

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
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December 14, 2007

Mr. John Twitty, Controller
Health Management Resources
101 Grace Drive
Easley, South Carolina 29640

Re: AC# 3-ENC-J4 – Easley Living Center, LLC

Dear Mr. Twitty:

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/cwc

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

**EASLEY LIVING CENTER, LLC
EASLEY, SOUTH CAROLINA**

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

**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 14, 2007

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 Easley Living Center, LLC, 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 Easley Living Center, LLC 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 Easley Living Center, LLC, 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 Easley Living Center, LLC 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 14, 2007

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

EASLEY LIVING CENTER, LLC
Computation of Rate Change
For the Contract Period
Beginning October 1, 2005
AC# 3-ENC-J4

	10/01/05- <u>09/30/06</u>
Interim Reimbursement Rate (1)	\$120.71
Adjusted Reimbursement Rate	<u>118.61</u>
Decrease in Reimbursement Rate	\$ <u><u>2.10</u></u>

- (1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated May 17, 2007.

EASLEY LIVING CENTER, LLC
 Computation of Adjusted Reimbursement Rate
 For the Contract Period October 1, 2005 Through September 30, 2006
 AC# 3-ENC-J4

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 59.09	\$ 80.35	
Dietary		10.69	12.63	
Laundry/Housekeeping/Maintenance		<u>11.01</u>	<u>10.97</u>	
Subtotal	<u>\$7.28</u>	80.79	103.95	\$ 80.79
Administration & Medical Records	<u>\$3.52</u>	<u>12.61</u>	<u>16.13</u>	<u>12.61</u>
Subtotal		93.40	<u>\$120.08</u>	93.40
<u>Costs Not Subject to Standards:</u>				
Utilities		1.92		1.92
Special Services		-		-
Medical Supplies & Oxygen		4.68		4.68
Taxes and Insurance		5.45		5.45
Legal Fees		<u>.04</u>		<u>.04</u>
TOTAL		<u>\$105.49</u>		105.49
Inflation Factor (4.70%)				4.96
Cost of Capital				6.41
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				3.52
Cost Incentive				7.28
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(9.05)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$118.61</u>

EASLEY LIVING CENTER, LLC
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2004
 AC# 3-ENC-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	\$2,203,767	\$ -	\$ 447 (7) 1,286 (8) 14,358 (11)	\$2,187,676
Dietary	397,270	-	4 (8) 1,418 (11)	395,848
Laundry	113,512	-	2 (8)	113,510
Housekeeping	207,718	57 (8)	-	207,775
Maintenance	86,494	3 (7) 100 (8)	289 (11)	86,308
Administration & Medical Records	457,178	1,015 (5) 477 (7) 9,754 (8)	1,464 (11)	466,960
Utilities	70,934	8 (7) 65 (8)	-	71,007
Special Services	182	1 (7)	-	183
Medical Supplies & Oxygen	194,311	7 (8)	3,285 (6) 14,864 (9) 2,794 (10) 35 (11)	173,340
Taxes and Insurance	241,499	-	35,570 (5) 4,186 (8)	201,743
Legal Fees	1,687	-	391 (8)	1,296

EASLEY LIVING CENTER, LLC
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2004
AC# 3-ENC-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>	
Cost of Capital	242,481	8,653 (4)	708 (1)	237,327
		2 (7)	374 (2)	
			11,230 (3)	
			<u>1,497 (8)</u>	
Subtotal	<u>4,217,033</u>	<u>20,142</u>	<u>94,202</u>	<u>4,142,973</u>
Ancillary	140,708	14,864 (9)	-	155,572
Nonallowable	283,293	374 (2)	8,653 (4)	341,781
		11,230 (3)	44 (7)	
		34,555 (5)	2,617 (8)	
		3,285 (6)		
		2,794 (10)		
		17,564 (11)		
CNA Training and Testing	<u>13,426</u>	<u>-</u>	<u>-</u>	<u>13,426</u>
Total Operating Expenses	<u>\$4,654,460</u>	<u>\$104,808</u>	<u>\$105,516</u>	<u>\$4,653,752</u>
Total Patient Days	<u>37,020</u>	<u>-</u>	<u>-</u>	<u>37,020</u>
Total Beds	<u>103</u>			

EASLEY LIVING CENTER, LLC
Adjustment Report
Cost Report Period Ended September 30, 2004
AC# 3-ENC-J4

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$ 7,841	
	Fixed Assets		\$ 3,351
	Cost of Capital		708
	Other Equity		3,782
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	374	
	Cost of Capital		374
	To remove reorganization costs HIM-15-1, Section 2134.10 State Plan, Attachment 4.19D		
3	Nonallowable	11,230	
	Cost of Capital		11,230
	To properly state loan cost amortization HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
4	Cost of Capital	8,653	
	Nonallowable		8,653
	To adjust capital return to allowable HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
5	Administration & Medical Records	1,015	
	Nonallowable	34,555	
	Taxes and Insurance		35,570
	To adjust general insurance expense HIM-15-1, Section 2162 State Plan, Attachment 4.19D		

EASLEY LIVING CENTER, LLC
Adjustment Report
Cost Report Period Ended September 30, 2004
AC# 3-ENC-J4

<u>ADJUSTMENT</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
<u>NUMBER</u>			
6	Nonallowable Medical Supplies & Oxygen	3,285	3,285
	To reclassify expenses to the proper cost center HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
7	Maintenance	3	
	Administration & Medical Records	477	
	Utilities	8	
	Special Services	1	
	Cost of Capital	2	
	General Services		447
	Nonallowable		44
	To adjust related party cost allocation HIM-15-1, Sections 1000 and 2304 State Plan, Attachment 4.19D		
8	Administration & Medical Records	9,754	
	Housekeeping	57	
	Maintenance	100	
	Utilities	65	
	Medical Supplies & Oxygen	7	
	General Services		1,286
	Dietary		4
	Laundry		2
	Legal		391
	Taxes and Insurance		4,186
	Cost of Capital		1,497
	Nonallowable		2,617
	To adjust home office allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

EASLEY LIVING CENTER, LLC
Adjustment Report
Cost Report Period Ended September 30, 2004
AC# 3-ENC-J4

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
9	Ancillary Medical Supplies & Oxygen	14,864	14,864
	To reclassify expense to the proper cost center DH&HS Crosswalk HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
10	Nonallowable Medical Supplies & Oxygen	2,794	2,794
	To remove special (ancillary) services cost reimbursed by Medicare State Plan, Attachment 4.19D		
11	Nonallowable General Services Dietary Maintenance Administration & Medical Records Medical Supplies & Oxygen	17,564	14,358 1,418 289 1,464 35
	To adjust fringe benefits and related allocation to allowable HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
	TOTAL ADJUSTMENTS	<u>\$112,649</u>	<u>\$112,649</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.

EASLEY LIVING CENTER, LLC
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2004
 AC# 3-ENC-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>103</u>
Deemed Asset Value	4,367,406
Improvements Since 1981	423,032
Accumulated Depreciation at 9/30/04	<u>(658,288)</u>
Deemed Depreciated Value	4,132,150
Market Rate of Return	<u>.0516</u>
Total Annual Return	213,219
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	213,219
Depreciation Expense	24,108
Amortization Expense	-
Capital Related Income Offsets	-
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	237,327
Total Patient Days (Actual)	<u>37,020</u>
Cost of Capital Per Diem	\$ <u><u>6.41</u></u>

EASLEY LIVING CENTER, LLC
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2004
AC# 3-ENC-J4

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$2.56
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u><u>\$6.55</u></u>
Reimbursable Cost of Capital Per Diem	\$6.41
Cost of Capital Per Diem	<u>6.41</u>
Cost of Capital Per Diem Limitation	<u><u>\$ -</u></u>

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