

# 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  
FAX (803) 343-0723

September 27, 2010

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

Re: AC# 3-LMN-J6 – Lutheran Homes of South Carolina 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, 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

**LUTHERAN HOMES OF SOUTH CAROLINA D/B/A  
LOWMAN HOME NURSING CENTER**

**WHITE ROCK, SOUTH CAROLINA**

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

**AGREED-UPON PROCEDURES REPORT**

**ON CONTRACT**

**FOR**

**PURCHASE OF NURSING CARE SERVICES**

**WITH**

**STATE OF SOUTH CAROLINA**

**DEPARTMENT OF HEALTH AND HUMAN SERVICES**

## CONTENTS

	<u>EXHIBIT OR SCHEDULE</u>	<u>PAGE</u>
INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES		1
COMPUTATION OF RATE CHANGE FOR THE CONTRACT PERIOD BEGINNING OCTOBER 1, 2007	A	3
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIOD OCTOBER 1, 2007 THROUGH SEPTEMBER 30, 2008	B	4
SUMMARY OF COSTS AND TOTAL PATIENT DAYS FOR THE COST REPORT PERIOD ENDED SEPTEMBER 30, 2006	C	5
ADJUSTMENT REPORT	1	7
COST OF CAPITAL REIMBURSEMENT ANALYSIS	2	9

# *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  
FAX (803) 343-0723

### 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 Lutheran Homes of South Carolina d/b/a Lowman Home Nursing Center, 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 Lutheran Homes of South Carolina 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 South Carolina 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 South Carolina 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 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

**LOWMAN HOME NURSING CENTER**  
Computation of Rate Change  
For the Contract Period  
Beginning October 1, 2007  
AC# 3-LMN-J6

10/01/07-  
09/30/08

Interim Reimbursement Rate (1)	\$155.05
Adjusted Reimbursement Rate	<u>153.94</u>
Decrease in Reimbursement Rate	\$ <u><u>1.11</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, 2007 Through September 30, 2008  
 AC# 3-LMN-J6

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 81.11	\$ 82.94	
Dietary		14.79	13.85	
Laundry/Housekeeping/Maintenance		<u>12.34</u>	<u>12.55</u>	
Subtotal	<u>\$1.10</u>	108.24	109.34	\$108.24
Administration & Medical Records	<u>\$ -</u>	<u>23.11</u>	<u>18.22</u>	<u>18.22</u>
Subtotal		131.35	<u>\$127.56</u>	126.46
<u>Costs Not Subject to Standards:</u>				
Utilities		4.49		4.49
Special Services		-		-
Medical Supplies & Oxygen		3.83		3.83
Taxes and Insurance		3.00		3.00
Legal Fees		<u>-</u>		<u>-</u>
<b>TOTAL</b>		<u>\$142.67</u>		137.78
Inflation Factor (4.60%)				6.34
Cost of Capital				8.34
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				1.10
Effect of \$1.75 Cap on Cost/Profit Incentives				-
Transportation Escort Add-On				<u>.38</u>
<b>ADJUSTED REIMBURSEMENT RATE</b>				<u>\$153.94</u>

**LOWMAN HOME NURSING CENTER**  
 Summary of Costs and Total Patient Days  
 For the Cost Report Period Ended September 30, 2006  
 AC# 3-LMN-J6

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	Adjusted <u>Totals</u>
General Services	\$5,023,910	\$ -	\$ 18,682 (2) 3,028 (2)	\$5,002,200
Dietary	918,051	-	5,850 (2)	912,201
Laundry	162,964	-	2,108 (2)	160,856
Housekeeping	359,659	-	4,070 (2)	355,589
Maintenance	277,703	-	1,388 (2) 31,897 (3)	244,418
Administration & Medical Records	1,399,281	31,892 (3)	5,461 (2) 411 (2)	1,425,301
Utilities	276,956	-	-	276,956
Special Services	-	-	-	-
Medical Supplies & Oxygen	235,910	-	-	235,910
Taxes and Insurance	184,829	-	-	184,829
Legal Fees	-	-	-	-
Cost of Capital	579,532	855 (4)	2,184 (1) 35,919 (3) <u>27,880 (5)</u>	514,404
Subtotal	<u>9,418,795</u>	<u>32,747</u>	<u>138,878</u>	<u>9,312,664</u>

**LOWMAN HOME NURSING CENTER**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 2006  
AC# 3-LMN-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>	
Ancillary	219,882	-	-	219,882
Nonallowable	1,030,402	2,184 (1) 40,998 (2) 35,924 (3) 27,880 (5)	855 (4)	1,136,533
CNA Training and Testing	<u>          -</u>	<u>          -</u>	<u>          -</u>	<u>          -</u>
Total Operating Expenses	<u>\$10,669,079</u>	<u>\$139,733</u>	<u>\$139,733</u>	<u>\$10,669,079</u>
Total Patient Days	<u>          61,670</u>	<u>          -</u>	<u>          -</u>	<u>          61,670</u>
Total Beds	<u>          176</u>			

**LOWMAN HOME NURSING CENTER**  
Adjustment Report  
Cost Report Period Ended September 30, 2006  
AC# 3-LMN-J6

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Nonallowable	\$ 2,184	
	Fixed Assets	19,531	
	Accumulated Depreciation	34,018	
	Cost of Capital		\$ 2,184
	Other Equity		53,549
	To adjust fixed assets and related depreciation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
2	Nonallowable	40,998	
	Nursing		18,682
	Restorative		3,028
	Dietary		5,850
	Laundry		2,108
	Housekeeping		4,070
	Maintenance		1,388
	Administration		5,461
	Medical Records		411
	To adjust fringe benefits and related allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
3	Administration	31,892	
	Nonallowable	35,924	
	Maintenance		31,897
	Cost of Capital		35,919
	To adjust home office cost		
	HIM-15-1, Section 2400		
4	Cost of Capital	855	
	Nonallowable		855
	To adjust deemed asset value limitation		
	State Plan, Attachment 4.19D		

**LOWMAN HOME NURSING CENTER**  
Adjustment Report  
Cost Report Period Ended September 30, 2006  
AC# 3-LMN-J6

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Nonallowable Cost of Capital	27,880	27,880
	To adjust capital return State Plan, Attachment 4.19D		
		\$193,282	\$193,282

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, 2006  
 AC# 3-LMN-J6

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.85382</u>
Deemed Asset Value (Per Bed)	44,571
Number of Beds	<u>176</u>
Deemed Asset Value	7,844,496
Improvements Since 1981	739,266
Accumulated Depreciation at 9/30/06	<u>(2,452,881)</u>
Deemed Depreciated Value	6,130,881
Market Rate of Return	<u>.0489</u>
Total Annual Return	299,800
Return Applicable to Non-Reimbursable Cost Centers	(1,707)
Allocation of Interest to Non-Reimbursable Cost Centers	<u>2,905</u>
Allowable Annual Return	300,998
Depreciation Expense	210,554
Amortization Expense	7,685
Capital Related Income Offsets	(19)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(4,814)</u>
Allowable Cost of Capital Expense	514,404
Total Patient Days (Minimum 96% Occupancy)	<u>61,670</u>
Cost of Capital Per Diem	\$ <u><u>8.34</u></u>

**LOWMAN HOME NURSING CENTER**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 2006  
AC# 3-LMN-J6

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>\$8.34</u>
Reimbursable Cost of Capital Per Diem	\$8.34
Cost of Capital Per Diem	<u>8.34</u>
Cost of Capital Per Diem Limitation	<u>\$ -</u>

2 copies of this document were published at an estimated printing cost of \$1.38 each, and a total printing cost of \$2.76. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.