

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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October 10, 2008

Mr. Harry Branton, Administrator
Grand Strand Healthcare, Inc.
Post Office Box 1175
Myrtle Beach, South Carolina 29588

Re: AC# 3-GRA-J5 – Grand Strand Healthcare, Inc.

Dear Mr. Branton:

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/cwc

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

**GRAND STRAND HEALTHCARE, INC.
MYRTLE BEACH, SOUTH CAROLINA**

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

**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, 2006	A	3
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIOD OCTOBER 1, 2006 THROUGH SEPTEMBER 30, 2007	B	4
SUMMARY OF COSTS AND TOTAL PATIENT DAYS FOR THE COST REPORT PERIOD ENDED SEPTEMBER 30, 2005	C	5
ADJUSTMENT REPORT	1	7
COST OF CAPITAL REIMBURSEMENT ANALYSIS	2	9

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

July 22, 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 Grand Strand Healthcare, 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 Grand Strand Healthcare, Inc. 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 Grand Strand Healthcare, 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, 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 Grand Strand Healthcare, 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
July 22, 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

GRAND STRAND HEALTHCARE, INC.
Computation of Rate Change
For the Contract Period
Beginning October 1, 2006
AC# 3-GRA-J5

	10/01/06- <u>09/30/07</u>
Interim Reimbursement Rate (1)	\$138.95
Adjusted Reimbursement Rate	<u>138.85</u>
Decrease in Reimbursement Rate	\$ <u><u>.10</u></u>

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

GRAND STRAND HEALTHCARE, INC.
 Computation of Adjusted Reimbursement Rate
 For the Contract Period October 1, 2006 Through September 30, 2007
 AC# 3-GRA-J5

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 67.48	\$ 85.47	
Dietary		15.63	13.72	
Laundry/Housekeeping/Maintenance		<u>15.40</u>	<u>12.61</u>	
Subtotal	<u>\$7.83</u>	98.51	111.80	\$ 98.51
Administration & Medical Records	<u>\$3.18</u>	<u>13.13</u>	<u>16.31</u>	<u>13.13</u>
Subtotal		111.64	<u>\$128.11</u>	111.64
<u>Costs Not Subject to Standards:</u>				
Utilities		3.27		3.27
Special Services		-		-
Medical Supplies & Oxygen		5.24		5.24
Taxes and Insurance		4.10		4.10
Legal Fees		<u>.01</u>		<u>.01</u>
TOTAL		<u>\$124.26</u>		124.26
Inflation Factor (4.60%)				5.72
Cost of Capital				7.12
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				3.18
Cost Incentive				7.83
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(9.26)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$138.85</u>

GRAND STRAND HEALTHCARE, INC.
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2005
 AC# 3-GRA-J5

<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	\$2,109,829	\$ -	\$ -	\$2,109,829
Dietary	488,839	71,233 (4)	71,232 (5)	488,840
Laundry	86,464	-	-	86,464
Housekeeping	222,183	3,177 (4)	1,495 (5)	223,865
Maintenance	169,897	2,339 (4)	1,071 (5)	171,165
Administration & Medical Records	410,130	7,174 (4)	6,937 (5)	410,367
Utilities	113,355	1,509 (4)	12,061 (3) 702 (5)	102,101
Special Services	-	-	-	-
Medical Supplies & Oxygen	164,748	-	1,024 (6)	163,724
Taxes and Insurance	127,341	1,428 (4)	693 (5)	128,076
Legal Fees	293	6 (4)	6 (5)	293
Cost of Capital	217,280	1,029 (1) 285 (2) 1,540 (4) <u>3,218 (7)</u>	635 (5)	222,717
Subtotal	4,110,359	92,938	95,856	4,107,441

GRAND STRAND HEALTHCARE, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2005
AC# 3-GRA-J5

<u>Expenses</u>	Totals (From Schedule SC 13) as Adjusted by DH&HS	Debit	Adjustments Credit	Adjusted Totals
Ancillary	146,019	-	-	146,019
Nonallowable	294,910	12,061 (3)	1,029 (1)	297,828
		82,771 (5)	285 (2)	
		1,024 (6)	88,406 (4)	
			3,218 (7)	
CNA Training and Testing	<u>767</u>	<u>-</u>	<u>-</u>	<u>767</u>
Total Operating Expenses	<u>\$4,552,055</u>	<u>\$188,794</u>	<u>\$188,794</u>	<u>\$4,552,055</u>
Total Patient Days	<u>31,266</u>	<u>-</u>	<u>-</u>	<u>31,266</u>
Total Beds	<u>88</u>			

GRAND STRAND HEALTHCARE, INC.
Adjustment Report
Cost Report Period Ended September 30, 2005
AC# 3-GRA-J5

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$37,482	
	Other Equity	3,957	
	Cost of Capital	1,029	
	Accumulated Depreciation		\$41,439
	Nonallowable		1,029
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Cost of Capital	285	
	Nonallowable		285
	To adjust depreciation and amortization expense to comply with capital cost policy State Plan, Attachment 4.19D		
3	Nonallowable	12,061	
	Utilities		12,061
	To disallow cable TV expense HIM-15-1, Section 2106.1		
4	Dietary	71,233	
	Housekeeping	3,177	
	Maintenance	2,339	
	Administration	7,174	
	Legal	6	
	Utilities	1,509	
	Taxes and Insurance	1,428	
	Cost of Capital	1,540	
	Nonallowable		88,406
	To reverse DH&HS adjustment to remove indirect cost applicable to a non-reimbursable cost center HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		

GRAND STRAND HEALTHCARE, INC.
Adjustment Report
Cost Report Period Ended September 30, 2005
AC# 3-GRA-J5

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Nonallowable	82,771	
	Dietary		71,232
	Housekeeping		1,495
	Maintenance		1,071
	Administration		6,937
	Legal		6
	Utilities		702
	Taxes and Insurance		693
	Cost of Capital		635
	To remove indirect cost applicable to a non-reimbursable cost center HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
6	Nonallowable	1,024	
	Medical Supplies		1,024
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
7	Cost of Capital	3,218	
	Nonallowable		3,218
	To adjust capital return State Plan, Attachment 4.19D		
	<u>TOTAL ADJUSTMENTS</u>	<u>\$230,233</u>	<u>\$230,233</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.

GRAND STRAND HEALTHCARE, INC.
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2005
 AC# 3-GRA-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>88</u>
Deemed Asset Value	3,819,112
Improvements Since 1981	217,181
Accumulated Depreciation at 9/30/05	(<u>1,065,822</u>)
Deemed Depreciated Value	2,970,471
Market Rate of Return	<u>.0490</u>
Total Annual Return	145,553
Return Applicable to Non-Reimbursable Cost Centers	(783)
Allocation of Interest to Non-Reimbursable Cost Centers	<u>214</u>
Allowable Annual Return	144,984
Depreciation Expense	77,515
Amortization Expense	853
Capital Related Income Offsets	-
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(635)</u>
Allowable Cost of Capital Expense	222,717
Total Patient Days (Actual)	<u>31,266</u>
Cost of Capital Per Diem	\$ <u><u>7.12</u></u>

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