

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-LRH-J4 – Laurel Hill 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

**LAUREL HILL LIVING CENTER, LLC
PICKENS, SOUTH CAROLINA**

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2005
AC# 3-LRH-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 21, 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 Laurel Hill 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 Laurel Hill 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.

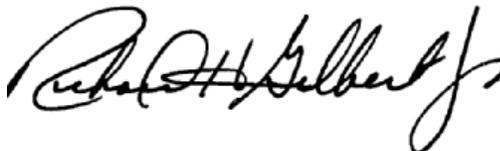
The procedures and the associated findings are as follows:

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 Laurel Hill 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 Laurel Hill 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 21, 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.", with a stylized flourish at the end.

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

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

	10/01/05- <u>09/30/06</u>
Interim Reimbursement Rate (1)	\$124.39
Adjusted Reimbursement Rate	<u>122.29</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.

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

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 62.46	\$ 74.64	
Dietary		11.30	13.22	
Laundry/Housekeeping/Maintenance		<u>11.20</u>	<u>11.64</u>	
Subtotal	<u>\$6.97</u>	84.96	99.50	\$ 84.96
Administration & Medical Records	<u>\$3.82</u>	<u>12.49</u>	<u>16.31</u>	<u>12.49</u>
Subtotal		97.45	<u>\$115.81</u>	97.45
<u>Costs Not Subject to Standards:</u>				
Utilities		1.89		1.89
Special Services		-		-
Medical Supplies & Oxygen		4.26		4.26
Taxes and Insurance		5.44		5.44
Legal Fees		<u>.03</u>		<u>.03</u>
TOTAL		<u>\$109.07</u>		109.07
Inflation Factor (4.70%)				5.13
Cost of Capital				7.02
Cost of Capital Limitation				(.68)
Profit Incentive (Maximum 3.5% of Allowable Cost)				3.82
Cost Incentive				6.97
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(9.04)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$122.29</u>

LAUREL HILL LIVING CENTER, LLC
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2004
 AC# 3-LRH-J4

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	<u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
General Services	\$1,844,032	\$ -	\$ 4,800 (6) 18,508 (7) 1,002 (8) 19,028 (11)	\$1,800,694
Dietary	327,874	1 (7)	3 (8) 1,944 (11)	325,928
Laundry	88,607	1 (7)	2 (8)	88,606
Housekeeping	148,213	9 (7) 31 (8)	-	148,253
Maintenance	86,380	145 (7) 56 (8)	391 (11)	86,190
Administration & Medical Records	336,159	788 (5) 19,792 (7) 4,842 (8)	1,613 (11)	359,968
Utilities	54,155	313 (7) 36 (8)	-	54,504
Special Services	1	50 (7)	-	51
Medical Supplies & Oxygen	129,506	1 (7) 4 (8)	3,917 (9) 2,642 (10) 23 (11)	122,929
Taxes and Insurance	186,582	16 (7)	26,475 (5) 3,344 (8)	156,779
Legal Fees	1,230	10 (7)	327 (8)	913

LAUREL HILL LIVING CENTER, LLC
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2004
AC# 3-LRH-J4

<u>Expenses</u>	Totals (From Schedule SC 13) as Adjusted by DH&HS	Adjustments		Adjusted Totals
		<u>Debit</u>	<u>Credit</u>	
Cost of Capital	182,789	33,652 (4)	3,718 (1)	202,253
		74 (7)	374 (2)	
			8,954 (3)	
			<u>1,216 (8)</u>	
Subtotal	<u>3,385,528</u>	<u>59,821</u>	<u>98,281</u>	<u>3,347,068</u>
Ancillary	85,308	3,917 (9)	-	89,225
Nonallowable	212,226	374 (2)	33,652 (4)	243,051
		8,954 (3)	1,904 (7)	
		25,687 (5)		
		4,800 (6)		
		925 (8)		
		2,642 (10)		
		22,999 (11)		
CNA Training and Testing	<u>20,505</u>	<u>-</u>	<u>-</u>	<u>20,505</u>
Total Operating Expenses	<u>\$3,703,567</u>	<u>\$130,119</u>	<u>\$133,837</u>	<u>\$3,699,849</u>
Total Patient Days	<u>28,831</u>	<u>-</u>	<u>-</u>	<u>28,831</u>
Total Beds	<u>80</u>			

LAUREL HILL LIVING CENTER, LLC
Adjustment Report
Cost Report Period Ended September 30, 2004
AC# 3-LRH-J4

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$14,281	
	Other Equity		\$10,456
	Fixed Assets		107
	Cost of Capital		3,718
	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		
3	Nonallowable	8,954	
	Cost of Capital		8,954
	To properly state loan cost amortization HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
4	Cost of Capital	33,652	
	Nonallowable		33,652
	To adjust capital return State Plan, Attachment 4.19D		
5	Administration & Medical Records	788	
	Nonallowable	25,687	
	Taxes and Insurance		26,475
	To adjust general insurance expense HIM-15-1, Section 2162 State Plan, Attachment 4.19D		
6	Nonallowable	4,800	
	General Services		4,800
	To reclassify expenses to the proper cost center HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

LAUREL HILL LIVING CENTER, LLC
Adjustment Report
Cost Report Period Ended September 30, 2004
AC# 3-LRH-J4

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
7	Dietary	1	
	Laundry	1	
	Housekeeping	9	
	Maintenance	145	
	Administration & Medical Records	19,792	
	Legal	10	
	Utilities	313	
	Taxes and Insurance	16	
	Medical Supplies & Oxygen	1	
	Special Services	50	
	Cost of Capital	74	
	General Services		18,508
	Nonallowable		1,904
	To adjust related party cost allocation		
	HIM-15-1, Sections 1000 and 2304		
	State Plan, Attachment 4.19D		
8	Nonallowable	925	
	Housekeeping	31	
	Maintenance	56	
	Utilities	36	
	Medical Supplies & Oxygen	4	
	Administration & Medical Records	4,842	
	General Services		1,002
	Dietary		3
	Laundry		2
	Legal		327
	Taxes and Insurance		3,344
	Cost of Capital		1,216
	To adjust home office allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
9	Ancillary	3,917	
	Medical Supplies & Oxygen		3,917
	To reclassify expenses to the proper cost center		
	DH&HS Crosswalk		
	State Plan, Attachment 4.19D		

LAUREL HILL LIVING CENTER, LLC
Adjustment Report
Cost Report Period Ended September 30, 2004
AC# 3-LRH-J4

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
10	Nonallowable Medical Supplies & Oxygen	2,642	2,642
	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	22,999	19,028 1,944 391 1,613 23
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
	TOTAL ADJUSTMENTS	\$144,400	\$144,400

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.

LAUREL HILL LIVING CENTER, LLC
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2004
 AC# 3-LRH-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>80</u>
Deemed Asset Value	3,392,160
Improvements Since 1981	634,547
Accumulated Depreciation at 9/30/04	<u>(806,855)</u>
Deemed Depreciated Value	3,219,852
Market Rate of Return	<u>.0516</u>
Total Annual Return	166,144
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	166,144
Depreciation Expense	36,109
Amortization Expense	-
Capital Related Income Offsets	-
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	202,253
Total Patient Days (Actual)	<u>28,831</u>
Cost of Capital Per Diem	\$ <u><u>7.02</u></u>

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

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$2.35
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$6.34</u>
Reimbursable Cost of Capital Per Diem	\$6.34
Cost of Capital Per Diem	<u>7.02</u>
Cost of Capital Per Diem Limitation	<u>\$(.68)</u>

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