

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-LHH-J5 – Life Care Center of America, Inc. d/b/a Life Care Center of Hilton Head

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/sag

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

**LIFE CARE CENTER OF AMERICA, INC.
D/B/A LIFE CARE CENTER OF HILTON HEAD
HILTON HEAD ISLAND, SOUTH CAROLINA**

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

July 15, 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 Life Care Center of America, Inc. d/b/a Life Care Center of Hilton Head, 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 Life Care Center of America, Inc. d/b/a Life Care Center of Hilton Head 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 Life Care Center of America, Inc. d/b/a Life Care Center of Hilton Head, 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 Life Care Center of America, Inc. d/b/a Life Care Center of Hilton Head 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 15, 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 HILTON HEAD
Computation of Rate Change
For the Contract Period
Beginning October 1, 2006
AC# 3-LHH-J5

	10/01/06- <u>09/30/07</u>
Interim Reimbursement Rate (1)	\$144.53
Adjusted Reimbursement Rate	<u>142.31</u>
Decrease in Reimbursement Rate	\$ <u><u>2.22</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 HILTON HEAD
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 2006 Through September 30, 2007
AC# 3-LHH-J5

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 71.98	\$ 68.75	
Dietary		13.90	13.72	
Laundry/Housekeeping/Maintenance		<u>13.34</u>	<u>12.61</u>	
Subtotal	\$ <u>-</u>	99.22	95.08	\$ 95.08
Administration & Medical Records	\$ <u>-</u>	<u>20.19</u>	<u>16.31</u>	<u>16.31</u>
Subtotal		119.41	<u>\$111.39</u>	111.39
<u>Costs Not Subject to Standards:</u>				
Utilities		3.62		3.62
Special Services		.17		.17
Medical Supplies & Oxygen		4.16		4.16
Taxes and Insurance		7.82		7.82
Legal Fees		<u>.23</u>		<u>.23</u>
TOTAL		<u>\$135.41</u>		127.39
Inflation Factor (4.60%)				5.86
Cost of Capital				9.06
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>
ADJUSTED REIMBURSEMENT RATE				<u>\$142.31</u>

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

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	<u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
General Services	\$2,078,634	\$ 9,693 (1) 1,553 (6)	\$ 69 (7) 617 (7)	\$2,089,194
Dietary	402,184	3,672 (6)	2,488 (7)	403,368
Laundry	56,846	1,495 (6)	97 (7)	58,244
Housekeeping	142,795	899 (6)	273 (7)	143,421
Maintenance	200,812	-	14,896 (4) 276 (7)	185,640
Administration & Medical Records	601,415	338 (7)	15,651 (7)	586,102
Utilities	91,517	13,549 (4)	-	105,066
Special Services	4,922	634 (8)	632 (7)	4,924
Medical Supplies & Oxygen	132,164	-	9,403 (6) 2,156 (8)	120,605
Taxes and Insurance	283,803	-	56,915 (5)	226,888
Legal Fees	6,788	-	-	6,788
Cost of Capital	270,223	412 (1) <u>10,719 (9)</u>	220 (2) <u>4,944 (3)</u>	276,190
Subtotal	4,272,103	42,964	108,637	4,206,430

LIFE CARE CENTER OF HILTON HEAD
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2005
AC# 3-LHH-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>	
Ancillary	193,517	1,784 (6)	-	195,301
Nonallowable	560,073	220 (2)	10,105 (1)	622,660
		4,944 (3)	10,719 (9)	
		45 (4)		
		56,915 (5)		
		19,765 (7)		
		1,522 (8)		
CNA Training & Testing	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Operating Expenses	<u>\$5,025,693</u>	<u>\$128,159</u>	<u>\$129,461</u>	<u>\$5,024,391</u>
Total Patient Days	<u>29,025</u>	<u>-</u>	<u>-</u>	<u>29,025</u>
			Cost of Capital Patient Days	<u>30,475</u>
Total Beds	<u>88</u>			

LIFE CARE CENTER OF HILTON HEAD
Adjustment Report
Cost Report Period Ended September 30, 2005
AC# 3-LHH-J5

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$44,808	
	Restorative	9,693	
	Cost of Capital	412	
	Fixed Assets		\$26,319
	Other Equity		18,489
	Nonallowable		10,105
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	220	
	Cost of Capital		220
	To adjust loan cost amortization HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
3	Nonallowable	4,944	
	Cost of Capital		4,944
	To adjust depreciation expense to comply with capital cost policy State Plan, Attachment 4.19D		
4	Prepaid Expense	1,183	
	Retained Earnings	245	
	Utilities	13,549	
	Nonallowable	45	
	Accrued Expense		126
	Maintenance		14,896
	To reclassify expense to the proper cost center, adjust year-end accruals, and remove duplicate posting of expense HIM-15-1, Sections 2302.1 and 2304 DH&HS Expense Crosswalk		
5	Nonallowable	56,915	
	Taxes and Insurance		56,915
	To adjust liability insurance expense HIM-15-1, Section 2304		

LIFE CARE CENTER OF HILTON HEAD
Adjustment Report
Cost Report Period Ended September 30, 2005
AC# 3-LHH-J5

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Nursing	1,553	
	Dietary	3,672	
	Laundry	1,495	
	Housekeeping	899	
	Ancillary	1,784	
	Medical Supplies		9,403
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		
7	Medical Records	338	
	Nonallowable	19,765	
	Nursing		69
	Restorative		617
	Dietary		2,488
	Laundry		97
	Housekeeping		273
	Maintenance		276
	Administration		15,651
	Special Services		632
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
8	Nonallowable	1,522	
	Special Services	634	
	Medical Supplies		2,156
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		

LIFE CARE CENTER OF HILTON HEAD
Adjustment Report
Cost Report Period Ended September 30, 2005
AC# 3-LHH-J5

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
9	Cost of Capital Nonallowable	10,719	10,719
	To adjust capital return State Plan, Attachment 4.19D		
		\$174,395	\$174,395
	TOTAL ADJUSTMENTS	\$174,395	\$174,395

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 HILTON HEAD
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2005
 AC# 3-LHH-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>44</u>	<u>44</u>	
Deemed Asset Value	1,909,556	1,909,556	
Improvements Since 1981	254,696	594,005	
Accumulated Depreciation at 09/30/05	<u>(809,425)</u>	<u>(957,355)</u>	
Deemed Depreciated Value	1,354,827	1,546,206	
Market Rate of Return	<u>.0490</u>	<u>.0490</u>	
Total Annual Return	66,387	75,764	
Return Applicable to Non-Reimbursable Cost Centers	-	-	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	
Allowable Annual Return	66,387	75,764	
Depreciation Expense	35,995	96,958	
Amortization Expense	906	271	
Capital Related Income Offsets	(45)	(46)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	<u>Total</u>
Allowable Cost of Capital Expense	103,243	172,947	\$276,190
Total Patient Days	<u>15,962</u>	<u>14,513</u>	<u>30,475</u>
Cost of Capital Per Diem	\$ <u>6.47</u>	\$ <u>11.92</u>	\$ <u>9.06</u>

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

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$ 8.11	\$ N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	<u>\$12.10</u>	<u>\$11.92</u>
Reimbursable Cost of Capital Per Diem	\$9.06	
Cost of Capital Per Diem	<u>9.06</u>	
Cost of Capital Per Diem Limitation	\$ <u>-</u>	

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