

State of South Carolina



Office of the State Auditor

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COLUMBIA, S.C. 29201

RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

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June 23, 2008

Mr. Chris Stenger, Vice President of Planning and Reimbursement
Sava Senior Care Administrative Services, LLC
5300 West Sam Houston Parkway North, Suite 200
Houston, Texas 77041

Re: AC# 3-MAE-J6 – Sumter – East Health and Rehabilitation Center

Dear Mr. Stenger:

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, 2005 through September 30, 2006. That report was used to set the rate covering the contract periods beginning October 1, 2007.

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

SUMTER – EAST HEALTH AND REHABILITATION CENTER

SUMTER, SOUTH CAROLINA

**CONTRACT PERIODS
BEGINNING OCTOBER 1, 2007
AC# 3-MAE-J6**

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

April 11, 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 Sumter – East Health and Rehabilitation Center, for the contract periods beginning October 1, 2007, and for the twelve month cost report period ended September 30, 2006, as set forth in the accompanying schedules. The management of Sumter – East Health and Rehabilitation 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 Sumter – East Health and Rehabilitation 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 Department of Health and Human Services and Sumter – East Health and Rehabilitation Center dated as of October 1, 2006, 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
April 11, 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.", written in a cursive style.

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

SUMTER – EAST HEALTH AND REHABILITATION CENTER

Computation of Rate Change
For the Contract Periods
Beginning October 1, 2007
AC# 3-MAE-J6

	Beginning <u>10/01/07</u>
Interim Reimbursement Rate (1)	\$129.89
Adjusted Reimbursement Rate	<u>125.85</u>
Decrease in Reimbursement Rate	\$ <u><u>4.04</u></u>

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

SUMTER – EAST HEALTH AND REHABILITATION CENTER
 Computation of Adjusted Reimbursement Rate
 For the Contract Periods Beginning October 1, 2007
 AC# 3-MAE-J6

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 64.88	\$ 82.94	
Dietary		11.26	13.85	
Laundry/Housekeeping/Maintenance		<u>8.92</u>	<u>12.55</u>	
Subtotal	<u>\$7.65</u>	85.06	109.34	\$ 85.06
Administration & Medical Records	<u>\$ -</u>	<u>18.93</u>	<u>18.22</u>	<u>18.22</u>
Subtotal		103.99	<u>\$127.56</u>	103.28
<u>Costs Not Subject to Standards:</u>				
Utilities		3.37		3.37
Special Services		.03		.03
Medical Supplies & Oxygen		4.09		4.09
Taxes and Insurance		1.39		1.39
Legal Fees		<u>.13</u>		<u>.13</u>
TOTAL		<u>\$113.00</u>		112.29
Inflation Factor (4.60%)				5.17
Cost of Capital				6.32
Cost of Capital Limitation				(.04)
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				7.65
Effect of \$1.75 Cap on Cost/Profit Incentives				(5.90)
Transportation Escort Add-On				<u>.36</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$125.85</u>

SUMTER – EAST HEALTH AND REHABILITATION CENTER
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2006
 AC# 3-MAE-J6

<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	\$4,114,311	\$39,843 (2)	\$ 2,130 (1) 21,076 (7) 16,744 (7) 4,753 (8) 68,721 (9) 3,464 (9) 36,204 (11)	\$4,001,062
Dietary	705,181	-	3,339 (7) 7,173 (9) 342 (11)	694,327
Laundry	167,134	-	9 (2)	167,125
Housekeeping	168,284	-	-	168,284
Maintenance	236,341	15,914 (11)	444 (1) 11,137 (2) 23,935 (3) 66 (7) 1,738 (9)	214,935
Administration & Medical Records	1,248,951	27,719 (7) 4,753 (8)	43,054 (2) 2,897 (9) 1,367 (9) 10,988 (10) 55,775 (11)	1,167,342
Utilities	212,216	-	4,448 (4)	207,768
Special Services	1,588	3,873 (9)	3,755 (10)	1,706
Medical Supplies & Oxygen	295,416	-	429 (9) 42,552 (10)	252,435

SUMTER – EAST HEALTH AND REHABILITATION CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2006
AC# 3-MAE-J6

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	Adjusted <u>Totals</u>
Taxes and Insurance	123,028	-	12,669 (5) 24,687 (6) 26 (11)	85,646
Legal Fees	7,770	-	-	7,770
Cost of Capital	396,685	2,136 (3) 5,775 (13)	2,069 (1) 11,006 (11) <u>1,735 (12)</u>	389,786
Subtotal	7,676,905	100,013	418,732	7,358,186
Ancillary	229,758	37 (10)	-	229,795
Nonallowable	409,062	2,069 (1) 9 (2) 24,687 (6) 13,506 (7) 81,916 (9) 57,258 (10) 87,439 (11) 1,735 (12)	5,775 (13)	671,906
CNA Training and Testing	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Operating Expenses	<u>\$8,315,725</u>	<u>\$368,669</u>	<u>\$424,507</u>	<u>\$8,259,887</u>
Total Patient Days	<u>61,670</u>	<u>-</u>	<u>-</u>	<u>61,670</u>
Total Beds	<u>176</u>			

SUMTER – EAST HEALTH AND REHABILITATION CENTER
 Adjustment Report
 Cost Report Period Ended September 30, 2006
 AC# 3-MAE-J6

ADJUSTMENT

<u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$46,961	
	Other Equity	1,404	
	Nonallowable	2,069	
	Accumulated Depreciation		\$45,791
	Nursing		2,130
	Maintenance		444
	Cost of Capital		2,069
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Retained Earnings	14,348	
	Nursing	39,843	
	Nonallowable	9	
	Laundry		9
	Maintenance		11,137
	Administration		43,054
	To properly charge expense applicable to the prior period, reclassify expense to the proper cost center and adjust estimated expense to invoiced amounts HIM-15-1, Section 2304 State Plan, Attachment 4.19D DH&HS Expense Crosswalk		
3	Fixed Assets	23,935	
	Cost of Capital	2,136	
	Accumulated Depreciation		2,136
	Maintenance		23,935
	To capitalize assets and record related depreciation HIM-15-1, Section 108.1		
4	Accrued Expense	4,448	
	Utilities		4,448
	To reverse year-end utility accrual HIM-15-1, Section 2304		
5	Accrued Property Taxes	6,008	
	Retained Earnings	6,661	
	Taxes and Insurance		12,669
	To adjust property tax expense and related accrual HIM-15-1, Sections 2302.1 and 2304		

SUMTER – EAST HEALTH AND REHABILITATION CENTER
Adjustment Report
Cost Report Period Ended September 30, 2006
AC# 3-MAE-J6

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Nonallowable Taxes and Insurance	24,687	24,687
	To adjust liability insurance expense HIM-15-1, Section 2304		
7	Administration Nonallowable Nursing Restorative Dietary Maintenance	27,719 13,506	21,076 16,744 3,339 66
	To reclassify expense to the proper cost center State Plan, Attachment 4.19D DH&HS Expense Crosswalk		
8	Administration Nursing	4,753	4,753
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		
9	Special Services Nonallowable Nursing Restorative Dietary Maintenance Administration Medical Records Medical Supplies	3,873 81,916	68,721 3,464 7,173 1,738 2,897 1,367 429
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

SUMTER – EAST HEALTH AND REHABILITATION CENTER

Adjustment Report

Cost Report Period Ended September 30, 2006

AC# 3-MAE-J6

ADJUSTMENT

<u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
10	Ancillary	37	
	Nonallowable	57,258	
	Administration		10,988
	Medical Supplies		42,552
	Special Services		3,755
	To remove special (ancillary) services reimbursed by Medicare and reclassify expense to the proper cost center State Plan, Attachment 4.19D DH&HS Expense Crosswalk		
11	Maintenance	15,914	
	Nonallowable	87,439	
	Nursing		36,204
	Dietary		342
	Administration		55,775
	Taxes and Insurance		26
	Cost of Capital		11,006
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
12	Nonallowable	1,735	
	Cost of Capital		1,735
	To reclassify expense to the proper cost center State Plan, Attachment 4.19D DH&HS Expense Crosswalk		
13	Cost of Capital	5,775	
	Nonallowable		5,775
	To adjust capital return State Plan, Attachment 4.19D		
	TOTAL ADJUSTMENTS	<u>\$472,434</u>	<u>\$472,434</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.

SUMTER – EAST HEALTH AND REHABILITATION CENTER
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2006
 AC# 3-MAE-J6

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.85382</u>	<u>2.85382</u>	
Deemed Asset Value (Per Bed)	44,571	44,571	
Number of Beds	<u>88</u>	<u>88</u>	
Deemed Asset Value	3,922,248	3,922,248	
Improvements Since 1981	765,016	773,143	
Accumulated Depreciation at 9/30/06	<u>(1,687,056)</u>	<u>(1,399,088)</u>	
Deemed Depreciated Value	3,000,208	3,296,303	
Market Rate of Return	<u>.0489</u>	<u>.0489</u>	
Total Annual Return	146,710	161,189	
Return Applicable to Non-Reimbursable Cost Centers	-	-	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	
Allowable Annual Return	146,710	161,189	
Depreciation Expense	57,269	35,171	
Amortization Expense	22	22	
Capital Related Income Offsets	(5,299)	(5,298)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	<u>Total</u>
Allowable Cost of Capital Expense	198,702	191,084	\$389,786
Total Patient Days (Minimum 96% Occupancy)	<u>30,835</u>	<u>30,835</u>	<u>61,670</u>
Cost of Capital Per Diem	\$ <u>6.44</u>	\$ <u>6.20</u>	\$ <u>6.32</u>

SUMTER – EAST HEALTH AND REHABILITATION CENTER
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2006
AC# 3-MAE-J6

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$4.13	\$2.13
Adjustment for Maximum Increase	<u>3.99</u>	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$8.12</u>	<u>\$6.12</u>
Reimbursable Cost of Capital Per Diem		\$6.28
Cost of Capital Per Diem		<u>6.32</u>
Cost of Capital Per Diem Limitation		<u>\$(.04)</u>

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