

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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November 9, 2009

Mr. Doug Ruth, Director of Reimbursement
Life Care Centers of America
3570 Keith Street, NW
Cleveland, Tennessee 37312

Re: AC# 3-LCH-J5 – Charleston Medical Investors, LLC d/b/a Life Care Center of Charleston

Dear Mr. Ruth:

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

**CHARLESTON MEDICAL INVESTORS, LLC
D/B/A LIFE CARE CENTER OF CHARLESTON
NORTH CHARLESTON, SOUTH CAROLINA**

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

August 17, 2009

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 Charleston Medical Investors, LLC d/b/a Life Care Center of Charleston, 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 Charleston Medical Investors, LLC d/b/a Life Care Center of Charleston 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 Charleston Medical Investors, LLC d/b/a Life Care Center of Charleston, 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 Charleston Medical Investors, LLC d/b/a Life Care Center of Charleston 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
August 17, 2009

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

LIFE CARE CENTER OF CHARLESTON
Computation of Rate Change
For the Contract Period
Beginning October 1, 2006
AC# 3-LCH-J5

	10/01/06- <u>09/30/07</u>
Interim Reimbursement Rate (1)	\$149.51
Adjusted Reimbursement Rate	<u>146.68</u>
Decrease in Reimbursement Rate	\$ <u><u>2.83</u></u>

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

LIFE CARE CENTER OF CHARLESTON
 Computation of Adjusted Reimbursement Rate
 For the Contract Period October 1, 2006 Through September 30, 2007
 AC# 3-LCH-J5

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 68.61	\$ 79.77	
Dietary		13.93	13.46	
Laundry/Housekeeping/Maintenance		<u>14.48</u>	<u>12.03</u>	
Subtotal	\$ <u>7.37</u>	97.02	105.26	\$ 97.02
Administration & Medical Records	\$ <u>-</u>	<u>18.22</u>	<u>16.87</u>	<u>16.87</u>
Subtotal		115.24	<u>\$122.13</u>	113.89
<u>Costs Not Subject to Standards:</u>				
Utilities		4.79		4.79
Special Services		.34		.34
Medical Supplies & Oxygen		3.11		3.11
Taxes and Insurance		8.30		8.30
Legal Fees		<u>.10</u>		<u>.10</u>
TOTAL		<u>\$131.88</u>		130.53
Inflation Factor (4.60%)				6.00
Cost of Capital				8.40
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				7.37
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(5.62)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$146.68</u>

LIFE CARE CENTER OF CHARLESTON
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2005
 AC# 3-LCH-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	\$3,579,821	\$13,819 (5) 486 (6)	\$ 444 (1) 14,128 (6)	\$3,579,554
Dietary	714,307	10,775 (5) 1,435 (6)	-	726,517
Laundry	132,868	8,088 (5)	941 (6)	140,015
Housekeeping	332,620	360 (5)	13 (6) 15,137 (8)	317,830
Maintenance	311,497	-	414 (6) 13,741 (8)	297,342
Administration & Medical Records	1,019,191	724 (5) 554 (6)	34,067 (6) 35,797 (8)	950,605
Utilities	261,331	-	11,532 (8)	249,799
Special Services	17,492	9,031 (6)	8,893 (7)	17,630
Medical Supplies & Oxygen	213,554	-	33,871 (5) 17,332 (7)	162,351
Taxes and Insurance	461,616	-	11,325 (4) 17,510 (8)	432,781

LIFE CARE CENTER OF CHARLESTON
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2005
AC# 3-LCH-J5

<u>Expenses</u>	Totals (From Schedule SC 13) as Adjusted by DH&HS	Adjustments <u>Debit</u>	<u>Credit</u>	Adjusted <u>Totals</u>
Legal Fees	5,635	-	238 (8)	5,397
Cost of Capital	479,955	2,277 (2)	1,950 (1) 1,365 (3) 7,321 (8) <u>30,822 (9)</u>	440,774
Subtotal	<u>7,529,887</u>	<u>47,549</u>	256,841	7,320,595
Ancillary	554,235	105 (5)	-	554,340
Nonallowable	2,384,588	2,394 (1) 1,365 (3) 11,325 (4) 38,057 (6) 26,225 (7) 101,276 (8) 30,822 (9)	2,277 (2)	2,593,775
CNA Training and Testing	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Operating Expenses	<u>\$10,468,710</u>	<u>\$259,118</u>	<u>\$259,118</u>	<u>\$10,468,710</u>
Total Patient Days	<u>52,169</u>	<u>-</u>	<u>-</u>	<u>52,169</u>
			Cost of Capital Patient Days	<u>52,497</u>
Total Beds	<u>148</u>			

LIFE CARE CENTER OF CHARLESTON
Adjustment Report
Cost Report Period Ended September 30, 2005
AC# 3-LCH-J5

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$ 7,310	
	Other Equity	52,114	
	Nonallowable	2,394	
	Accumulated Depreciation		\$ 59,424
	Restorative		444
	Cost of Capital		1,950
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Accumulated Amortization - Loan Cost	24,960	
	Other Equity	251,165	
	Cost of Capital	2,277	
	Loan Cost		276,125
	Nonallowable		2,277
	To adjust loan cost and related amortization HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
3	Nonallowable	1,365	
	Cost of Capital		1,365
	To adjust depreciation and amortization expense to comply with capital cost policy State Plan, Attachment 4.19D		
4	Nonallowable	11,325	
	Taxes and Insurance		11,325
	To adjust liability insurance expense HIM-15-1, Section 2304		

LIFE CARE CENTER OF CHARLESTON
Adjustment Report
Cost Report Period Ended September 30, 2005
AC# 3-LCH-J5

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Nursing	13,819	
	Dietary	10,775	
	Laundry	8,088	
	Housekeeping	360	
	Administration	724	
	Ancillary	105	
	Medical Supplies		33,871
	To reclassify expense to the proper cost center		
	HIM-15-1, Section 2304		
	DH&HS Expense Crosswalk		
6	Restorative	486	
	Dietary	1,435	
	Medical Records	554	
	Special Services	9,031	
	Nonallowable	38,057	
	Nursing		14,128
	Laundry		941
	Housekeeping		13
	Maintenance		414
	Administration		34,067
	To adjust fringe benefits and related allocation and reclassify expense to the proper cost center		
	HIM-15-1, Section 2304		
	DH&HS Expense Crosswalk		
	State Plan, Attachment 4.19D		
7	Nonallowable	26,225	
	Medical Supplies		17,332
	Special Services		8,893
	To remove special (ancillary) services reimbursed by Medicare		
	State Plan, Attachment 4.19D		

LIFE CARE CENTER OF CHARLESTON
Adjustment Report
Cost Report Period Ended September 30, 2005
AC# 3-LCH-J5

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
8	Nonallowable	101,276	
	Housekeeping		15,137
	Maintenance		13,741
	Administration		35,797
	Legal		238
	Utilities		11,532
	Taxes and Insurance		17,510
	Cost of Capital		7,321
	To remove indirect cost applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
9	Nonallowable	30,822	
	Cost of Capital		30,822
	To adjust capital return State Plan, Attachment 4.19D		
		\$594,667	\$594,667
	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.

LIFE CARE CENTER OF CHARLESTON
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2005
 AC# 3-LCH-J5

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.77878</u>	<u>2.77878</u>	
Deemed Asset Value (Per Bed)	43,399	43,399	
Number of Beds	<u>88</u>	<u>60</u>	
Deemed Asset Value	3,819,112	2,603,940	
Improvements Since 1981	425,925	129,764	
Accumulated Depreciation at 09/30/05	<u>(1,037,651)</u>	<u>(420,528)</u>	
Deemed Depreciated Value	3,207,386	2,313,176	
Market Rate of Return	<u>.0490</u>	<u>.0490</u>	
Total Annual Return	157,162	113,346	
Return Applicable to Non-Reimbursable Cost Centers	(2,738)	(8,172)	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>35</u>	<u>99</u>	
Allowable Annual Return	154,459	105,273	
Depreciation Expense	116,346	70,202	
Amortization Expense	587	1,234	
Capital Related Income Offsets	(4)	(2)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(2,072)</u>	<u>(5,249)</u>	<u>Total</u>
Allowable Cost of Capital Expense	269,316	171,458	\$440,774
Total Patient Days (Minimum 96% Occupancy)	<u>30,835</u>	<u>21,662</u>	<u>52,497</u>
Cost of Capital Per Diem	\$ <u>8.73</u>	\$ <u>7.92</u>	\$ <u>8.40</u>

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