

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-LRH-J6 – Laurel Hill 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/cwc

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Ms. Kathleen C. Snider

**LAUREL HILL LIVING CENTER, LLC
PICKENS, SOUTH CAROLINA**

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2007
AC# 3-LRH-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 Laurel Hill 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 Laurel Hill 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 Laurel Hill 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 Laurel Hill 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

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

	10/01/07- <u>09/30/08</u>
Interim Reimbursement Rate (1)	\$137.38
Adjusted Reimbursement Rate	<u>135.47</u>
Decrease in Reimbursement Rate	\$ <u><u>1.91</u></u>

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

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

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 73.13	\$ 83.18	
Dietary		11.68	13.90	
Laundry/Housekeeping/Maintenance		<u>11.87</u>	<u>13.36</u>	
Subtotal	<u>\$7.73</u>	96.68	110.44	\$ 96.68
Administration & Medical Records	<u>\$3.20</u>	<u>13.87</u>	<u>17.07</u>	<u>13.87</u>
Subtotal		110.55	<u>\$127.51</u>	110.55
<u>Costs Not Subject to Standards:</u>				
Utilities		2.23		2.23
Special Services		.01		.01
Medical Supplies & Oxygen		4.64		4.64
Taxes and Insurance		3.56		3.56
Legal Fees		<u>.09</u>		<u>.09</u>
TOTAL		<u>\$121.08</u>		121.08
Inflation Factor (4.60%)				5.57
Cost of Capital				7.03
Cost of Capital Limitation				(.69)
Profit Incentive (Maximum 3.5% of Allowable Cost)				3.20
Cost Incentive				7.73
Effect of \$1.75 Cap on Cost/Profit Incentives				(9.18)
Transportation Escort Add-On				<u>.73</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$135.47</u>

LAUREL HILL LIVING CENTER, LLC
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2006
 AC# 3-LRH-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	\$2,119,285	\$10,141 (10) 910 (10)	\$ 4,970 (4) 4,641 (5) 41,118 (9) 1,065 (9) 894 (12)	\$2,077,648
Dietary	331,376	350 (10)	15 (12)	331,711
Laundry	94,659	-	2 (12)	94,657
Housekeeping	157,836	-	36 (12)	157,800
Maintenance	84,595	368 (10)	168 (12)	84,795
Administration & Medical Records	379,459	22,968 (9) 6,836 (10) 184 (10)	3,426 (2) 11,818 (12) 6 (12)	394,197
Utilities	65,127	-	1,614 (6) 48 (12)	63,465
Special Services	247	-	-	247
Medical Supplies & Oxygen	150,376	40 (10)	16,373 (5) 2,081 (8)	131,962
Taxes and Insurance	106,919	-	5,782 (7) 77 (12)	101,060
Legal Fees	2,619	-	114 (12)	2,505

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

<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	180,132	43,878 (11)	4,156 (1)	199,733
		766 (12)	3,276 (2)	
			<u>17,611 (3)</u>	
Subtotal	3,672,630	86,441	119,291	3,639,780
Ancillary	136,300	2,081 (8)	-	138,381
Nonallowable	879,188	6,702 (2)	18,829 (10)	904,187
		17,611 (3)	43,878 (11)	
		4,970 (4)		
		21,014 (5)		
		5,782 (7)		
		19,215 (9)		
		12,412 (12)		
CNA Training and Testing	<u>33,304</u>	<u>-</u>	<u>-</u>	<u>33,304</u>
Total Operating Expenses	<u>\$4,721,422</u>	<u>\$176,228</u>	<u>\$181,998</u>	<u>\$4,715,652</u>
Total Patient Days	<u>28,412</u>	<u>-</u>	<u>-</u>	<u>28,412</u>
Total Beds	<u>80</u>			

LAUREL HILL LIVING CENTER, LLC
Adjustment Report
Cost Report Period Ended September 30, 2006
AC# 3-LRH-J6

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$22,333	
	Fixed Assets		\$ 107
	Other Equity		18,070
	Cost of Capital		4,156
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	6,702	
	Administration		3,426
	Cost of Capital		3,276
	To remove reorganization costs HIM-15-1, Section 2134.10 State Plan, Attachment 4.19D		
3	Nonallowable	17,611	
	Cost of Capital		17,611
	To adjust loan cost amortization State Plan, Attachment 4.19D		
4	Nonallowable	4,970	
	Nursing		4,970
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		
5	Nonallowable	21,014	
	Nursing		4,641
	Medical Supplies		16,373
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
6	Retained Earnings	1,614	
	Utilities		1,614
	To properly charge expense applicable to the prior period HIM-15-1, Section 2302.1		

LAUREL HILL LIVING CENTER, LLC
Adjustment Report
Cost Report Period Ended September 30, 2006
AC# 3-LRH-J6

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
7	Nonallowable Taxes and Insurance	5,782	5,782
	To adjust liability insurance expense HIM-15-1, Section 2162.2 State Plan, Attachment 4.19D		
8	Ancillary Medical Supplies	2,081	2,081
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		
9	Administration Nonallowable Nursing Restorative	22,968 19,215	41,118 1,065
	To reclassify expense to the proper cost center HIM-15-1, Section 2102.3 DH&HS Expense Crosswalk		
10	Nursing Restorative Dietary Maintenance Administration Medical Records Medical Supplies Nonallowable	10,141 910 350 368 6,836 184 40	18,829
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
11	Cost of Capital Nonallowable	43,878	43,878
	To adjust capital return State Plan, Attachment 4.19D		

LAUREL HILL LIVING CENTER, LLC
Adjustment Report
Cost Report Period Ended September 30, 2006
AC# 3-LRH-J6

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
12	Cost of Capital	766	
	Nonallowable	12,412	
	Nursing		894
	Dietary		15
	Laundry		2
	Housekeeping		36
	Maintenance		168
	Administration		11,818
	Medical Records		6
	Legal		114
	Utilities		48
	Taxes and Insurance		77
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
		\$200,175	\$200,175
	TOTAL ADJUSTMENTS	\$200,175	\$200,175

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.

LAUREL HILL LIVING CENTER, LLC
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2006
 AC# 3-LRH-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>80</u>
Deemed Asset Value	3,565,680
Improvements Since 1981	656,080
Accumulated Depreciation at 9/30/06	<u>(875,344)</u>
Deemed Depreciated Value	3,346,416
Market Rate of Return	<u>.0489</u>
Total Annual Return	163,640
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	163,640
Depreciation Expense	36,203
Amortization Expense	-
Capital Related Income Offsets	(110)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	199,733
Total Patient Days (Actual)	<u>28,412</u>
Cost of Capital Per Diem	\$ <u><u>7.03</u></u>

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

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$2.35
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$6.34</u>
Reimbursable Cost of Capital Per Diem	\$6.34
Cost of Capital Per Diem	<u>7.03</u>
Cost of Capital Per Diem Limitation	<u>\$(.69)</u>

2 copies of this document were published at an estimated printing cost of \$1.41 each, and a total printing cost of \$2.82. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.