

# 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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December 20, 2007

Mr. Greg Williams, Reimbursement Manager  
Sava Senior Care Administrative Services, LLC  
5300 West Sam Houston Parkway North, Suite 200  
Houston, Texas 77041

Re: AC# 3-LCS-J4 – GranCare South Carolina, Inc. d/b/a Lake City – Scranton Healthcare Center

Dear Mr. Williams:

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/sag

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

**GRANCARE SOUTH CAROLINA, INC. D/B/A  
LAKE CITY-SCRANTON HEALTHCARE CENTER**

**SCRANTON, SOUTH CAROLINA**

**CONTRACT PERIOD  
BEGINNING OCTOBER 1, 2005  
AC# 3-LCS-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	9

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### INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

September 24, 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 GranCare South Carolina, Inc. d/b/a Lake City–Scranton Healthcare 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 GranCare South Carolina, Inc. d/b/a Lake City–Scranton Healthcare Center is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was performed 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 Lake City–Scranton Healthcare 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 GranCare South Carolina, Inc. d/b/a Lake City–Scranton Healthcare 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  
September 24, 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

**LAKE CITY-SCRANTON HEALTHCARE CENTER**

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

10/01/05-  
09/30/06

Interim Reimbursement Rate (1)	\$102.74
Adjusted Reimbursement Rate	<u>96.51</u>
Decrease in Reimbursement Rate	\$ <u><u>6.23</u></u>

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

**LAKE CITY-SCRANTON HEALTHCARE CENTER**  
 Computation of Adjusted Reimbursement Rate  
 For the Contract Period October 1, 2005 Through September 30, 2006  
 AC# 3-LCS-J4

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$45.51	\$ 74.64	
Dietary		10.14	13.22	
Laundry/Housekeeping/Maintenance		<u>7.68</u>	<u>11.64</u>	
Subtotal	\$ <u>6.97</u>	63.33	99.50	\$63.33
Administration & Medical Records	\$ <u>2.53</u>	<u>13.78</u>	<u>16.31</u>	<u>13.78</u>
Subtotal		77.11	<u>\$115.81</u>	77.11
<u>Costs Not Subject to Standards:</u>				
Utilities		2.43		2.43
Special Services		.43		.43
Medical Supplies & Oxygen		3.22		3.22
Taxes and Insurance		1.48		1.48
Legal Fees		<u>-</u>		<u>-</u>
<b>TOTAL</b>		<u>\$84.67</u>		84.67
Inflation Factor (4.70%)				3.98
Cost of Capital				6.11
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				2.53
Cost Incentive				6.97
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(7.75)</u>
<b>ADJUSTED REIMBURSEMENT RATE</b>				<u>\$96.51</u>

**LAKE CITY-SCRANTON HEALTHCARE CENTER**  
 Summary of Costs and Total Patient Days  
 For the Cost Report Period Ended September 30, 2004  
 AC# 3-LCS-J4

<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	\$1,489,231	\$ 736 (5)	\$ 1,486 (3) 14,104 (3) 62,524 (4) 4,314 (4) 392 (6)	\$1,407,147
Dietary	330,097	257 (5)	7,405 (4) 9,550 (6)	313,399
Laundry	58,449	-	-	58,449
Housekeeping	93,436	-	-	93,436
Maintenance	79,455	7,340 (5)	1,325 (4)	85,470
Administration & Medical Records	458,753	-	7,417 (4) 378 (4) 25,034 (5)	425,924
Utilities	75,138	-	15 (5)	75,123
Special Services	12,207	15,590 (3) 1,280 (4) 152 (5)	16,065 (6)	13,164
Medical Supplies & Oxygen	108,793	-	613 (4) 8,727 (6)	99,453
Taxes and Insurance	71,747	-	26,056 (2) 60 (5)	45,631
Legal Fees	-	-	-	-

**LAKE CITY-SCRANTON HEALTHCARE CENTER**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 2004  
AC# 3-LCS-J4

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments		Adjusted <u>Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Cost of Capital	214,786	192 (7)	1,355 (1)	188,979
	<u>                    </u>	<u>                    </u>	<u>24,644 (5)</u>	<u>                    </u>
Subtotal	2,992,092	25,547	211,464	2,806,175
 Ancillary	 57,772	 -	 -	 57,772
Nonallowable	747,396	1,355 (1)	192 (7)	933,313
		26,056 (2)		
		82,696 (4)		
		41,268 (5)		
		34,734 (6)		
 CNA Training and Testing	 <u>          -</u>	 <u>          -</u>	 <u>          -</u>	 <u>          -</u>
Total Operating Expenses	<u>\$3,797,260</u>	<u>\$211,656</u>	<u>\$211,656</u>	<u>\$3,797,260</u>
 Total Patient Days	 <u>          30,920</u>	 <u>          -</u>	 <u>          -</u>	 <u>          30,920</u>
 Total Beds	 <u>          88</u>			

**LAKE CITY-SCRANTON HEALTHCARE CENTER**  
Adjustment Report  
Cost Report Period Ended September 30, 2004  
AC# 3-LCS-J4

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$ 5,529	
	Other Equity	9,000	
	Nonallowable	1,355	
	Fixed Assets		\$14,529
	Cost of Capital		1,355
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	26,056	
	Taxes and Insurance		26,056
	To adjust liability insurance expense HIM-15-1, Section 2304		
3	Special Services	15,590	
	Nursing		1,486
	Restorative		14,104
	To reclassify expense to the proper cost center HIM-15-1, Section 2304 DH&HS Expense Crosswalk		
4	Nonallowable	82,696	
	Special Services	1,280	
	Nursing		62,524
	Restorative		4,314
	Dietary		7,405
	Maintenance		1,325
	Administration		7,417
	Medical Records		378
	Medical Supplies		613
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

**LAKE CITY-SCRANTON HEALTHCARE CENTER**  
Adjustment Report  
Cost Report Period Ended September 30, 2004  
AC# 3-LCS-J4

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Nursing	736	
	Dietary	257	
	Maintenance	7,340	
	Special Services	152	
	Nonallowable	41,268	
	Administration		25,034
	Utilities		15
	Taxes and Insurance		60
	Cost of Capital		24,644
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
6	Nonallowable	34,734	
	Nursing		392
	Dietary		9,550
	Medical Supplies		8,727
	Special Services		16,065
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
7	Cost of Capital	192	
	Nonallowable		192
	To adjust capital return State Plan, Attachment 4.19D		
	 <b>TOTAL ADJUSTMENTS</b>	 <b>\$226,185</b>	 <b>\$226,185</b>

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.

**LAKE CITY-SCRANTON HEALTHCARE CENTER**  
 Cost of Capital Reimbursement Analysis  
 For the Cost Report Period Ended September 30, 2004  
 AC# 3-LCS-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>88</u>
Deemed Asset Value	3,731,376
Improvements Since 1981	467,619
Accumulated Depreciation at 9/30/04	<u>(1,194,501)</u>
Deemed Depreciated Value	3,004,494
Market Rate of Return	<u>.0516</u>
Total Annual Return	155,032
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	155,032
Depreciation Expense	57,701
Amortization Expense	647
Capital Related Income Offsets	(24,401)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	188,979
Total Patient Days (Minimum 96% Occupancy)	<u>30,920</u>
Cost of Capital Per Diem	\$ <u><u>6.11</u></u>

**LAKE CITY-SCRANTON HEALTHCARE CENTER**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 2004  
AC# 3-LCS-J4

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$4.64
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$8.63</u>
Reimbursable Cost of Capital Per Diem	\$6.11
Cost of Capital Per Diem	<u>6.11</u>
Cost of Capital Per Diem Limitation	<u>\$ -</u>

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