

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

June 14, 2011

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

Re: AC# 3-WIL-J6 – Willow Creek 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

**WILLOW CREEK LIVING CENTER, LLC
IVA, SOUTH CAROLINA**

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2007
AC# 3-WIL-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	10

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

September 24, 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 Willow Creek 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 Willow Creek 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 Willow Creek 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 Willow Creek 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 24, 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

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

	10/01/07- <u>09/30/08</u>
Interim Reimbursement Rate (1)	\$148.06
Adjusted Reimbursement Rate	<u>144.09</u>
Decrease in Reimbursement Rate	\$ <u><u>3.97</u></u>

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

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

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 69.08	\$ 79.97	
Dietary		13.56	16.36	
Laundry/Housekeeping/Maintenance		<u>13.46</u>	<u>13.89</u>	
Subtotal	<u>\$7.72</u>	96.10	110.22	\$ 96.10
Administration & Medical Records	<u>\$2.43</u>	<u>18.98</u>	<u>21.41</u>	<u>18.98</u>
Subtotal		115.08	<u>\$131.63</u>	115.08
<u>Costs Not Subject to Standards:</u>				
Utilities		2.56		2.56
Special Services		-		-
Medical Supplies & Oxygen		6.01		6.01
Taxes and Insurance		4.85		4.85
Legal Fees		<u>.20</u>		<u>.20</u>
TOTAL		<u>\$128.70</u>		128.70
Inflation Factor (4.60%)				5.92
Cost of Capital				6.90
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				2.43
Cost Incentive				7.72
Effect of \$1.75 Cap on Cost/Profit Incentives				(8.40)
Transportation Escort Add-On				<u>.82</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$144.09</u>

WILLOW CREEK LIVING CENTER, LLC
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2006
 AC# 3-WIL-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	\$1,504,458	\$ -	\$ 4,800 (4) 31,379 (7) 724 (7) 11,454 (8) 662 (8) 654 (10) 2,479 (11)	\$1,452,306
Dietary	286,565	-	203 (8) 11 (10) 1,217 (11)	285,134
Laundry	75,303	-	97 (8) 1 (10)	75,205
Housekeeping	124,924	-	92 (10)	124,832
Maintenance	83,232	-	122 (8) 220 (10)	82,890
Administration & Medical Records	402,313	20,547 (7) 1,785 (8)	3,426 (2) 122 (8) 21,944 (10) 15 (10)	399,138
Utilities	54,031	-	124 (10)	53,907
Special Services	66	-	1 (10)	65
Medical Supplies & Oxygen	136,490	-	135 (5) 85 (8) 9,907 (11)	126,363

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

<u>Expenses</u>	Totals (From Schedule SC 13) as Adjusted by DH&HS	Adjustments <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
Taxes and Insurance	106,921	-	4,659 (6) 197 (10)	102,065
Legal Fees	4,424	-	291 (10)	4,133
Cost of Capital	152,260	122 (1) 1,022 (9) <u>477 (10)</u>	3,780 (2) 5,124 (3)	144,977
Subtotal	2,930,987	23,953	103,925	2,851,015
Ancillary	169,666	135 (5)	-	169,801
Nonallowable	904,269	7,206 (2) 5,124 (3) 4,800 (4) 4,659 (6) 11,556 (7) 10,960 (8) 23,073 (10) 13,603 (11)	1,022 (9)	984,228
CNA Training and Testing	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Operating Expenses	<u>\$4,004,922</u>	<u>\$105,069</u>	<u>\$104,947</u>	<u>\$4,005,044</u>
Total Patient Days	<u>21,024</u>	<u>-</u>	<u>-</u>	<u>21,024</u>
Total Beds	<u>60</u>			

WILLOW CREEK LIVING CENTER, LLC
Adjustment Report
Cost Report Period Ended September 30, 2006
AC# 3-WIL-J6

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$20,549	
	Other Equity	10,848	
	Cost of Capital	122	
	Fixed Assets		\$31,519
	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	5,124	
	Cost of Capital		5,124
	To remove loan cost amortization State Plan, Attachment 4.19D		
4	Nonallowable	4,800	
	Nursing		4,800
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		
5	Ancillary	135	
	Medical Supplies		135
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		
6	Nonallowable	4,659	
	Taxes and Insurance		4,659
	To adjust liability insurance expense HIM-15-1, Section 2162.2 State Plan, Attachment 4.19D		

WILLOW CREEK LIVING CENTER, LLC
Adjustment Report
Cost Report Period Ended September 30, 2006
AC# 3-WIL-J6

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
7	Administration	20,547	
	Nonallowable	11,556	
	Nursing		31,379
	Restorative		724
	To reclassify expense to the proper cost center HIM-15-1, Section 2102.3 DH&HS Expense Crosswalk		
8	Administration	1,785	
	Nonallowable	10,960	
	Nursing		11,454
	Restorative		662
	Dietary		203
	Laundry		97
	Maintenance		122
	Medical Records		122
	Medical Supplies		85
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
9	Cost of Capital	1,022	
	Nonallowable		1,022
	To adjust capital return State Plan, Attachment 4.19D		
10	Cost of Capital	477	
	Nonallowable	23,073	
	Nursing		654
	Dietary		11
	Laundry		1
	Housekeeping		92
	Maintenance		220
	Administration		21,944
	Medical Records		15
	Legal		291
	Utilities		124
	Taxes and Insurance		197
	Special Services		1
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

WILLOW CREEK LIVING CENTER, LLC
Adjustment Report
Cost Report Period Ended September 30, 2006
AC# 3-WIL-J6

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
11	Nonallowable	13,603	
	Nursing		2,479
	Dietary		1,217
	Medical Supplies		9,907
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
		\$136,466	\$136,466
	TOTAL ADJUSTMENTS	\$136,466	\$136,466

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.

WILLOW CREEK LIVING CENTER, LLC
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2006
 AC# 3-WIL-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>60</u>
Deemed Asset Value	2,674,260
Improvements Since 1981	63,757
Accumulated Depreciation at 9/30/06	<u>(824,704)</u>
Deemed Depreciated Value	1,913,313
Market Rate of Return	<u>.0489</u>
Total Annual Return	93,561
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	93,561
Depreciation Expense	51,446
Amortization Expense	-
Capital Related Income Offsets	(30)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	144,977
Total Patient Days (Minimum 96% Occupancy)	<u>21,024</u>
Cost of Capital Per Diem	<u>\$ 6.90</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.