

# 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

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May 11, 2010

Mr. P. Scott Jones, Administrator  
Pepper Hill Nursing and Rehab Center, LLC  
3525 Augustus Drive  
Aiken, South Carolina 29801

Re: AC# 3-PPH-J6 – Pepper Hill Nursing and Rehab Center, LLC

Dear Mr. Jones:

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, 2005 through September 30, 2006. That report was used to set the rate covering the contract period beginning October 1, 2007.

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

**PEPPER HILL NURSING AND REHAB CENTER, LLC**

**AIKEN, SOUTH CAROLINA**

**CONTRACT PERIOD  
BEGINNING OCTOBER 1, 2007  
AC# 3-PPH-J6**

**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

June 16, 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 Pepper Hill Nursing and Rehab Center, LLC, for the contract period beginning October 1, 2007, and for the twelve month cost report period ended September 30, 2006, as set forth in the accompanying schedules. The management of Pepper Hill Nursing and Rehab Center, 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 Pepper Hill Nursing and Rehab Center, 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, 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 Pepper Hill Nursing and Rehab Center, LLC 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  
June 16, 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

**PEPPER HILL NURSING AND REHAB CENTER, LLC**  
Computation of Rate Change  
For the Contract Period  
Beginning October 1, 2007  
AC# 3-PPH-J6

10/01/07-  
09/30/08

Interim Reimbursement Rate (1)	\$132.21
Adjusted Reimbursement Rate	<u>129.67</u>
Decrease in Reimbursement Rate	\$ <u><u>2.54</u></u>

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

**PEPPER HILL NURSING AND REHAB CENTER, LLC**  
 Computation of Adjusted Reimbursement Rate  
 For the Contract Period October 1, 2007 Through September 30, 2008  
 AC# 3-PPH-J6

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 62.41	\$ 77.15	
Dietary		12.16	13.85	
Laundry/Housekeeping/Maintenance		<u>11.51</u>	<u>12.55</u>	
Subtotal	<u>\$7.25</u>	86.08	103.55	\$ 86.08
Administration & Medical Records	<u>\$2.53</u>	<u>15.69</u>	<u>18.22</u>	<u>15.69</u>
Subtotal		101.77	<u>\$121.77</u>	101.77
<u>Costs Not Subject to Standards:</u>				
Utilities		3.48		3.48
Special Services		-		-
Medical Supplies & Oxygen		5.55		5.55
Taxes and Insurance		3.47		3.47
Legal Fees		<u>.01</u>		<u>.01</u>
<b>TOTAL</b>		<u>\$114.28</u>		114.28
Inflation Factor (4.60%)				5.26
Cost of Capital				7.95
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				2.53
Cost Incentive				7.25
Effect of \$1.75 Cap on Cost/Profit Incentives				(8.03)
Transportation Escort Add-On				<u>.43</u>
<b>ADJUSTED REIMBURSEMENT RATE</b>				<u>\$129.67</u>

**PEPPER HILL NURSING AND REHAB CENTER, LLC**  
 Summary of Costs and Total Patient Days  
 For the Cost Report Period Ended September 30, 2006  
 AC# 3-PPH-J6

<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	\$2,903,886	\$ -	\$16,376 (2) 904 (2)	\$2,886,606
Dietary	564,189	-	1,754 (2)	562,435
Laundry	83,148	-	505 (2)	82,643
Housekeeping	300,299	-	1,552 (2)	298,747
Maintenance	151,192	-	290 (2)	150,902
Administration & Medical Records	805,339	1,959 (3)	32,491 (2) 213 (2) 48,842 (4)	725,752
Utilities	161,108	-	-	161,108
Special Services	-	-	-	-
Medical Supplies & Oxygen	256,769	-	144 (2)	256,625
Taxes and Insurance	160,573	-	-	160,573
Legal Fees	448	-	-	448

**PEPPER HILL NURSING AND REHAB CENTER, LLC**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 2006  
AC# 3-PPH-J6

<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>	
Cost of Capital	379,642	-	656 (1) 9,645 (4) 590 (5) 909 (6)	367,842
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Subtotal	5,766,593	1,959	114,871	5,653,681
Ancillary	169,909	-	-	169,909
Nonallowable	496,750	656 (1) 54,229 (2) 58,487 (4) 590 (5) 909 (6)	1,959 (3)	609,662
CNA Training and Testing	<u>2,470</u>	<u>                    </u>	<u>                    </u>	<u>2,470</u>
Total Operating Expenses	<u>\$6,435,722</u>	<u>\$116,830</u>	<u>\$116,830</u>	<u>\$6,435,722</u>
Total Patient Days	<u>46,253</u>	<u>                    </u>	<u>                    </u>	<u>46,253</u>
Total Beds	<u>132</u>			

**PEPPER HILL NURSING AND REHAB CENTER, LLC**  
Adjustment Report  
Cost Report Period Ended September 30, 2006  
AC# 3-PPH-J6

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Nonallowable	\$ 656	
	Accumulated Depreciation	1,926	
	Other Equity		\$ 449
	Fixed Assets		1,477
	Cost of Capital		656
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	54,229	
	Nursing		16,376
	Restorative		904
	Dietary		1,754
	Laundry		505
	Housekeeping		1,552
	Maintenance		290
	Administration		32,491
	Medical Records		213
	Medical Supplies		144
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
3	Administration	1,959	
	Nonallowable		1,959
	To adjust owner/relative compensation and benefits State Plan, Attachment 4.19D		
4	Nonallowable	58,487	
	Administration		48,842
	Cost of Capital		9,645
	To adjust Home Office Cost HIM-15-1, Section 2400		

**PEPPER HILL NURSING AND REHAB CENTER, LLC**  
Adjustment Report  
Cost Report Period Ended September 30, 2006  
AC# 3-PPH-J6

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Nonallowable Cost of Capital	590	590
	To adjust deemed asset value limitation State Plan, Attachment 4.19D		
6	Nonallowable Cost of Capital	909	909
	To adjust capital return State Plan, Attachment 4.19D		
	TOTAL ADJUSTMENTS	\$118,756	\$118,756

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.

**PEPPER HILL NURSING AND REHAB CENTER, LLC**  
 Cost of Capital Reimbursement Analysis  
 For the Cost Report Period Ended September 30, 2006  
 AC# 3-PPH-J6

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.85382</u>	<u>2.85382</u>	<u>2.85382</u>	
Deemed Asset Value (Per Bed)	44,571	44,571	44,571	
Number of Beds	<u>44</u>	<u>44</u>	<u>44</u>	
Deemed Asset Value	1,961,124	1,961,124	1,961,124	
Improvements Since 1981	208,573	230,146	254,719	
Accumulated Depreciation at 9/30/06	<u>(629,368)</u>	<u>(694,469)</u>	<u>(768,618)</u>	
Deemed Depreciated Value	1,540,329	1,496,801	1,447,225	
Market Rate of Return	<u>.0489</u>	<u>.0489</u>	<u>.0489</u>	
Total Annual Return	75,322	73,194	70,769	
Return Applicable to Non-Reimbursable Cost Centers	(1,011)	(982)	(949)	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>985</u>	<u>985</u>	<u>985</u>	
Allowable Annual Return	75,296	73,197	70,805	
Depreciation Expense	49,180	54,119	59,745	
Amortization Expense	550	607	672	
Capital Related Income Offsets	(3,675)	(3,675)	(3,674)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(1,769)</u>	<u>(1,768)</u>	<u>(1,768)</u>	<u>Total</u>
Allowable Cost of Capital Expense	119,582	122,480	125,780	\$367,842
Total Patient Days (Minimum 96% Occupancy)	<u>15,417</u>	<u>15,418</u>	<u>15,418</u>	<u>46,253</u>
Cost of Capital Per Diem	\$ <u>7.76</u>	\$ <u>7.94</u>	\$ <u>8.16</u>	\$ <u>7.95</u>

**PEPPER HILL NURSING AND REHAB CENTER, LLC**  
 Cost of Capital Reimbursement Analysis  
 For the Cost Report Period Ended September 30, 2006  
 AC# 3-PPH-J6

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$ N/A	\$ N/A	\$ N/A
Adjustment for Maximum Increase	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	<u>\$7.76</u>	<u>\$7.94</u>	<u>\$8.16</u>
Reimbursable Cost of Capital Per Diem		\$7.95	
Cost of Capital Per Diem		<u>7.95</u>	
Cost of Capital Per Diem Limitation		<u>\$ -</u>	

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