

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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June 14, 2011

Mr. John Twitty, Controller
HMR Advantage Health Systems, Inc.
101 Grace Drive
Easley, South Carolina 29640

Re: AC# 3-BKS-J6 – Brookside Living Center, LLC

Dear Mr. Twitty:

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.

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

BROOKSIDE LIVING CENTER, LLC

ANDERSON, SOUTH CAROLINA

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

August 30, 2010

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 Brookside Living 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 Brookside Living 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 Brookside Living 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 Brookside Living 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
August 30, 2010

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

BROOKSIDE LIVING CENTER, LLC
Computation of Rate Change
For the Contract Period
Beginning October 1, 2007
AC# 3-BKS-J6

10/01/07-
09/30/08

Interim Reimbursement Rate (1)	\$147.32
Adjusted Reimbursement Rate	<u>143.28</u>
Decrease in Reimbursement Rate	\$ <u>4.04</u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated June 8, 2009.

BROOKSIDE LIVING CENTER, LLC
 Computation of Adjusted Reimbursement Rate
 For the Contract Period October 1, 2007 Through September 30, 2008
 AC# 3-BKS-J6

<u>Costs Subject to Standards:</u>	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
General Services		\$ 74.39	\$ 83.18	
Dietary		11.73	13.90	
Laundry/Housekeeping/Maintenance		<u>13.69</u>	<u>13.36</u>	
Subtotal	<u>\$7.73</u>	99.81	110.44	\$ 99.81
Administration & Medical Records	<u>\$1.62</u>	<u>15.45</u>	<u>17.07</u>	<u>15.45</u>
Subtotal		115.26	<u>\$127.51</u>	115.26
 <u>Costs Not Subject to Standards:</u>				
Utilities		2.80		2.80
Special Services		.05		.05
Medical Supplies & Oxygen		5.17		5.17
Taxes and Insurance		4.41		4.41
Legal Fees		<u>.08</u>		<u>.08</u>
TOTAL		<u>\$127.77</u>		127.77
Inflation Factor (4.60%)				5.88
Cost of Capital				7.35
Cost of Capital Limitation				(.08)
Profit Incentive (Maximum 3.5% of Allowable Cost)				1.62
Cost Incentive				7.73
Effect of \$1.75 Cap on Cost/Profit Incentives				(7.60)
Transportation Escort Add-On				<u>.61</u>
 ADJUSTED REIMBURSEMENT RATE				 <u>\$143.28</u>

BROOKSIDE LIVING CENTER, LLC
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2006
 AC# 3-BKS-J6

<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	\$2,396,554	\$ -	\$ 39,612 (5) 5,085 (6) 5,707 (7) 40,032 (13) 1,066 (13) 9,947 (14) 317 (14) 969 (16)	\$2,293,819
Dietary	377,651	-	9,154 (7) 6,724 (8) 36 (14) 16 (16)	361,721
Laundry	126,728	-	27 (14) 3 (16)	126,698
Housekeeping	174,108	-	73 (16)	174,035
Maintenance	127,106	-	5,330 (9) 29 (14) 234 (16)	121,513
Administration & Medical Records	467,649	26,583 (13) 5,506 (14)	3,426 (2) 18 (14) 19,848 (16) 12 (16)	476,434
Utilities	88,458	-	2,090 (10) 99 (16)	86,269
Special Services	1,463	33 (7)	1 (16)	1,495

BROOKSIDE LIVING CENTER, LLC
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2006
AC# 3-BKS-J6

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
Medical Supplies & Oxygen	166,526	-	6,640 (7) 570 (12) 26 (14)	159,290
Taxes and Insurance	142,355	-	6,368 (11) 158 (16)	135,829
Legal Fees	2,732	-	234 (16)	2,498
Cost of Capital	210,911	32,120 (5) 22 (15) 786 (16)	1,002 (1) 3,780 (2) 5,363 (3) <u>7,080 (4)</u>	226,614
	<hr/>	<hr/>	<hr/>	<hr/>
Subtotal	4,282,241	65,050	181,076	4,166,215
Ancillary	159,749	570 (12)	-	160,319
Nonallowable	967,274	7,206 (2) 5,363 (3) 7,080 (4) 7,492 (5) 5,085 (6) 21,468 (7) 6,724 (8) 5,330 (9) 6,368 (11) 14,515 (13) 4,894 (14) 20,861 (16)	22 (15)	1,079,638

BROOKSIDE LIVING CENTER, LLC
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2006
AC# 3-BKS-J6

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		Adjusted <u>Totals</u>
		<u>Debit</u>	<u>Credit</u>	
CNA Training and Testing	<u>507</u>	<u>-</u>	<u>-</u>	<u>507</u>
Total Operating Expenses	<u>\$5,409,771</u>	<u>\$178,006</u>	<u>\$181,098</u>	<u>\$5,406,679</u>
Total Patient Days	<u>30,835</u>	<u>-</u>	<u>-</u>	<u>30,835</u>
Total Beds	<u>88</u>			

BROOKSIDE LIVING CENTER, LLC
Adjustment Report
Cost Report Period Ended September 30, 2006
AC# 3-BKS-J6

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$ 362	
	Other Equity	15,268	
	Fixed Assets		\$14,628
	Cost of Capital		1,002
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	7,206	
	Administration		3,426
	Cost of Capital		3,780
	To remove reorganization costs HIM-15-1, Section 2134.10 State Plan, Attachment 4.19D		
3	Nonallowable	5,363	
	Cost of Capital		5,363
	To remove loan cost amortization State Plan, Attachment 4.19D		
4	Nonallowable	7,080	
	Cost of Capital		7,080
	To adjust depreciation expense to comply with capital cost policy State Plan, Attachment 4.19D		
5	Leased Equipment	96,360	
	Deferred Finance Expense	3,122	
	Cost of Capital	32,120	
	Nonallowable	7,492	
	Lease Payable		16,505
	Accumulated Depreciation		82,977
	Nursing		39,612
	To record capital lease HIM-15-1, Section 110		

BROOKSIDE LIVING CENTER, LLC
Adjustment Report
Cost Report Period Ended September 30, 2006
AC# 3-BKS-J6

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Nonallowable Nursing	5,085	5,085
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		
7	Special Services Nonallowable Nursing Dietary Medical Supplies	33 21,468	5,707 9,154 6,640
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
8	Nonallowable Dietary	6,724	6,724
	To reclassify expense to the proper cost center HIM-15-1, Section 2304		
9	Nonallowable Maintenance	5,330	5,330
	To disallow expense due to lack of documentation HIM-15-1, Section 2304		
10	Retained Earnings Accounts Payable Utilities	1,450 640	2,090
	To adjust utility expense HIM-15-1, Section 2302.1		
11	Nonallowable Taxes and Insurance	6,368	6,368
	To adjust liability insurance expense HIM-15-1, Section 2162.2 State Plan, Attachment 4.19D		

BROOKSIDE LIVING CENTER, LLC
Adjustment Report
Cost Report Period Ended September 30, 2006
AC# 3-BKS-J6

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
12	Ancillary Medical Supplies	570	570
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		
13	Administration Nonallowable Nursing Restorative	26,583 14,515	40,032 1,066
	To reclassify expense to the proper cost center HIM-15-1, Section 2102.3 DH&HS Expense Crosswalk		
14	Administration Nonallowable Nursing Restorative Dietary Laundry Maintenance Medical Records Medical Supplies	5,506 4,894	9,947 317 36 27 29 18 26
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
15	Cost of Capital Nonallowable	22	22
	To adjust capital return State Plan, Attachment 4.19D		

BROOKSIDE LIVING CENTER, LLC
Adjustment Report
Cost Report Period Ended September 30, 2006
AC# 3-BKS-J6

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
16	Cost of Capital	786	
	Nonallowable	20,861	
	Nursing		969
	Dietary		16
	Laundry		3
	Housekeeping		73
	Maintenance		234
	Administration		19,848
	Medical Records		12
	Legal		234
	Utilities		99
	Taxes and Insurance		158
	Special Services		1
	 To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
		<u>\$295,208</u>	<u>\$295,208</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.

BROOKSIDE LIVING CENTER, LLC
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2006
 AC# 3-BKS-J6

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.85382</u>	<u>2.85382</u>	
Deemed Asset Value (Per Bed)	44,571	44,571	
Number of Beds	<u>44</u>	<u>44</u>	
Deemed Asset Value	1,961,124	1,961,124	
Improvements Since 1981	149,738	116,737	
Accumulated Depreciation at 9/30/06	<u>(442,518)</u>	<u>(518,937)</u>	
Deemed Depreciated Value	1,668,344	1,558,924	
Market Rate of Return	<u>.0489</u>	<u>.0489</u>	
Total Annual Return	81,582	76,231	
Return Applicable to Non-Reimbursable Cost Centers	-	-	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	
Allowable Annual Return	81,582	76,231	
Depreciation Expense	20,665	48,152	
Amortization Expense	-	-	
Capital Related Income Offsets	(8)	(8)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	<u>Total</u>
Allowable Cost of Capital Expense	102,239	124,375	\$226,614
Total Patient Days (Actual)	<u>15,418</u>	<u>15,417</u>	<u>30,835</u>
Cost of Capital Per Diem	\$ <u>6.63</u>	\$ <u>8.07</u>	\$ <u>7.35</u>

BROOKSIDE LIVING CENTER, LLC
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2006
AC# 3-BKS-J6

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$2.48	\$ N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	<u>\$6.47</u>	<u>\$8.07</u>
Reimbursable Cost of Capital Per Diem	\$7.27	
Cost of Capital Per Diem	<u>7.35</u>	
Cost of Capital Per Diem Limitation	<u>\$(.08)</u>	

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