

# 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-MIN-J4 – THI of South Carolina at Magnolia Manor, Inman LLC

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  
Mrs. Kathleen C. Snider

**THI OF SOUTH CAROLINA  
AT MAGNOLIA MANOR, INMAN LLC  
INMAN, SOUTH CAROLINA**

**CONTRACT PERIOD  
BEGINNING OCTOBER 1, 2005  
AC# 3-MIN-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 26, 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 Magnolia Manor, Inman 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 THI of South Carolina at Magnolia Manor, Inman 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 THI of South Carolina at Magnolia Manor, Inman 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 THI of South Carolina at Magnolia Manor, Inman 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  
March 26, 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

**THI OF SOUTH CAROLINA AT MAGNOLIA MANOR, INMAN LLC**

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

	<u>10/01/05-</u> <u>09/30/06</u>
Interim Reimbursement Rate (1)	\$135.52
Adjusted Reimbursement Rate	<u>133.56</u>
Decrease in Reimbursement Rate	\$ <u><u>1.96</u></u>

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

**THI OF SOUTH CAROLINA AT MAGNOLIA MANOR, INMAN LLC**  
 Computation of Adjusted Reimbursement Rate  
 For the Contract Period October 1, 2005 Through September 30, 2006  
 AC# 3-MIN-J4

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 74.28	\$ 75.11	
Dietary		12.07	12.63	
Laundry/Housekeeping/Maintenance		<u>9.18</u>	<u>10.97</u>	
Subtotal	\$ <u>3.18</u>	95.53	98.71	\$ 95.53
Administration & Medical Records	\$ <u>2.43</u>	<u>13.70</u>	<u>16.13</u>	<u>13.70</u>
Subtotal		109.23	<u>\$114.84</u>	109.23
<u>Costs Not Subject to Standards:</u>				
Utilities		2.09		2.09
Special Services		.08		.08
Medical Supplies & Oxygen		5.04		5.04
Taxes and Insurance		2.72		2.72
Legal Fees		<u>.13</u>		<u>.13</u>
<b>TOTAL</b>		<u>\$119.29</u>		119.29
Inflation Factor (4.70%)				5.61
Cost of Capital				7.95
Cost of Capital Limitation				(1.04)
Profit Incentive (Maximum 3.5% of Allowable Cost)				2.43
Cost Incentive				3.18
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(3.86)</u>
 ADJUSTED REIMBURSEMENT RATE				 <u>\$133.56</u>

**THI OF SOUTH CAROLINA AT MAGNOLIA MANOR, INMAN LLC**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 2004  
AC# 3-MIN-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	\$4,677,294	\$ 257 (1)	\$ -	\$4,677,551
Dietary	759,982	-	-	759,982
Laundry	157,259	-	-	157,259
Housekeeping	237,823	-	-	237,823
Maintenance	182,904	-	-	182,904
Administration & Medical Records	982,064	-	119,602 (2)	862,462
Utilities	131,742	-	-	131,742
Special Services	5,085	-	-	5,085
Medical Supplies & Oxygen	317,657	-	-	317,657
Taxes and Insurance	171,247	-	-	171,247
Legal Fees	7,932	1 (2)	-	7,933
Cost of Capital	435,164	19,749 (1) <u>243,286 (3)</u>	197,569 (2)	<u>500,630</u>
Subtotal	8,066,153	263,293	317,171	8,012,275
Ancillary	225,451	-	-	225,451

**THI OF SOUTH CAROLINA AT MAGNOLIA MANOR, INMAN LLC**  
 Summary of Costs and Total Patient Days  
 For the Cost Report Period Ended September 30, 2004  
 AC# 3-MIN-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>	
Nonallowable	253,677	317,170 (2)	20,006 (1) 243,286 (3)	307,555
CNA Training and Testing	<u>1,266</u>	<u>-</u>	<u>-</u>	<u>1,266</u>
Total Operating Expenses	<u>\$8,546,547</u>	<u>\$580,463</u>	<u>\$580,463</u>	<u>\$8,546,547</u>
Total Patient Days	<u>62,976</u>	<u>-</u>	<u>-</u>	<u>62,976</u>
Total Beds	<u>176</u>			

**THI OF SOUTH CAROLINA AT MAGNOLIA MANOR, INMAN LLC**  
Adjustment Report  
Cost Report Period Ended September 30, 2004  
AC# 3-MIN-J4

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$ 57,481	
	Accumulated Depreciation	64,953	
	Restorative	257	
	Cost of Capital	19,749	
	Nonallowable		\$ 20,006
	Other Equity		122,434
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	317,170	
	Legal	1	
	Administration		119,602
	Cost of Capital		197,569
	To adjust Integrated Health Services home office costs HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
3	Cost of Capital	243,286	
	Nonallowable		243,286
	To adjust capital return State Plan, Attachment 4.19D		
	<u>TOTAL ADJUSTMENTS</u>	<u>\$702,897</u>	<u>\$702,897</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.

**THI OF SOUTH CAROLINA AT MAGNOLIA MANOR, INMAN LLC**  
 Cost of Capital Reimbursement Analysis  
 For the Cost Report Period Ended September 30, 2004  
 AC# 3-MIN-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>176</u>
Deemed Asset Value	7,462,752
Improvements Since 1981	948,310
Accumulated Depreciation at 9/30/04	( <u>1,321,023</u> )
Deemed Depreciated Value	7,090,039
Market Rate of Return	<u>.0516</u>
Total Annual Return	365,846
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	365,846
Depreciation Expense	134,785
Amortization Expense	-
Capital Related Income Offsets	(1)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	500,630
Total Patient Days (Actual)	<u>62,976</u>
Cost of Capital Per Diem	\$ <u><u>7.95</u></u>

**THI OF SOUTH CAROLINA AT MAGNOLIA MANOR, INMAN LLC**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 2004  
AC# 3-MIN-J4

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$ 2.92
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	\$ <u>6.91</u>
Reimbursable Cost of Capital Per Diem	\$ 6.91
Cost of Capital Per Diem	<u>7.95</u>
Cost of Capital Per Diem Limitation	\$ ( <u>1.04</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.