

*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

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November 22, 2011

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

Re: AC# 3-HAL-J7 – 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 October 1, 2006 through September 30, 2007. That report was used to set the rate covering the contract period beginning October 1, 2008.

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 PERIOD  
BEGINNING OCTOBER 1, 2008  
AC# 3-HAL-J7**

**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 period beginning October 1, 2008, and for the twelve month cost report period ended September 30, 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 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 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 Computation 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 Period  
Beginning October 1, 2008  
AC# 3-HAL-J7

10/01/08-  
09/30/09

Interim Reimbursement Rate (1)	\$163.04
Adjusted Reimbursement Rate	<u>151.67</u>
Decrease in Reimbursement Rate	<u>\$ 11.37</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 October 1, 2008 Through September 30, 2009  
 AC# 3-HAL-J7

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 77.90	\$ 84.99	
Dietary		13.25	14.42	
Laundry/Housekeeping/Maintenance		<u>11.83</u>	<u>13.38</u>	
Subtotal	<u>\$7.90</u>	102.98	112.79	\$102.98
Administration & Medical Records	<u>\$ -</u>	<u>23.67</u>	<u>19.41</u>	<u>19.41</u>
Subtotal		126.65	<u>\$132.20</u>	122.39
<u>Costs Not Subject to Standards:</u>				
Utilities		3.20		3.20
Special Services		-		-
Medical Supplies & Oxygen		6.79		6.79
Taxes and Insurance		3.43		3.43
Legal Fees		<u>.12</u>		<u>.12</u>
<b>TOTAL</b>		<u>\$140.19</u>		135.93
Inflation Factor (4.80%)				6.52
Cost of Capital				6.74
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				7.90
Effect of \$1.75 Cap on Cost/Profit Incentives				(6.15)
Transportation Escort Add-On				<u>.73</u>
<b>ADJUSTED REIMBURSEMENT RATE</b>				<u>\$151.67</u>

**HALLMARK HEALTHCARE CENTER**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 2007  
AC# 3-HAL-J7

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$2,427,171	\$ 43 (8)	\$ 6,380 (5) 387 (5) 13,534 (6) 784 (6) 4,166 (8)	\$2,401,963
Dietary	410,630	-	767 (5) 1,309 (6)	408,554
Laundry	45,212	-	379 (5) 320 (6)	44,513
Housekeeping	179,249	427 (5)	415 (6)	179,261
Maintenance	138,936	150 (5) 2,058 (7)	289 (6)	140,855
Administration & Medical Records	767,847	15 (5)	118 (5) 2,026 (6) 175 (6) 29,364 (7) 4,038 (8) 2,251 (9)	729,890
Utilities	102,176	788 (7)	4,295 (3)	98,669
Special Services	(54)	8,565 (9)	3,665 (5) 4,845 (6)	1
Medical Supplies & Oxygen	252,308	103 (5)	147 (6) 42,923 (9)	209,341

**HALLMARK HEALTHCARE CENTER**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 2007  
AC# 3-HAL-J7

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	<u>Debit</u>	Adjustments <u>Credit</u>	<u>Adjusted Totals</u>
Taxes and Insurance	370,955	-	264,783 (4) 271 (7) 2 (8)	105,899
Legal Fees	3,458	108 (7)	7 (8)	3,559
Cost of Capital	204,932	558 (1) 7,113 (2) <u>1,233 (7)</u>	6,081 (10)	207,755
Subtotal	4,902,820	21,161	393,721	4,530,260
Ancillary	156,276	-	-	156,276
Nonallowable	1,033,108	4,295 (3) 264,783 (4) 23,844 (6) 25,448 (7) 8,170 (8) 36,609 (9) 6,081 (10)	558 (1) 7,113 (2)	1,394,667
CNA Training and Testing	<u>450</u>	<u>-</u>	<u>-</u>	<u>450</u>
Total Operating Expenses	<u>\$6,092,654</u>	<u>\$390,391</u>	<u>\$401,392</u>	<u>\$6,081,653</u>
Total Patient Days	<u>30,835</u>	<u>-</u>	<u>-</u>	<u>30,835</u>

Total Beds 88

**HALLMARK HEALTHCARE CENTER**  
Adjustment Report  
Cost Report Period Ended September 30, 2007  
AC# 3-HAL-J7

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$190,652	
	Other Equity	958	
	Cost of Capital	558	
	Accumulated Depreciation		\$191,610
	Nonallowable		558
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Cost of Capital	7,113	
	Nonallowable		7,113
	To adjust capital return State Plan, Attachment 4.19D		
3	Nonallowable	4,295	
	Utilities		4,295
	To remove duplicate posting of expense HIM-15-1, Section 2304		
4	Nonallowable	264,783	
	Taxes and Insurance		264,783
	To adjust liability insurance expense HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
5	Retained Earnings	15,488	
	Housekeeping	427	
	Maintenance	150	
	Administration	15	
	Medical Supplies	103	
	Accrued Salaries		4,487
	Nursing		6,380
	Restorative		387
	Dietary		767
	Laundry		379
	Medical Records		118
	Special Services		3,665
	To properly charge salaries applicable to prior and current periods HIM-15-1, Section 2302.1		

**HALLMARK HEALTHCARE CENTER**  
Adjustment Report  
Cost Report Period Ended September 30, 2007  
AC# 3-HAL-J7

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Nonallowable	23,844	
	Nursing		13,534
	Restorative		784
	Dietary		1,309
	Laundry		320
	Housekeeping		415
	Maintenance		289
	Administration		2,026
	Medical Records		175
	Medical Supplies		147
	Special Services		4,845
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
7	Maintenance	2,058	
	Utilities	788	
	Legal	108	
	Cost of Capital	1,233	
	Nonallowable	25,448	
	Administration		29,364
	Taxes and Insurance		271
	To adjust related party expense HIM-15-1, Sections 1005 and 2304		
8	Restorative	43	
	Nonallowable	8,170	
	Nursing		4,166
	Administration		4,038
	Legal		7
	Taxes and Insurance		2
	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 September 30, 2007  
AC# 3-HAL-J7

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
9	Special Services Nonallowable Administration Medical Supplies	8,565 36,609	  2,251 42,923
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
10	Nonallowable Cost of Capital	6,081	 6,081
	To adjust depreciation expense to comply with capital cost policy State Plan, Attachment 4.19D		
	TOTAL ADJUSTMENTS	<hr style="width: 100px; margin: 0 auto;"/> \$ <u>597,489</u>	<hr style="width: 100px; margin: 0 auto;"/> \$ <u>597,489</u>

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 September 30, 2007  
AC# 3-HAL-J7

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.94141</u>
Deemed Asset Value (Per Bed)	45,939
Number of Beds	<u>88</u>
Deemed Asset Value	4,042,632
Improvements Since 1981	172,308
Accumulated Depreciation at 9/30/07	<u>(1,135,047)</u>
Deemed Depreciated Value	3,079,893
Market Rate of Return	<u>.0483</u>
Total Annual Return	148,759
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	148,759
Depreciation Expense	58,996
Amortization Expense	-
Capital Related Income Offsets	-
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	207,755
Total Patient Days (Minimum 96% Occupancy)	<u>30,835</u>
Cost of Capital Per Diem	\$ <u><u>6.74</u></u>

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