

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

(803) 253-4160
FAX (803) 343-0723

May 20, 2008

Ms. Carol W. Disbro, Vice President of Reimbursement
Fundamental Administration Services
930 Ridgebrook Road
Sparks, Maryland 21152

Re: AC# 3-DRF-J4 – THI of South Carolina at Charleston, LLC d/b/a Driftwood Rehabilitation
and Nursing Center

Dear Ms. Disbro:

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, 2003 through September 30, 2004. That report was used to set the rate covering the contract period beginning October 1, 2005.

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.

Yours very truly,

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

RHGjr/ms

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

**THI OF SOUTH CAROLINA AT CHARLESTON, LLC
D/B/A DRIFTWOOD REHABILITATION
AND NURSING CENTER**

CHARLESTON, SOUTH CAROLINA

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2005
AC# 3-DRF-J4**

**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, 2005	A	3
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIOD OCTOBER 1, 2005 THROUGH SEPTEMBER 30, 2006	B	4
SUMMARY OF COSTS AND TOTAL PATIENT DAYS FOR THE COST REPORT PERIOD ENDED SEPTEMBER 30, 2004	C	5
ADJUSTMENT REPORT	1	7
COST OF CAPITAL REIMBURSEMENT ANALYSIS	2	8

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

(803) 253-4160
FAX (803) 343-0723

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

March 14, 2008

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 THI of South Carolina at Charleston, LLC d/b/a Driftwood Rehabilitation and Nursing Center, for the contract period beginning October 1, 2005, and for the twelve month cost report period ended September 30, 2004, as set forth in the accompanying schedules. The management of THI of South Carolina at Charleston, LLC d/b/a Driftwood Rehabilitation and 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 THI of South Carolina at Charleston, LLC, d/b/a Driftwood Rehabilitation and 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 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 THI of South Carolina at Charleston, LLC d/b/a Driftwood Rehabilitation and 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
March 14, 2008

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.", with a stylized flourish at the end.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

DRIFTWOOD REHABILITATION AND NURSING CENTER

Computation of Rate Change
For the Contract Period
Beginning October 1, 2005
AC# 3-DRF-J4

	<u>10/01/05-</u> <u>09/30/06</u>
Interim Reimbursement Rate (1)	\$131.79
Adjusted Reimbursement Rate	<u>129.40</u>
Decrease in Reimbursement Rate	\$ <u><u>2.39</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated February 13, 2008.

DRIFTWOOD REHABILITATION AND NURSING CENTER
 Computation of Adjusted Reimbursement Rate
 For the Contract Period October 1, 2005 Through September 30, 2006
 AC# 3-DRF-J4

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 68.65	\$ 75.11	
Dietary		9.57	12.63	
Laundry/Housekeeping/Maintenance		<u>8.25</u>	<u>10.97</u>	
Subtotal	\$ <u>6.91</u>	86.47	98.71	\$ 86.47
Administration & Medical Records	\$ <u>-</u>	<u>16.64</u>	<u>16.13</u>	<u>16.13</u>
Subtotal		103.11	<u>\$114.84</u>	102.60
<u>Costs Not Subject to Standards:</u>				
Utilities		3.34		3.34
Special Services		.04		.04
Medical Supplies & Oxygen		3.90		3.90
Taxes and Insurance		2.94		2.94
Legal Fees		<u>.13</u>		<u>.13</u>
TOTAL		<u>\$113.46</u>		112.95
Inflation Factor (4.70%)				5.31
Cost of Capital				9.39
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				6.91
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(5.16)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$129.40</u>

DRIFTWOOD REHABILITATION AND NURSING CENTER
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2004
 AC# 3-DRF-J4

<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	\$3,859,254	\$ -	\$ -	\$3,859,254
Dietary	538,103	-	-	538,103
Laundry	94,271	-	-	94,271
Housekeeping	218,972	-	-	218,972
Maintenance	150,277	-	-	150,277
Administration & Medical Records	1,035,771	-	100,498 (2)	935,273
Utilities	187,530	-	-	187,530
Special Services	2,421	-	-	2,421
Medical Supplies & Oxygen	219,371	-	-	219,371
Taxes and Insurance	165,168	-	-	165,168
Legal Fees	7,168	-	-	7,168
Cost of Capital	662,248	1,645 (1)	166,009 (2)	528,060
	<u> </u>	<u>30,176</u> (3)	<u> </u>	<u> </u>
Subtotal	7,140,554	31,821	266,507	6,905,868
Ancillary	196,631	-	-	196,631

DRIFTWOOD REHABILITATION AND NURSING CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2004
AC# 3-DRF-J4

<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>	
Nonallowable	367,250	266,507 (2)	1,645 (1) 30,176 (3)	601,936
CNA Training and Testing	<u>711</u>	<u>-</u>	<u>-</u>	<u>711</u>
Total Operating Expenses	<u>\$7,705,146</u>	<u>\$298,328</u>	<u>\$298,328</u>	<u>\$7,705,146</u>
Total Patient Days	<u>56,218</u>	<u>-</u>	<u>-</u>	<u>56,218</u>
Total Beds	<u>160</u>			

DRIFTWOOD REHABILITATION AND NURSING CENTER
Adjustment Report
Cost Report Period Ended September 30, 2004
AC# 3-DRF-J4

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$ 42,838	
	Accumulated Depreciation	3,276	
	Cost of Capital	1,645	
	Other Equity		\$ 46,114
	Nonallowable		1,645
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	266,507	
	Administration		100,498
	Cost of Capital		166,009
	To adjust Integrated Health Services home office costs HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
3	Cost of Capital	30,176	
	Nonallowable		30,176
	To adjust capital return State Plan, Attachment 4.19D		
	TOTAL ADJUSTMENTS	<u>\$344,442</u>	<u>\$344,442</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.

DRIFTWOOD REHABILITATION AND NURSING CENTER
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2004
 AC# 3-DRF-J4

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.71494</u>
Deemed Asset Value (Per Bed)	42,402
Number of Beds	<u>160</u>
Deemed Asset Value	6,784,320
Improvements Since 1981	1,703,654
Accumulated Depreciation at 9/30/04	<u>(3,197,852)</u>
Deemed Depreciated Value	5,290,122
Market Rate of Return	<u>.0516</u>
Total Annual Return	272,970
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	272,970
Depreciation Expense	255,094
Amortization Expense	-
Capital Related Income Offsets	(4)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	528,060
Total Patient Days (Minimum 96% occupancy)	<u>56,218</u>
Cost of Capital Per Diem	\$ <u><u>9.39</u></u>

DRIFTWOOD REHABILITATION AND NURSING CENTER
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2004
AC# 3-DRF-J4

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$ 7.79
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u><u>\$11.78</u></u>
Reimbursable Cost of Capital Per Diem	\$ 9.39
Cost of Capital Per Diem	<u>9.39</u>
Cost of Capital Per Diem Limitation	<u><u>\$ -</u></u>

2 copies of this document were published at an estimated printing cost of \$1.43 each, and a total printing cost of \$2.87. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.