

*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-LCS-J7 – Palmetto Lake City Operating, LLC d/b/a Lake City Scranton  
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 LAKE CITY OPERATING, LLC D/B/A  
LAKE CITY SCRANTON HEALTHCARE CENTER**

**SCRANTON, SOUTH CAROLINA**

**CONTRACT PERIOD  
BEGINNING OCTOBER 1, 2008  
AC# 3-LCS-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 Lake City Operating, LLC d/b/a Lake City Scranton 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 Lake City Operating, LLC d/b/a Lake City Scranton 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 Lake City Operating, LLC d/b/a Lake City Scranton 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 Lake City Operating, LLC d/b/a Lake City Scranton 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

**LAKE CITY SCRANTON HEALTHCARE CENTER**

Computation of Rate Change  
For the Contract Period  
Beginning October 1, 2008  
AC# 3-LCS-J7

10/01/08-  
09/30/09

Interim Reimbursement Rate (1)	\$151.23
Adjusted Reimbursement Rate	<u>140.10</u>
Decrease in Reimbursement Rate	<u>\$ 11.13</u>

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

**LAKE CITY SCRANTON HEALTHCARE CENTER**  
 Computation of Adjusted Reimbursement Rate  
 For the Contract Period October 1, 2008 Through September 30, 2009  
 AC# 3-LCS-J7

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 69.18	\$ 84.99	
Dietary		13.96	14.42	
Laundry/Housekeeping/Maintenance		<u>11.22</u>	<u>13.38</u>	
Subtotal	<u>\$7.90</u>	94.36	112.79	\$ 94.36
Administration & Medical Records	<u>\$ -</u>	<u>22.48</u>	<u>19.41</u>	<u>19.41</u>
Subtotal		116.84	<u>\$132.20</u>	113.77
<u>Costs Not Subject to Standards:</u>				
Utilities		3.79		3.79
Special Services		-		-
Medical Supplies & Oxygen		4.86		4.86
Taxes and Insurance		2.39		2.39
Legal Fees		<u>.19</u>		<u>.19</u>
<b>TOTAL</b>		<u>\$128.07</u>		125.00
Inflation Factor (4.80%)				6.00
Cost of Capital				6.70
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>.65</u>
<b>ADJUSTED REIMBURSEMENT RATE</b>				<u>\$140.10</u>

**LAKE CITY SCRANTON HEALTHCARE CENTER**  
 Summary of Costs and Total Patient Days  
 For the Cost Report Period Ended September 30, 2007  
 AC# 3-LCS-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	\$2,173,259	\$ 42 (6)	\$ 18,799 (4) 1,199 (4) 4,068 (6) 16,050 (7)	\$2,133,185
Dietary	432,658	-	2,106 (4)	430,552
Laundry	81,322	-	724 (4)	80,598
Housekeeping	118,034	-	1,013 (4)	117,021
Maintenance	147,007	1,878 (5)	667 (4)	148,218
Administration & Medical Records	732,683	-	3,627 (4) 236 (4) 28,762 (5) 3,981 (6) 2,905 (7)	693,172
Utilities	116,186	720 (5)	-	116,906
Special Services	(13)	18,955 (7)	4,831 (4) 14,113 (8)	(2)
Medical Supplies & Oxygen	172,487	-	287 (4) 22,369 (8)	149,831
Taxes and Insurance	338,851	-	264,783 (3) 247 (5) 11 (6)	73,810
Legal Fees	5,624	98 (5)	6 (6)	5,716

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

<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>
Cost of Capital	204,669	1,043 (1) 1,125 (5) 8 (6)	112 (2)	206,733
	_____	_____	_____	_____
Subtotal	4,522,767	23,869	390,896	4,155,740
Ancillary	175,237	-	-	175,237
Nonallowable	839,113	112 (2) 264,783 (3) 33,489 (4) 25,188 (5) 8,016 (6) 36,482 (8)	1,043 (1)	1,206,140
CNA Training and Testing	<u>2,100</u>	-	-	<u>2,100</u>
Total Operating Expenses	<u>\$5,539,217</u>	<u>\$391,939</u>	<u>\$391,939</u>	<u>\$5,539,217</u>
Total Patient Days	<u>30,835</u>	-	-	<u>30,835</u>
Total Beds	<u>88</u>			

**LAKE CITY SCRANTON HEALTHCARE CENTER**  
Adjustment Report  
Cost Report Period Ended September 30, 2007  
AC# 3-LCS-J7

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$ 22,264	
	Cost of Capital	1,043	
	Accumulated Depreciation		\$ 11,040
	Other Equity		11,224
	Nonallowable		1,043
	To adjust fixed assets and related depreciation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
2	Nonallowable	112	
	Cost of Capital		112
	To adjust capital return		
	State Plan, Attachment 4.19D		
3	Nonallowable	264,783	
	Taxes and Insurance		264,783
	To adjust liability insurance		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
4	Nonallowable	33,489	
	Nursing		18,799
	Restorative		1,199
	Dietary		2,106
	Laundry		724
	Housekeeping		1,013
	Maintenance		667
	Administration		3,627
	Medical Records		236
	Medical Supplies		287
	Special Services		4,831
	To adjust fringe benefits and related allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		

**LAKE CITY SCRANTON HEALTHCARE CENTER**  
Adjustment Report  
Cost Report Period Ended September 30, 2007  
AC# 3-LCS-J7

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Maintenance	1,878	
	Utilities	720	
	Legal	98	
	Cost of Capital	1,125	
	Nonallowable	25,188	
	Administration		28,762
	Taxes and Insurance		247
	To adjust related party expense HIM-15-1, Sections 1005 and 2304		
6	Restorative	42	
	Cost of Capital	8	
	Nonallowable	8,016	
	Nursing		4,068
	Administration		3,981
	Legal		6
	Taxes and Insurance		11
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
7	Special Services	18,955	
	Nursing		16,050
	Administration		2,905
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		

**LAKE CITY SCRANTON HEALTHCARE CENTER**  
Adjustment Report  
Cost Report Period Ended September 30, 2007  
AC# 3-LCS-J7

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
8	Nonallowable Medical Supplies Special Services	36,482	22,369 14,113
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
	<b>TOTAL ADJUSTMENTS</b>	<b><u>\$414,203</u></b>	<b><u>\$414,203</u></b>

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.

**LAKE CITY SCRANTON HEALTHCARE CENTER**  
 Cost of Capital Reimbursement Analysis  
 For the Cost Report Period Ended September 30, 2007  
 AC# 3-LCS-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	461,118
Accumulated Depreciation at 9/30/07	<u>(1,286,611)</u>
Deemed Depreciated Value	3,217,139
Market Rate of Return	<u>.0483</u>
Total Annual Return	155,388
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	155,388
Depreciation Expense	51,877
Amortization Expense	-
Capital Related Income Offsets	(532)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	206,733
Total Patient Days (Minimum 96% Occupancy)	<u>30,835</u>
Cost of Capital Per Diem	<u>\$ 6.70</u>

**LAKE CITY SCRANTON HEALTHCARE CENTER**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 2007  
AC# 3-LCS-J7

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$4.64
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$8.63</u>
Reimbursable Cost of Capital Per Diem	\$6.70
Cost of Capital Per Diem	<u>6.70</u>
Cost of Capital Per Diem Limitation	\$ <u>-</u>

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