

# 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

October 28, 2008

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

Re: AC# 3-MCL-J4 – THI of South Carolina at Magnolia Manor – Columbia, 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.

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 Facility Health and Nursing Home 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 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 – COLUMBIA, LLC**

**COLUMBIA, SOUTH CAROLINA**

**CONTRACT PERIOD  
BEGINNING OCTOBER 1, 2005  
AC# 3-MCL-J4**

**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 12, 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 – Columbia, 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 – Columbia, 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 – Columbia, 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, 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 THI of South Carolina at Magnolia Manor – Columbia, 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  
September 12, 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 - COLUMBIA, LLC**

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

	10/01/05- <u>09/30/06</u>
Interim Reimbursement Rate (1)	\$140.66
Adjusted Reimbursement Rate	<u>137.18</u>
Decrease in Reimbursement Rate	\$ <u><u>3.48</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 - COLUMBIA, LLC**  
 Computation of Adjusted Reimbursement Rate  
 For the Contract Period October 1, 2005 Through September 30, 2006  
 AC# 3-MCL-J4

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 74.04	\$ 69.43	
Dietary		12.52	13.22	
Laundry/Housekeeping/Maintenance		<u>9.50</u>	<u>11.64</u>	
Subtotal	\$ <u>-</u>	96.06	94.29	\$ 94.29
Administration & Medical Records	\$ <u>-</u>	<u>20.01</u>	<u>16.31</u>	<u>16.31</u>
Subtotal		116.07	<u>\$110.60</u>	110.60
<u>Costs Not Subject to Standards:</u>				
Utilities		3.82		3.82
Special Services		-		-
Medical Supplies & Oxygen		5.83		5.83
Taxes and Insurance		3.43		3.43
Legal Fees		<u>.14</u>		<u>.14</u>
<b>TOTAL</b>		<u>\$129.29</u>		123.82
Inflation Factor (4.70%)				5.82
Cost of Capital				7.54
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				-
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>-</u>
<b>ADJUSTED REIMBURSEMENT RATE</b>				<u>\$137.18</u>

**THI OF SOUTH CAROLINA AT MAGNOLIA MANOR - COLUMBIA, LLC**Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 2004

AC# 3-MCL-J4

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments		Adjusted <u>Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$2,310,062	\$ -	\$ -	\$2,310,062
Dietary	390,559	-	-	390,559
Laundry	63,846	-	-	63,846
Housekeeping	111,493	-	-	111,493
Maintenance	121,125	-	-	121,125
Administration & Medical Records	692,837	-	68,607 (1)	624,230
Utilities	119,137	-	-	119,137
Special Services	-	-	-	-
Medical Supplies & Oxygen	181,891	-	-	181,891
Taxes and Insurance	107,016	-	-	107,016
Legal Fees	4,521	-	1 (1)	4,520
Cost of Capital	343,690	7,774 (3)	99,735 (1) 16,472 (2)	235,257
Subtotal	4,446,177	7,774	184,815	4,269,136

**THI OF SOUTH CAROLINA AT MAGNOLIA MANOR - COLUMBIA, LLC**

Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 2004

AC# 3-MCL-J4

<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>
Ancillary	113,503	-	-	113,503
Nonallowable	277,071	168,343 (1) 16,472 (2)	7,774 (3)	454,112
CNA Training and Testing	<u>644</u>	<u>-</u>	<u>-</u>	<u>644</u>
Total Operating Expenses	<u>\$4,837,395</u>	<u>\$192,589</u>	<u>\$192,589</u>	<u>\$4,837,395</u>
Total Patient Days	<u>31,200</u>	<u>-</u>	<u>-</u>	<u>31,200</u>
 Total Beds	 <u>88</u>			

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

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Nonallowable	\$168,343	
	Administration		\$ 68,607
	Cost of Capital		99,735
	Legal		1
	To adjust Integrated Health Services home office costs HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	16,472	
	Cost of Capital		16,472
	To adjust depreciation expense to comply with capital cost policy State Plan, Attachment 4.19D		
3	Cost of Capital	7,774	
	Nonallowable		7,774
	To adjust capital return State Plan, Attachment 4.19D		
		_____	_____
	TOTAL ADJUSTMENTS	<u>\$192,589</u>	<u>\$192,589</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 - COLUMBIA, LLC**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 2004  
AC# 3-MCL-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>88</u>
Deemed Asset Value	3,731,376
Improvements Since 1981	184,753
Accumulated Depreciation at 9/30/04	<u>(1,184,889)</u>
Deemed Depreciated Value	2,731,240
Market Rate of Return	<u>.0516</u>
Total Annual Return	140,932
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	140,932
Depreciation Expense	94,325
Amortization Expense	-
Capital Related Income Offsets	-
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	235,257
Total Patient Days (Actual)	<u>31,200</u>
Cost of Capital Per Diem	\$ <u><u>7.54</u></u>

## **COMMENTS AND RECOMMENDATIONS**

Our agreed-upon procedures identified a condition that we determined to be subject to correction or improvement. We believe that this condition should be brought to your attention.

### **SALARY ALLOCATIONS**

The Provider allocated employee salaries to various cost centers.

The salary allocations were not supported by approved time sheets, time studies or documented allocation plans. The Provider's policy requires the supervisor to inform the payroll coordinator if an employee works in a different cost center. This process could not be verified by auditing procedures. This resulted in possible over/understatements of expenses in the related cost centers.

HIM-15-1, Section 2304, states:

“Cost information as developed by the Provider must be current, accurate, and in sufficient detail to support payments made for services rendered to beneficiaries. This includes all ledgers, books, records and original evidences of cost (purchase requisitions, purchase orders, vouchers, requisitions for materials, inventories, labor time cards, payrolls, bases for apportioning costs, etc.), which pertain to the determination of reasonable cost, capable of being audited.”

We recommend all salary allocations be supported by approved time sheets, time studies in accordance with HIM-15-1, Section 2313.2E or other documented allocation plans which can be verified by audit.

2 copies of this document were published at an estimated printing cost of \$1.35 each, and a total printing cost of \$2.70. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.