)
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	158,274
Depreciation Expense	69,124
Amortization Expense	177
Capital Related Income Offsets	(2,746)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(266)</u>
Allowable Cost of Capital Expense	224,563
Total Patient Days (Minimum 96% Occupancy)	<u>30,835</u>
Cost of Capital Per Diem	\$ <u><u>7.28</u></u>

ST. GEORGE HEALTH CARE CENTER, INC.
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2003
AC# 3-STG-J3

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$ 6.57
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$10.56</u>
Reimbursable Cost of Capital Per Diem	\$ 7.28
Cost of Capital Per Diem	<u>7.28</u>
Cost of Capital Per Diem Limitation	\$ <u>-</u>

COMMENTS AND RECOMMENDATIONS

Our agreed-upon procedures identified a condition that we have determined to be subject to correction or improvement. We believe this condition should be brought to your attention.

VENDING MACHINE SALES

Income from vending machine sales was not deposited in the facility operating account. Funds generated from these sales were retained by the facility Administrator and used for employee relation functions.

A system of good internal accounting control requires that all cash received be deposited intact.

By failing to deposit these receipts, the Provider is unable to readily document income derived from vending machines, and has understated income and overstated reimbursable expenses.

We recommend the Provider establish and implement the necessary controls to ensure that all cash received is deposited timely and intact.

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