

# 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

February 28, 2008

Ms. Sheila Raby, Administrator  
Georgetown Healthcare Rehab, Inc.  
Post Office Box 577  
Georgetown, South Carolina 29440

Re: AC# 3-WIN-J5 – Georgetown Healthcare Rehab, Inc.

Dear Ms. Raby:

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.

By request of the state medicaid agency this letter also serves as an official notice of your requirement to respond with a report of planned corrective actions on the recommendations and deficiencies noted in this report within forty-five (45) days of the date of this letter. Your response should reference the audit control number and be addressed to: Division of Home Health and Nursing Facility Services, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina, 29202-8206. You are also required to simultaneously furnish a copy of your corrective action report to the State Auditor's Office.

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 cursive script, appearing to read "Richard H. Gilbert, Jr.".

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

RHGjr/sag

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

**GEORGETOWN HEALTHCARE REHAB, INC.**

**GEORGETOWN, SOUTH CAROLINA**

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

September 27, 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 Georgetown Healthcare Rehab, Inc., 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 Georgetown Healthcare Rehab, Inc. 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 Georgetown Healthcare Rehab, Inc., 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, Cost of Capital Reimbursement Analysis and the Comments and Recommendations 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 Georgetown Healthcare Rehab, Inc. 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  
September 27, 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

**GEORGETOWN HEALTHCARE REHAB, INC.**

Computation of Rate Change  
For the Contract Period  
Beginning October 1, 2006  
AC# 3-WIN-J5

10/01/06-  
09/30/07

Interim Reimbursement Rate (1)	\$121.14
Adjusted Reimbursement Rate	<u>110.10</u>
Decrease in Reimbursement Rate	\$ <u><u>11.04</u></u>

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

**GEORGETOWN HEALTHCARE REHAB, INC.**  
 Computation of Adjusted Reimbursement Rate  
 For the Contract Period October 1, 2006 Through September 30, 2007  
 AC# 3-WIN-J5

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$53.99	\$ 79.89	
Dietary		12.41	13.72	
Laundry/Housekeeping/Maintenance		<u>10.86</u>	<u>12.61</u>	
Subtotal	<u>\$7.44</u>	77.26	106.22	\$ 77.26
Administration & Medical Records	<u>\$5.86</u>	<u>10.45</u>	<u>16.31</u>	<u>10.45</u>
Subtotal		87.71	<u>\$122.53</u>	87.71
<u>Costs Not Subject to Standards:</u>				
Utilities		2.93		2.93
Special Services		-		-
Medical Supplies & Oxygen		2.49		2.49
Taxes and Insurance		4.78		4.78
Legal Fees		-		-
<b>TOTAL</b>		<u>\$97.91</u>		97.91
Inflation Factor (4.60%)				4.50
Cost of Capital				5.94
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				3.43
Cost Incentive				7.44
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(9.12)</u>
<b>ADJUSTED REIMBURSEMENT RATE</b>				<u>\$110.10</u>

**GEORGETOWN HEALTHCARE REHAB, INC.**  
 Summary of Costs and Total Patient Days  
 For the Cost Report Period Ended September 30, 2005  
 AC# 3-WIN-J5

<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	\$1,676,487	\$ 24,839 (17) 1,150 (17)	\$ 3,948 (1) 105,367 (18) 4,113 (18)	\$1,589,048
Dietary	409,365	2,850 (1) 3,183 (17)	12,600 (3) 8,787 (4) 15,315 (5) 13,539 (18)	365,157
Laundry	124,014	68 (4) 2,088 (6) 240 (17)	1,819 (2) 8,553 (3) 8,297 (5) 474 (18) 12 (19)	107,255
Housekeeping	130,595	40 (4) 1,578 (17)	124 (5) 7,981 (18)	124,108
Maintenance	98,246	57 (1) 2,675 (10) 745 (17)	4,082 (5) 5,816 (7) 854 (12) 2,711 (18)	88,260
Administration & Medical Records	372,773	2,816 (7) 334 (15) 2,401 (16) 2,452 (17) 368 (17)	10,615 (1) 4,735 (5) 16,500 (8) 18,155 (9) 8,424 (10) 900 (11) 6,743 (18) 759 (18) 6,827 (19)	307,486
Utilities	89,577	597 (12)	2,750 (1) 505 (5) 707 (19)	86,212

**GEORGETOWN HEALTHCARE REHAB, INC.**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 2005  
AC# 3-WIN-J5

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	<u>Debit</u>	Adjustments <u>Credit</u>	<u>Adjusted Totals</u>
Special Services	-	1,000 (1)	11,910 (3)	2
		1,049 (17)	30,541 (5)	
		5,692 (18)		
		34,712 (20)		
Medical Supplies & Oxygen	90,278	16,283 (4)	11,201 (1)	73,276
			14,098 (5)	
			7,986 (20)	
Taxes and Insurance	197,389	-	2,253 (1)	140,773
			2,972 (5)	
			18,444 (13)	
			1,473 (14)	
			5,171 (15)	
			22,675 (16)	
			3,628 (19)	
Legal Fees	-	-	-	-
Cost of Capital	178,570	-	2,614 (2)	174,822
			1,134 (21)	
Subtotal	3,367,294	107,217	418,112	3,056,399
Ancillary	131,214	2,362 (6)	5,290 (1)	90,927
			23,800 (3)	
			13,559 (5)	

**GEORGETOWN HEALTHCARE REHAB, INC.**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 2005  
AC# 3-WIN-J5

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	Adjusted <u>Totals</u>
Nonallowable	584,329	4,433 (2)	1,150 (1)	695,873
		1,183 (4)	15,000 (3)	
		8,085 (6)	19,197 (5)	
		3,000 (7)	26,726 (20)	
		16,500 (8)		
		18,155 (9)		
		5,749 (10)		
		900 (11)		
		6,172 (12)		
		18,444 (13)		
		1,783 (14)		
		2,878 (15)		
		3,226 (16)		
		81,975 (18)		
		<u>1,134 (21)</u>		
Total Operating Expenses	<u>\$4,082,837</u>	<u>\$283,196</u>	<u>\$522,834</u>	<u>\$3,843,199</u>
Total Patient Days	<u>29,434</u>	<u>-</u>	<u>-</u>	<u>29,434</u>
Total Beds	<u>84</u>			

**GEORGETOWN HEALTHCARE REHAB, INC.**  
Adjustment Report  
Cost Report Period Ended September 30, 2005  
AC# 3-WIN-J5

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$ 3,750	
	Owner Receivable	20,000	
	Accounts Payable	21,387	
	Salaries Payable	451,238	
	Payroll Withholdings	1,308	
	Routine Revenue	15,217	
	Other Revenue	1,330	
	Dietary	2,850	
	Maintenance	57	
	Special Services	1,000	
	Cash		\$480,913
	Other Equity		17
	Nursing		3,948
	Administration		10,615
	Utilities		2,750
	Taxes and Insurance		2,253
	Medical Supplies		11,201
	Ancillary		5,290
	Nonallowable		1,150
	To adjust trial balance account balances to amounts per the general ledger and record expense account omitted from the cost report HIM-15-1, Section 2304		
2	Accumulated Depreciation	2,938	
	Other Equity	3,090	
	Nonallowable	4,433	
	Fixed Assets		6,028
	Laundry		1,819
	Cost of Capital		2,614
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
3	Retained Earnings	71,863	
	Dietary		12,600
	Laundry		8,553
	Special Services		11,910
	Ancillary		23,800
	Nonallowable		15,000
	To reverse prior owner accrual HIM-15-1, Sections 2302.1 and 2304		

**GEORGETOWN HEALTHCARE REHAB, INC.**  
Adjustment Report  
Cost Report Period Ended September 30, 2005  
AC# 3-WIN-J5

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
4	Laundry	68	
	Housekeeping	40	
	Medical Supplies	16,283	
	Nonallowable	1,183	
	Accounts Payable		8,787
	Dietary		8,787
	To properly accrue current period expense and reclassify expense to the proper cost center HIM-15-1, Sections 2302.1 and 2304 DH&HS Expense Crosswalk		
5	Retained Earnings	113,425	
	Dietary		15,315
	Laundry		8,297
	Housekeeping		124
	Maintenance		4,082
	Administration		4,735
	Utilities		505
	Taxes and Insurance		2,972
	Medical Supplies		14,098
	Special Services		30,541
	Ancillary		13,559
	Nonallowable		19,197
	To reverse prior owner accrual HIM-15-1, Sections 2302.1 and 2304		
6	Retained Earnings	8,746	
	Laundry	2,088	
	Ancillary	2,362	
	Nonallowable	8,085	
	Accounts Payable		21,281
	To properly charge expense applicable to the prior period, accrue current period expense, disallow expense due to lack of adequate documentation and reclassify expense to the proper cost center HIM-15-1, Sections 1000, 2302.1 and 2304 DH&HS Expense Crosswalk		

**GEORGETOWN HEALTHCARE REHAB, INC.**  
Adjustment Report  
Cost Report Period Ended September 30, 2005  
AC# 3-WIN-J5

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
7	Administration Nonallowable Maintenance	2,816 3,000	5,816
	To disallow expense due to lack of adequate documentation and reclassify expense to the proper cost center HIM-15-1, Sections 1000 and 2304 DH&HS Expense Crosswalk		
8	Nonallowable Administration	16,500	16,500
	To disallow expense due to lack of adequate documentation HIM-15-1, Sections 1000 and 2304		
9	Nonallowable Administration	18,155	18,155
	To disallow expense due to lack of adequate documentation HIM-15-1, Sections 1000 and 2304		
10	Maintenance Nonallowable Administration	2,675 5,749	8,424
	To reclassify expense to the proper cost center and disallow expense not related to patient care HIM-15-1, Sections 2102.3 and 2304 DH&HS Expense Crosswalk		
11	Nonallowable Medical Records	900	900
	To disallow expense due to lack of adequate documentation HIM-15-1, Section 2304		

**GEORGETOWN HEALTHCARE REHAB, INC.**  
Adjustment Report  
Cost Report Period Ended September 30, 2005  
AC# 3-WIN-J5

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
12	Utilities	597	
	Nonallowable	6,172	
	Maintenance		854
	Accounts Payable		5,915
	To properly accrue current period expense, disallow cable TV expense and reclassify expense to the proper cost center HIM-15-1, Sections 2106, 2302.1 and 2304 DH&HS Expense Crosswalk		
13	Nonallowable	18,444	
	Taxes and Insurance		18,444
	To disallow expense not related to patient care HIM-15-1, Section 2102.3 DH&HS Expense Crosswalk		
14	Retained Earnings	13,348	
	Nonallowable	1,783	
	Accrued Property Taxes		13,658
	Taxes and Insurance		1,473
	To adjust property tax expense and related accrual HIM-15-1, Sections 2302.1 and 2304		
15	Prepaid Insurance	9,626	
	Retained Earnings	5,434	
	Administration	334	
	Nonallowable	2,878	
	Notes Payable		13,101
	Taxes and Insurance		5,171
	To adjust general insurance expense HIM-15-1, Sections 2302.1 and 2304		

**GEORGETOWN HEALTHCARE REHAB, INC.**  
Adjustment Report  
Cost Report Period Ended September 30, 2005  
AC# 3-WIN-J5

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
16	Prepaid Insurance	35,459	
	Administration	2,401	
	Nonallowable	3,226	
	Notes Payable		18,411
	Taxes and Insurance		22,675
	To adjust liability insurance expense HIM-15-1, Sections 2302.1 and 2304		
17	Nursing	24,839	
	Restorative	1,150	
	Dietary	3,183	
	Laundry	240	
	Housekeeping	1,578	
	Maintenance	745	
	Administration	2,452	
	Medical Records	368	
	Special Services	1,049	
	Accrued Salaries		35,604
	To accrue current period salaries HIM-15-1, Section 2302.1		
18	Prepaid Insurance	18,937	
	Retained Earnings	103,465	
	Routine Revenue	28,405	
	Special Services	5,692	
	Nonallowable	81,975	
	Accrued Expenses		86,795
	Notes Payable		9,992
	Nursing		105,367
	Restorative		4,113
	Dietary		13,539
	Laundry		474
	Housekeeping		7,981
	Maintenance		2,711
	Administration		6,743
	Medical Records		759
	To adjust fringe benefits and related allocation HIM-15-1, Sections 2302.1, 2304 and 2305 State Plan, Attachment 4.19D DH&HS Expense Crosswalk		

**GEORGETOWN HEALTHCARE REHAB, INC.**  
Adjustment Report  
Cost Report Period Ended September 30, 2005  
AC# 3-WIN-J5

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
19	Routine Revenue	10,192	
	Other Revenue	982	
	Laundry		12
	Administration		6,827
	Utilities		707
	Taxes and Insurance		3,628
	To offset income against related expense HIM-15-1, Sections 804 and 2304 State Plan, Attachment 4.19D		
20	Special Services	34,712	
	Medical Supplies		7,986
	Nonallowable		26,726
	To adjust special (ancillary) services State Plan, Attachment 4.19D		
21	Nonallowable	1,134	
	Cost of Capital		1,134
	To adjust capital return State Plan, Attachment 4.19D		
		\$1,223,336	\$1,223,336
	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.

**GEORGETOWN HEALTHCARE REHAB, INC.**  
 Cost of Capital Reimbursement Analysis  
 For the Cost Report Period Ended September 30, 2005  
 AC# 3-WIN-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>84</u>
Deemed Asset Value	3,645,516
Improvements Since 1981	193,443
Accumulated Depreciation at 9/30/05	<u>(719,874)</u>
Deemed Depreciated Value	3,119,085
Market Rate of Return	<u>.049</u>
Total Annual Return	152,835
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	152,835
Depreciation Expense	21,987
Amortization Expense	-
Capital Related Income Offsets	-
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	174,822
Total Patient Days (Minimum 96% Occupancy)	<u>29,434</u>
Cost of Capital Per Diem	\$ <u><u>5.94</u></u>

**GEORGETOWN HEALTHCARE REHAB, INC.**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 2005  
AC# 3-WIN-J5

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$2.99
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$6.98</u>
Reimbursable Cost of Capital Per Diem	\$5.94
Cost of Capital Per Diem	<u>5.94</u>
Cost of Capital Per Diem Limitation	<u>\$ -</u>

## **COMMENTS AND RECOMMENDATIONS**

Our agreed-upon procedures identified certain conditions that we have determined to be subject to correction or improvement. We believe these conditions should be brought to your attention.

### **TRANSACTION CLASSIFICATION**

The Provider classified a significant number of transactions to improper accounts and cost centers.

Guidance for the proper classification of transactions is provided in the South Carolina Department of Health and Human Services Medicaid Nursing Home Accounting and Reporting Manual (Expense Crosswalk), the State Plan under Title XIX of the Social Security Act, Medicaid Bulletins and by the South Carolina Department of Health and Human Services.

By failing to classify transactions in accordance with the administering agency's guidelines, the Provider misstated several accounts and cost centers.

We recommend the Provider establish and implement necessary controls to ensure that all transactions are properly classified in accordance with the South Carolina Department of Health and Human Services guidelines.

## RELATED PARTY TRANSACTION DISCLOSURE

All transactions with related parties were not disclosed by the Provider on the Uniform Financial and Statistical Report.

Article V, Section G of the contract between the South Carolina Department of Health and Human Services (SCDH&HS) and the Provider states in part:

“The Provider agrees that the Uniform Financial and Statistical Report, all statements, reports and claims, financial and otherwise, shall be certified as true, accurate and complete...Sections of the Uniform Financial and Statistical Report which require disclosure of related parties and debts must be completed by the Provider in their entirety.”

Provider failure to properly disclose all related party transactions in accordance with contract requirements, prevented the SCDH&HS from identifying non-reimbursable expenditures claimed for reimbursement.

We recommend the Provider implement the necessary controls to ensure that all transactions with related parties are identified and fully disclosed on the Uniform Financial and Statistical Report in accordance with the terms of the contract.

2 copies of this document were published at an estimated printing cost of \$1.58 each, and a total printing cost of \$3.16. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.