

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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May 20, 2008

Ms. Carol W. Disbro, Vice President of Reimbursement
Fundamental Administrative Services
930 Ridgebrook Road
Sparks, Maryland 21152

Re: AC# 3-MIN-J5 – 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, 2004 through September 30, 2005. That report was used to set the rate covering the contract period beginning October 1, 2006.

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

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

INMAN, SOUTH CAROLINA

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2006
AC# 3-MIN-J5**

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

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, 2006, and for the twelve month cost report period ended September 30, 2005, 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 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 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, 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
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.", written in a cursive style.

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

THI OF SOUTH CAROLINA AT MAGNOLIA MANOR - INMAN, LLC
 Computation of Adjusted Reimbursement Rate
 For the Contract Period October 1, 2006 Through September 30, 2007
 AC# 3-MIN-J5

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 71.37	\$ 79.77	
Dietary		11.16	13.46	
Laundry/Housekeeping/Maintenance		<u>9.48</u>	<u>12.03</u>	
Subtotal	<u>\$7.37</u>	92.01	105.26	\$ 92.01
Administration & Medical Records	<u>\$3.18</u>	<u>13.69</u>	<u>16.87</u>	<u>13.69</u>
Subtotal		105.70	<u>\$122.13</u>	105.70
<u>Costs Not Subject to Standards:</u>				
Utilities		2.03		2.03
Special Services		.13		.13
Medical Supplies & Oxygen		5.16		5.16
Taxes and Insurance		2.24		2.24
Legal Fees		<u>.15</u>		<u>.15</u>
TOTAL		<u>\$115.41</u>		115.41
Inflation Factor (4.60%)				5.31
Cost of Capital				7.37
Cost of Capital Limitation				(.46)
Profit Incentive (Maximum 3.5% of Allowable Cost)				3.18
Cost Incentive				7.37
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(8.80)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$129.38</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, 2005
AC# 3-MIN-J5

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		Adjusted <u>Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$4,549,804	\$ -	\$ -	\$4,549,804
Dietary	711,227	-	-	711,227
Laundry	175,382	28,463 (3)	-	203,845
Housekeeping	225,009	-	-	225,009
Maintenance	175,250	-	-	175,250
Administration & Medical Records	874,970	-	1,901 (3)	873,069
Utilities	129,254	-	-	129,254
Special Services	8,184	-	-	8,184
Medical Supplies & Oxygen	329,037	-	-	329,037
Taxes and Insurance	1,049,178	-	906,394 (1)	142,784
Legal Fees	51,110	-	41,667 (4)	9,443
Cost of Capital	440,526	19,514 (2) 4,086 (3) <u>5,804 (5)</u>	-	469,930
Subtotal	8,718,931	57,867	949,962	7,826,836
Ancillary	274,509	-	-	274,509

THI OF SOUTH CAROLINA AT MAGNOLIA MANOR - INMAN, LLC
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2005
 AC# 3-MIN-J5

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		Adjusted <u>Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Nonallowable	(137,541)	906,394 (1) 41,667 (4)	19,514 (2) 30,648 (3) 5,804 (5)	754,554
CNA Training & Testing	<u>1,436</u>	<u>-</u>	<u>-</u>	<u>1,436</u>
Total Operating Expenses	<u>\$8,857,335</u>	<u>\$1,005,928</u>	<u>\$1,005,928</u>	<u>\$8,857,335</u>
Total Patient Days	<u>63,752</u>	<u>-</u>	<u>-</u>	<u>63,752</u>
Total Beds	<u>176</u>			

THI OF SOUTH CAROLINA AT MAGNOLIA MANOR - INMAN, LLC
Adjustment Report
Cost Report Period Ended September 30, 2005
AC# 3-MIN-J5

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Nonallowable Taxes, Insurance, & Licenses	\$906,394	\$906,394
	To remove liability claims HIM-15-1, Sections 2304, 2160 and 2162.6		
2	Fixed Assets	30,746	
	Accumulated Depreciation	45,672	
	Cost of Capital	19,514	
	Nonallowable		19,514
	Other Equity		76,418
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
3	Laundry	28,463	
	Cost of Capital	4,086	
	Administration		1,901
	Nonallowable		30,648
	To adjust the Central Accounting Office and Laundry home office allocations HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
4	Nonallowable	41,667	
	Legal		41,667
	To remove nonallowable expenses HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

THI OF SOUTH CAROLINA AT MAGNOLIA MANOR - INMAN, LLC
 Adjustment Report
 Cost Report Period Ended September 30, 2005
 AC# 3-MIN-J5

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Cost of Capital Nonallowable	5,804	5,804
	To adjust capital return State Plan, Attachment 4.19D		
		\$1,082,346	\$1,082,346
	TOTAL ADJUSTMENTS		

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, 2005
 AC# 3-MIN-J5

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.77878</u>
Deemed Asset Value (Per Bed)	43,399
Number of Beds	<u>176</u>
Deemed Asset Value	7,638,224
Improvements Since 1981	954,560
Accumulated Depreciation at 9/30/05	<u>(1,422,672)</u>
Deemed Depreciated Value	7,170,112
Market Rate of Return	<u>0.049</u>
Total Annual Return	351,335
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	351,335
Depreciation Expense	118,595
Amortization Expense	-
Capital Related Income Offsets	-
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	469,930
Total Patient Days (Actual)	<u>63,752</u>
Cost of Capital Per Diem	\$ <u><u>7.37</u></u>

THI OF SOUTH CAROLINA AT MAGNOLIA MANOR - INMAN, LLC
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2005
AC# 3-MIN-J5

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>7.37</u>
Cost of Capital Per Diem Limitation	<u>\$(-.46)</u>

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