

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

RICHARD H. GILBERT, JR., CPA
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September 27, 2010

Mr. Parke Horton, CFO
Lutheran Homes of South Carolina, Inc.
300 Ministry Drive
Irmo, South Carolina 29063

Re: AC# 3-LMN-J5 – Lutheran Homes of S.C. d/b/a Lowman Home Nursing Center

Dear Mr. Horton:

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.

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

**LUTHERAN HOMES OF S.C.
D/B/A LOWMAN HOME NURSING CENTER
WHITE ROCK, SOUTH CAROLINA**

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2006
AC# 3-LMN-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 31, 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 Lutheran Homes of S.C. d/b/a Lowman Home Nursing Center, 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 Lutheran Homes of S.C. d/b/a Lowman Home Nursing Center 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 Lutheran Homes of S.C. d/b/a Lowman Home Nursing Center, 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 Lutheran Homes of S.C. d/b/a Lowman Home Nursing Center 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 31, 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

LOWMAN HOME NURSING CENTER
Computation of Rate Change
For the Contract Period
Beginning October 1, 2006
AC# 3-LMN-J5

	10/01/06- <u>09/30/07</u>
Interim Reimbursement Rate (1)	\$146.49
Adjusted Reimbursement Rate	<u>140.61</u>
Decrease in Reimbursement Rate	\$ <u><u>5.88</u></u>

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

LOWMAN HOME NURSING CENTER
 Computation of Adjusted Reimbursement Rate
 For the Contract Period October 1, 2006 Through September 30, 2007
 AC# 3-LMN-J5

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 75.12	\$ 79.77	
Dietary		11.46	13.46	
Laundry/Housekeeping/Maintenance		<u>11.60</u>	<u>12.03</u>	
Subtotal	<u>\$7.08</u>	98.18	105.26	\$ 98.18
Administration & Medical Records	<u>\$ -</u>	<u>20.80</u>	<u>16.87</u>	<u>16.87</u>
Subtotal		118.98	<u>\$122.13</u>	115.05
<u>Costs Not Subject to Standards:</u>				
Utilities		3.73		3.73
Special Services		.01		.01
Medical Supplies & Oxygen		3.09		3.09
Taxes and Insurance		3.20		3.20
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$129.01</u>		125.08
Inflation Factor (4.60%)				5.75
Cost of Capital				8.03
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				7.08
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(5.33)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$140.61</u>

LOWMAN HOME NURSING CENTER
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2005
 AC# 3-LMN-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	\$4,703,680	\$ -	\$ 66,151 (1) 4,046 (1)	\$4,633,483
Dietary	866,024	178,131 (6) 50,000 (7)	6,839 (1) 380,560 (8)	706,756
Laundry	169,150	17,924 (6)	2,933 (1) 17,643 (8)	166,498
Housekeeping	322,312	6,146 (6)	5,000 (1) 11,249 (8)	312,209
Maintenance	265,220	5,552 (6)	1,910 (1) 22,920 (2) 8,983 (8)	236,959
Administration & Medical Records	1,305,020	22,920 (2) 37,159 (6)	8,823 (1) 457 (1) 73,150 (8)	1,282,669
Utilities	233,649	4,725 (6)	8,373 (8)	230,001
Special Services	555	-	-	555
Medical Supplies & Oxygen	190,704	-	-	190,704
Taxes and Insurance	200,176	3,569 (6)	6,124 (8)	197,621
Legal Fees	-	-	-	-

LOWMAN HOME NURSING CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2005
AC# 3-LMN-J5

<u>Expenses</u>	Totals (From Schedule SC 13) as Adjusted by DH&HS	Adjustments		Adjusted Totals
		<u>Debit</u>	<u>Credit</u>	
Cost of Capital	567,188	1,279 (4)	39,082 (2)	494,999
		15,676 (6)	3,283 (3)	
			21,213 (5)	
			<u>25,566 (8)</u>	
Subtotal	8,823,678	343,081	714,305	8,452,454
Ancillary	268,782	-	-	268,782
Nonallowable	878,073	96,159 (1)	1,279 (4)	1,249,297
		39,082 (2)	268,882 (6)	
		3,283 (3)	50,000 (7)	
		21,213 (5)		
		531,648 (8)		
CNA Training and Testing	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Operating Expenses	<u>\$9,970,533</u>	<u>\$1,034,466</u>	<u>\$1,034,466</u>	<u>\$9,970,533</u>
Total Patient Days	<u>61,677</u>	<u>-</u>	<u>-</u>	<u>61,677</u>
Total Beds	<u>176</u>			

LOWMAN HOME NURSING CENTER
Adjustment Report
Cost Report Period Ended September 30, 2005
AC# 3-LMN-J5

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Nonallowable	\$ 96,159	
	Nursing		\$ 66,151
	Restorative		4,046
	Dietary		6,839
	Laundry		2,933
	Housekeeping		5,000
	Maintenance		1,910
	Administration		8,823
	Medical Records		457
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	39,082	
	Administration	22,920	
	Maintenance		22,920
	Cost of Capital		39,082
	To adjust home office cost HIM-15-1, Section 2400 State Plan, Attachment 4.19D		
3	Nonallowable	3,283	
	Fixed Assets	19,529	
	Accumulated Depreciation	107,022	
	Cost of Capital		3,283
	Other Equity		126,551
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
4	Cost of Capital	1,279	
	Nonallowable		1,279
	To adjust deemed asset value limitation State Plan, Attachment 4.19D		

LOWMAN HOME NURSING CENTER
Adjustment Report
Cost Report Period Ended September 30, 2005
AC# 3-LMN-J5

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Nonallowable Cost of Capital	21,213	21,213
	To adjust capital return State Plan, Attachment 4.19D		
6	Cost of Capital Taxes and Insurance Administration Maintenance Utilities Laundry Housekeeping Dietary Nonallowable	15,676 3,569 37,159 5,552 4,725 17,924 6,146 178,131	268,882
	To reverse Provider and DH&HS adjustments to remove costs applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
7	Dietary Nonallowable	50,000	50,000
	To reverse Provider adjustment #28 to remove dietary overhead HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		

LOWMAN HOME NURSING CENTER
Adjustment Report
Cost Report Period Ended September 30, 2005
AC# 3-LMN-J5

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
8	Nonallowable	531,648	
	Cost of Capital		25,566
	Taxes and Insurance		6,124
	Administration		73,150
	Maintenance		8,983
	Utilities		8,373
	Laundry		17,643
	Housekeeping		11,249
	Dietary		380,560
	To remove indirect costs applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
	TOTAL ADJUSTMENTS	\$1,161,017	\$1,161,017

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.

LOWMAN HOME NURSING CENTER
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2005
 AC# 3-LMN-J5

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.77878</u>
Deemed Asset Value (Per Bed)	43,399
Number of Beds	<u>176</u>
Deemed Asset Value	7,638,224
Improvements Since 1981	698,273
Accumulated Depreciation at 9/30/05	(<u>2,275,061</u>)
Deemed Depreciated Value	6,061,436
Market Rate of Return	<u>.0490</u>
Total Annual Return	297,010
Return Applicable to Non-Reimbursable Cost Centers	(8,927)
Allocation of Interest to Non-Reimbursable Cost Centers	<u>15,631</u>
Allowable Annual Return	303,714
Depreciation Expense	209,346
Amortization Expense	7,685
Capital Related Income Offsets	(180)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(25,566)</u>
Allowable Cost of Capital Expense	494,999
Total Patient Days (Actual)	<u>61,677</u>
Cost of Capital Per Diem	\$ <u><u>8.03</u></u>

LOWMAN HOME NURSING CENTER
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2005
AC# 3-LMN-J5

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$ N/A
Adjustment for Maximum Increase	<u>N/A</u>
Maximum Cost of Capital Per Diem	<u>\$8.03</u>
Reimbursable Cost of Capital Per Diem	\$8.03
Cost of Capital Per Diem	<u>8.03</u>
Cost of Capital Per Diem Limitation	<u>\$ -</u>

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