

*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-HER-J6 – Island Oaks 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

**ISLAND OAKS LIVING CENTER, LLC**  
**JOHNS ISLAND, SOUTH CAROLINA**

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

September 23, 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 Island Oaks 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 Island Oaks 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 Island Oaks 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 Island Oaks 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  
September 23, 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

**ISLAND OAKS LIVING CENTER, LLC**  
Computation of Rate Change  
For the Contract Period  
Beginning October 1, 2007  
AC# 3-HER-J6

10/01/07-  
09/30/08

Interim Reimbursement Rate (1)	\$133.11
Adjusted Reimbursement Rate	<u>132.03</u>
Decrease in Reimbursement Rate	\$ <u>1.08</u>

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

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

<u>Costs Subject to Standards:</u>	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
General Services		\$ 65.99	\$ 82.94	
Dietary		10.69	13.85	
Laundry/Housekeeping/Maintenance		<u>12.63</u>	<u>12.55</u>	
Subtotal	<u>\$7.65</u>	89.31	109.34	\$ 89.31
Administration & Medical Records	<u>\$4.46</u>	<u>13.76</u>	<u>18.22</u>	<u>13.76</u>
Subtotal		103.07	<u>\$127.56</u>	103.07
<u>Costs Not Subject to Standards:</u>				
Utilities		3.25		3.25
Special Services		.21		.21
Medical Supplies & Oxygen		7.40		7.40
Taxes and Insurance		3.50		3.50
Legal Fees		<u>.17</u>		<u>.17</u>
<b>TOTAL</b>		<u>\$117.60</u>		117.60
Inflation Factor (4.60%)				5.41
Cost of Capital				6.82
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				4.12
Cost Incentive				7.65
Effect of \$1.75 Cap on Cost/Profit Incentives				(10.02)
Transportation Escort Add-On				<u>.45</u>
<b>ADJUSTED REIMBURSEMENT RATE</b>				<u>\$132.03</u>

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

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$3,070,308	\$ 26,605 (6) 2,222 (6)	\$ 43,085 (5) 1,292 (5) 1,446 (8) 892 (9)	\$3,052,420
Dietary	547,615	971 (6)	23 (8) 53,928 (9)	494,635
Laundry	185,869	-	4 (8)	185,865
Housekeeping	245,006	108 (8)	-	245,114
Maintenance	152,339	774 (6)	28 (8)	153,085
Administration & Medical Records	589,300	27,692 (5) 7,879 (6) 449 (6) 14,524 (8) 17 (8)	3,426 (2)	636,435
Utilities	150,198	145 (8)	-	150,343
Special Services	10,721	1 (8)	918 (9)	9,804
Medical Supplies & Oxygen	353,968	328 (6)	2,803 (3) 9,392 (9)	342,101
Taxes and Insurance	171,135	232 (8)	9,546 (4)	161,821
Legal Fees	7,543	343 (8)	-	7,886

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

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Cost of Capital	319,241	861 (7) 1,455 (8) <u>1,608 (10)</u>	3,832 (1) 3,780 (2)	315,553
Subtotal	5,803,243	86,214	134,395	5,755,062
Ancillary	141,510	2,803 (3)	-	144,313
Nonallowable	328,771	7,206 (2) 9,546 (4) 16,685 (5) 65,130 (9)	39,228 (6) 861 (7) 15,324 (8) 1,608 (10)	370,317
CNA Training and Testing	<u>299</u>	-	-	<u>299</u>
Total Operating Expenses	<u>\$6,273,823</u>	<u>\$187,584</u>	<u>\$191,416</u>	<u>\$6,269,991</u>
Total Patient Days	<u>46,253</u>	-	-	<u>46,253</u>
Total Beds	<u>132</u>			

**ISLAND OAKS LIVING CENTER, LLC**  
Adjustment Report  
Cost Report Period Ended September 30, 2006  
AC# 3-HER-J6

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$17,594	
	Fixed Assets		\$ 4,126
	Other Equity		9,636
	Cost of Capital		3,832
	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	Ancillary	2,803	
	Medical Supplies		2,803
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		
4	Nonallowable	9,546	
	Taxes and Insurance		9,546
	To adjust liability insurance expense HIM-15-1, Section 2162.2 State Plan, Attachment 4.19D		
5	Administration	27,692	
	Nonallowable	16,685	
	Nursing		43,085
	Restorative		1,292
	To reclassify expense to the proper cost center HIM-15-1, Section 2102.3 DH&HS Expense Crosswalk		

**ISLAND OAKS LIVING CENTER, LLC**  
Adjustment Report  
Cost Report Period Ended September 30, 2006  
AC# 3-HER-J6

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Nursing	26,605	
	Restorative	2,222	
	Dietary	971	
	Maintenance	774	
	Administration	7,879	
	Medical Records	449	
	Medical Supplies	328	
	Nonallowable		39,228
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
7	Cost of Capital	861	
	Nonallowable		861
	To adjust capital return State Plan, Attachment 4.19D		
8	Housekeeping	108	
	Administration	14,524	
	Medical Records	17	
	Legal	343	
	Utilities	145	
	Taxes and Insurance	232	
	Special Services	1	
	Cost of Capital	1,455	
	Nursing		1,446
	Dietary		23
	Laundry		4
	Maintenance		28
	Nonallowable		15,324
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

**ISLAND OAKS LIVING CENTER, LLC**  
Adjustment Report  
Cost Report Period Ended September 30, 2006  
AC# 3-HER-J6

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
9	Nonallowable	65,130	
	Nursing		892
	Dietary		53,928
	Medical Supplies		9,392
	Special Services		918
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
10	Cost of Capital	1,608	
	Nonallowable		1,608
	To adjust depreciation expense to comply with capital cost policy State Plan, Attachment 4.19D		
		\$205,178	\$205,178
	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.

**ISLAND OAKS LIVING CENTER, LLC**  
 Cost of Capital Reimbursement Analysis  
 For the Cost Report Period Ended September 30, 2006  
 AC# 3-HER-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>88</u>	<u>44</u>	
Deemed Asset Value	3,922,248	1,961,124	
Improvements Since 1981	262,743	71,401	
Accumulated Depreciation at 9/30/06	<u>(1,493,917)</u>	<u>(438,933)</u>	
Deemed Depreciated Value	2,691,074	1,593,592	
Market Rate of Return	<u>.0489</u>	<u>.0489</u>	
Total Annual Return	131,594	77,927	
Return Applicable to Non-Reimbursable Cost Centers	-	-	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	
Allowable Annual Return	131,594	77,927	
Depreciation Expense	62,182	43,850	
Amortization Expense	-	-	
Capital Related Income Offsets	-	-	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	<u>Total</u>
Allowable Cost of Capital Expense	193,776	121,777	\$315,553
Total Patient Days (Minimum 96% Occupancy)	<u>30,835</u>	<u>15,418</u>	<u>46,253</u>
Cost of Capital Per Diem	\$ <u>6.28</u>	\$ <u>7.90</u>	\$ <u>6.82</u>

**ISLAND OAKS LIVING CENTER, LLC**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 2006  
AC# 3-HER-J6

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$5.65	\$ N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	<u>\$9.64</u>	<u>\$7.90</u>
Reimbursable Cost of Capital Per Diem	\$6.82	
Cost of Capital Per Diem	<u>6.82</u>	
Cost of Capital Per Diem Limitation	<u>\$ -</u>	

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