

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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September 28, 2011

Mr. Fred Fauth, Controller
Millennium Management, LLC
10800 Biscayne Boulevard, Suite 600
Miami, Florida 33161

Re: AC# 3-HAL-C7 – Palmetto Hallmark Operating, LLC d/b/a Hallmark Healthcare Center

Dear Mr. Fauth:

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 September 29, 2006 through March 31, 2007. That report was used to set the rate covering the contract periods beginning April 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
Mr. Terry K. Schmoyer, Jr.

**PALMETTO HALLMARK OPERATING, LLC D/B/A
HALLMARK HEALTHCARE CENTER**

SUMMERVILLE, SOUTH CAROLINA

**CONTRACT PERIODS
BEGINNING APRIL 1, 2007
AC# 3-HAL-C7**

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

February 22, 2011

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 Palmetto Hallmark Operating, LLC d/b/a Hallmark Healthcare Center, for the contract periods beginning April 1, 2007, and for the six month cost report period ended March 31, 2007, as set forth in the accompanying schedules. The management of Palmetto Hallmark Operating, LLC d/b/a Hallmark Healthcare 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 Palmetto Hallmark Operating, LLC d/b/a Hallmark Healthcare 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 Summaries of Costs and Total Patient Days, Adjustment Report, and Cost of Capital Reimbursement Analyses 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 Palmetto Hallmark Operating, LLC d/b/a Hallmark Healthcare Center dated as of April 1, 2007, as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computations of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
February 22, 2011

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

HALLMARK HEALTHCARE CENTER
 Computation of Rate Change
 For the Contract Periods
 Beginning April 1, 2007
 AC# 3-HAL-C7

	<u>04/01/07-</u> <u>09/30/07</u>	<u>10/01/07-</u> <u>09/30/08</u>
Interim Reimbursement Rate (1)	\$156.34	\$158.03
Adjusted Reimbursement Rate	<u>136.06</u>	<u>137.74</u>
Decrease in Reimbursement Rate	\$ <u>20.28</u>	\$ <u>20.29</u>

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

HALLMARK HEALTHCARE CENTER
 Computation of Adjusted Reimbursement Rate
 For the Contract Period April 1, 2007 Through September 30, 2007
 AC# 3-HAL-C7

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 71.74	\$ 79.89	
Dietary		13.31	13.72	
Laundry/Housekeeping/Maintenance		<u>11.54</u>	<u>12.61</u>	
Subtotal	\$ <u>7.44</u>	96.59	106.22	\$ 96.59
Administration & Medical Records	\$ <u>-</u>	<u>18.90</u>	<u>16.31</u>	<u>16.31</u>
Subtotal		115.49	<u>\$122.53</u>	112.90
<u>Costs Not Subject to Standards:</u>				
Utilities		2.93		2.93
Special Services		-		-
Medical Supplies & Oxygen		3.79		3.79
Taxes and Insurance		2.38		2.38
Legal Fees		<u>.18</u>		<u>.18</u>
TOTAL		<u>\$124.77</u>		122.18
Inflation Factor (4.60%)				5.62
Cost of Capital				6.51
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				7.44
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(5.69)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$136.06</u>

HALLMARK HEALTHCARE CENTER
 Computation of Adjusted Reimbursement Rate
 For the Contract Period October 1, 2007 Through September 30, 2008
 AC# 3-HAL-C7

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 71.74	\$ 83.18	
Dietary		13.31	13.90	
Laundry/Housekeeping/Maintenance		<u>11.54</u>	<u>13.36</u>	
Subtotal	\$ <u>7.73</u>	96.59	110.44	\$ 96.59
Administration & Medical Records	\$ <u>-</u>	<u>18.90</u>	<u>17.07</u>	<u>17.07</u>
Subtotal		115.49	<u>\$127.51</u>	113.66
<u>Costs Not Subject to Standards:</u>				
Utilities		2.93		2.93
Special Services		-		-
Medical Supplies & Oxygen		3.79		3.79
Taxes and Insurance		2.38		2.38
Legal Fees		<u>.18</u>		<u>.18</u>
TOTAL		<u>\$124.77</u>		122.94
Inflation Factor (4.60%)				5.66
Cost of Capital				6.66
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				7.73
Effect of \$1.75 Cap on Cost/Profit Incentives				(5.98)
Transportation Escort Add-On				<u>.73</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$137.74</u>

HALLMARK HEALTHCARE CENTER
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended March 31, 2007
 For the Contract Period April 1, 2007 Through September 30, 2007
 AC# 3-HAL-C7

<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	\$1,172,659	\$ -	\$ 49,853 (3) 6,243 (7) 402 (7) 1,013 (9) 16 (9)	\$1,115,132
Dietary	207,492	-	643 (7)	206,849
Laundry	14,271	-	87 (7)	14,184
Housekeeping	97,793	-	181 (7)	97,612
Maintenance	67,713	-	129 (7)	67,584
Administration & Medical Records	359,475	-	14,092 (2) 1,033 (7) 83 (7) 46,067 (8) 2,185 (9) 2,251 (10)	293,764
Utilities	47,159	-	1,667 (4)	45,492
Special Services	-	2,397 (10)	2,397 (7)	-
Medical Supplies & Oxygen	159,762	-	31,500 (3) 8,763 (6) 76 (7) 60,564 (10)	58,859

HALLMARK HEALTHCARE CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended March 31, 2007
For the Contract Period April 1, 2007 Through September 30, 2007
AC# 3-HAL-C7

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	Adjusted <u>Totals</u>
Taxes and Insurance	170,836	-	133,863 (5) 1 (9)	36,972
Legal Fees	2,748	-	1 (9)	2,747
Cost of Capital	108,097	3,251 (12)	843 (1) 9,386 (11)	101,119
Subtotal	2,408,005	5,648	373,339	2,040,314
Ancillary	123,971	-	-	123,971
Nonallowable	523,665	843 (1) 14,092 (2) 1,667 (4) 133,863 (5) 8,763 (6) 11,274 (7) 46,067 (8) 3,216 (9) 60,418 (10) 9,386 (11)	3,251 (12)	810,003
CNA Training and Testing	<u>250</u>	<u>-</u>	<u>-</u>	<u>250</u>
Total Operating Expenses	<u>\$3,055,891</u>	<u>\$295,237</u>	<u>\$376,590</u>	<u>\$2,974,538</u>
Total Patient Days	<u>15,544</u>	<u>-</u>	<u>-</u>	<u>15,544</u>
Total Beds	<u>88</u>			

HALLMARK HEALTHCARE CENTER
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended March 31, 2007
 For the Contract Period October 1, 2007 Through September 30, 2008
 AC# 3-HAL-C7

<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	\$1,172,659	\$ -	\$ 49,853 (3) 6,243 (7) 402 (7) 1,013 (9) 16 (9)	\$1,115,132
Dietary	207,492	-	643 (7)	206,849
Laundry	14,271	-	87 (7)	14,184
Housekeeping	97,793	-	181 (7)	97,612
Maintenance	67,713	-	129 (7)	67,584
Administration & Medical Records	359,475	-	14,092 (2) 1,033 (7) 83 (7) 46,067 (8) 2,185 (9) 2,251 (10)	293,764
Utilities	47,159	-	1,667 (4)	45,492
Special Services	-	2,397 (10)	2,397 (7)	-
Medical Supplies & Oxygen	159,762	-	31,500 (3) 8,763 (6) 76 (7) 60,564 (10)	58,859

HALLMARK HEALTHCARE CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended March 31, 2007
For the Contract Period October 1, 2007 Through September 30, 2008
AC# 3-HAL-C7

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		Adjusted <u>Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Taxes and Insurance	170,836	-	133,863 (5) 1 (9)	36,972
Legal Fees	2,748	-	1 (9)	2,747
Cost of Capital	110,473	3,272 (13)	843 (1) 9,386 (11)	103,516
Subtotal	2,410,381	5,669	373,339	2,042,711
Ancillary	123,971	-	-	123,971
Nonallowable	521,289	843 (1) 14,092 (2) 1,667 (4) 133,863 (5) 8,763 (6) 11,274 (7) 46,067 (8) 3,216 (9) 60,418 (10) 9,386 (11)	3,272 (13)	807,606
CNA Training and Testing	<u>250</u>	<u>-</u>	<u>-</u>	<u>250</u>
Total Operating Expenses	<u>\$3,055,891</u>	<u>\$295,258</u>	<u>\$376,611</u>	<u>\$2,974,538</u>
Total Patient Days	<u>15,544</u>	<u>-</u>	<u>-</u>	<u>15,544</u>
Total Beds	<u>88</u>			

HALLMARK HEALTHCARE CENTER
Adjustment Report
Cost Report Period Ended March 31, 2007
AC# 3-HAL-C7

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$172,153	
	Other Equity	9,745	
	Nonallowable	843	
	Accumulated Depreciation		\$181,898
	Cost of Capital		843
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	14,092	
	Administration		14,092
	To disallow interest expense HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
3	Accounts Payable	81,353	
	Nursing		49,853
	Medical Supplies		31,500
	To properly charge expense applicable to the subsequent period HIM-15-1, Section 2304		
4	Nonallowable	1,667	
	Utilities		1,667
	To remove duplicate posting of expense HIM-15-1, Section 2304		
5	Nonallowable	133,863	
	Taxes and Insurance		133,863
	To adjust liability insurance expense HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

HALLMARK HEALTHCARE CENTER
Adjustment Report
Cost Report Period Ended March 31, 2007
AC# 3-HAL-C7

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Nonallowable Medical Supplies	8,763	8,763
	To disallow expense not liquidated within one year and adjust reported cost to actual HIM-15-1, Sections 2304 and 2305		
7	Nonallowable	11,274	
	Nursing		6,243
	Restorative		402
	Dietary		643
	Laundry		87
	Housekeeping		181
	Maintenance		129
	Administration		1,033
	Medical Records		83
	Medical Supplies		76
	Special Services		2,397
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
8	Nonallowable Administration	46,067	46,067
	To disallow related party expense HIM-15-1, Sections 1005 and 2304		
9	Nonallowable	3,216	
	Nursing		1,013
	Restorative		16
	Administration		2,185
	Legal		1
	Taxes and Insurance		1
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

HALLMARK HEALTHCARE CENTER
Adjustment Report
Cost Report Period Ended March 31, 2007
AC# 3-HAL-C7

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
10	Special Services	2,397	
	Nonallowable	60,418	
	Administration		2,251
	Medical Supplies		60,564
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
11	Nonallowable	9,386	
	Cost of Capital		9,386
	To adjust depreciation expense to comply with capital cost policy State Plan, Attachment 4.19D		
12	Cost of Capital	3,251	
	Nonallowable		3,251
	To adjust capital return State Plan, Attachment 4.19D (This adjustment applies only to the contract period 4/1/07 - 9/30/07)		
13	Cost of Capital	3,272	
	Nonallowable		3,272
	To adjust capital return State Plan, Attachment 4.19D (This adjustment applies only to the contract period 10/1/07 - 9/30/08)		
	TOTAL ADJUSTMENTS	\$561,760	\$561,760

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.

HALLMARK HEALTHCARE CENTER
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended March 31, 2007
For the Contract Period April 1, 2007 Through September 30, 2007
AC# 3-HAL-C7

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.77878</u>
Deemed Asset Value (Per Bed)	43,399
Number of Beds	<u>88</u>
Deemed Asset Value	3,819,112
Improvements Since 1981	172,308
Accumulated Depreciation at 3/31/07	<u>(1,106,831)</u>
Deemed Depreciated Value	2,884,589
Market Rate of Return	<u>.0490</u>
Total Annual Return	141,345
Number of Days in Period	<u>184/365</u>
Adjusted Annual Return	71,253
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	71,253
Depreciation Expense	29,866
Amortization Expense	-
Capital Related Income Offsets	-
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	101,119
Total Patient Days (Minimum 96% Occupancy)	<u>15,544</u>
Cost of Capital Per Diem	\$ <u><u>6.51</u></u>

HALLMARK HEALTHCARE CENTER
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended March 31, 2007
For the Contract Period October 1, 2007 Through September 30, 2008
AC# 3-HAL-C7

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.85382</u>
Deemed Asset Value (Per Bed)	44,571
Number of Beds	<u>88</u>
Deemed Asset Value	3,922,248
Improvements Since 1981	172,308
Accumulated Depreciation at 3/31/07	<u>(1,106,831)</u>
Deemed Depreciated Value	2,987,725
Market Rate of Return	<u>.0489</u>
Total Annual Return	146,100
Number of Days in Period	<u>184/365</u>
Adjusted Annual Return	73,650
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	73,650
Depreciation Expense	29,866
Amortization Expense	-
Capital Related Income Offsets	-
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	103,516
Total Patient Days (Minimum 96% Occupancy)	<u>15,544</u>
Cost of Capital Per Diem	\$ <u><u>6.66</u></u>

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