

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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March 8, 2013

Ms. Laura Johnson, Reimbursement Manager
Five Star Quality Care, Inc.
702 South Highway 6
Gretna, Nebraska 68028

Re: AC# 3-MBM-J9 – FS Tenant Pool I Trust d/b/a Myrtle Beach Manor

Dear Ms. Johnson:

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, 2008 through September 30, 2009. That report was used to set the rate covering the contract periods beginning October 1, 2010.

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

**FS TENANT POOL I TRUST D/B/A
MYRTLE BEACH MANOR**

MYRTLE BEACH, SOUTH CAROLINA

**CONTRACT PERIODS
BEGINNING OCTOBER 1, 2010
AC# 3-MBM-J9**

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

January 3, 2013

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 FS Tenant Pool I Trust d/b/a Myrtle Beach Manor, for the contract periods beginning October 1, 2010, and for the twelve month cost report period ended September 30, 2009, as set forth in the accompanying schedules. The management of FS Tenant Pool I Trust d/b/a Myrtle Beach Manor 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 FS Tenant Pool I Trust d/b/a Myrtle Beach Manor, 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 contracts between the South Carolina Department of Health and Human Services and FS Tenant Pool I Trust d/b/a Myrtle Beach Manor dated as of October 1, 2006 and October 1, 2011, 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
January 3, 2013

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

MYRTLE BEACH MANOR
 Computation of Rate Change
 For the Contract Periods
 Beginning October 1, 2010
 AC# 3-MBM-J9

	10/01/10- <u>04/07/11</u>	04/08/11- <u>10/31/11</u>
Interim Reimbursement Rate (1)	\$133.42	\$129.42
Adjusted Reimbursement Rate	<u>121.30</u>	<u>117.66</u>
Decrease in Reimbursement Rate	\$ <u>12.12</u>	\$ <u>11.76</u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated April 10, 2012.

MYRTLE BEACH MANOR
 Computation of Adjusted Reimbursement Rate
 For the Contract Period October 1, 2010 Through April 7, 2011
 AC# 3-MBM-J9

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 65.21	\$ 86.60	
Dietary		12.60	15.58	
Laundry/Housekeeping/Maintenance		<u>8.94</u>	<u>14.87</u>	
Subtotal	<u>\$8.19</u>	86.75	117.05	\$ 86.75
Administration & Medical Records	<u>\$4.80</u>	<u>15.35</u>	<u>20.15</u>	<u>15.35</u>
Subtotal		102.10	<u>\$137.20</u>	102.10
<u>Costs Not Subject to Standards:</u>				
Utilities		2.85		2.85
Special Services		.30		.30
Medical Supplies & Oxygen		1.87		1.87
Taxes and Insurance		1.94		1.94
Legal Fees		<u>.06</u>		<u>.06</u>
TOTAL		<u>\$109.12</u>		109.12
Inflation Factor (2.00%)				2.18
Cost of Capital				8.83
Cost of Capital Limitation				(.58)
Profit Incentive (Maximum 3.5% of Allowable Cost)				3.82
Cost Incentive				8.19
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(10.26)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$121.30</u>

MYRTLE BEACH MANOR
 Computation of Adjusted Reimbursement Rate
 For the Contract Period April 8, 2011 Through October 31, 2011
 AC# 3-MBM-J9

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 65.21	\$ 86.60	
Dietary		12.60	15.58	
Laundry/Housekeeping/Maintenance		<u>8.94</u>	<u>14.87</u>	
Subtotal	<u>\$8.19</u>	86.75	117.05	\$ 86.75
Administration & Medical Records	<u>\$4.80</u>	<u>15.35</u>	<u>20.15</u>	<u>15.35</u>
Subtotal		102.10	<u>\$137.20</u>	102.10
<u>Costs Not Subject to Standards:</u>				
Utilities		2.85		2.85
Special Services		.30		.30
Medical Supplies & Oxygen		1.87		1.87
Taxes and Insurance		1.94		1.94
Legal Fees		<u>.06</u>		<u>.06</u>
TOTAL		<u>\$109.12</u>		109.12
Inflation Factor (2.00%)				2.18
Cost of Capital				8.83
Cost of Capital Limitation				(.58)
Profit Incentive (Maximum 3.5% of Allowable Cost)				3.82
Cost Incentive				8.19
Effect of \$1.75 Cap on Cost/Profit Incentives				(10.26)
Effect of 3% Rate Reduction				<u>(3.64)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$117.66</u>

MYRTLE BEACH MANOR
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2009
 AC# 3-MBM-J9

<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	\$2,582,429	\$113,525 (17)	\$ 1,861 (10) 40 (10) 120,843 (11) 12,123 (11) 8,917 (12) 21,519 (13) 45,763 (15) 108,462 (18)	\$2,376,426
Dietary	474,672	95 (4) 338,515 (17)	3,635 (3) 405 (10) 22,734 (11) 327,408 (18)	459,100
Laundry	66,773	47,620 (17)	5,011 (11) 45,532 (18)	63,850
Housekeeping	116,064	186,754 (17)	818 (10) 7,269 (11) 166,198 (18)	128,533
Maintenance	181,360	292,229 (17)	21,458 (4) 132,982 (5) 1,111 (10) 12,853 (11) 171,726 (18)	133,459
Administration & Medical Records	647,192	1,474 (16) 277,670 (17)	15,900 (6) 8,110 (10) 690 (10) 19,973 (11) 3,462 (11) 131,938 (15) 169,153 (18) 17,780 (18)	559,330

MYRTLE BEACH MANOR
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2009
AC# 3-MBM-J9

<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>	
Utilities	111,261	155 (4) 177,901 (17)	35,192 (7) 16,702 (10) 133,592 (18)	103,831
Special Services	10,114	647 (15)	2 (14)	10,759
Medical Supplies & Oxygen	131,840	1,647 (11) 8,917 (12) 21,519 (13)	33,936 (9) 15,867 (10) 18,126 (14) 27,861 (18)	68,133
Taxes and Insurance	93,912	133,719 (17)	68,284 (8) 188 (10) 88,581 (18)	70,578
Legal Fees	302	2,857 (10) 160 (17)	1,158 (18)	2,161
Cost of Capital	294,089	703 (2) 47,338 (17) <u>35,083 (19)</u>	15,937 (1) 38,988 (15) <u>12,826 (18)</u>	309,462
Subtotal	4,710,008	1,688,528	2,112,914	4,285,622
Ancillary	61,104	-	-	61,104

MYRTLE BEACH MANOR
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2009
AC# 3-MBM-J9

<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>	
Nonallowable	3,839,074	15,937 (1)	703 (2)	4,221,999
		3,635 (3)	1,615,431 (17)	
		21,208 (4)	35,083 (19)	
		132,982 (5)		
		15,900 (6)		
		35,192 (7)		
		68,284 (8)		
		33,936 (9)		
		202,621 (11)		
		18,128 (14)		
		216,042 (15)		
		1,270,277 (18)		
CNA Training and Testing	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Operating Expenses	<u>\$8,610,186</u>	<u>\$3,722,670</u>	<u>\$3,764,131</u>	<u>\$8,568,725</u>
Total Patient Days	<u>36,442</u>	<u>-</u>	<u>-</u>	<u>36,442</u>
			Cost of Capital Patient Days	<u>35,041</u>
Total Beds	<u>104</u>			

MYRTLE BEACH MANOR
Adjustment Report
Cost Report Period Ended September 30, 2009
AC# 3-MBM-J9

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$91,911	
	Nonallowable	15,937	
	Accumulated Depreciation		\$55,555
	Other Equity		36,356
	Cost of Capital		15,937
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Cost of Capital	703	
	Nonallowable		703
	To adjust depreciation expense to comply with capital cost policy State Plan, Attachment 4.19D		
3	Nonallowable	3,635	
	Dietary		3,635
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		
4	Dietary	95	
	Utilities	155	
	Nonallowable	21,208	
	Maintenance		21,458
	To reclassify expense to the proper cost center and disallow expense due to lack of adequate documentation HIM-15-1, Section 2304 DH&HS Expense Crosswalk		

MYRTLE BEACH MANOR
Adjustment Report
Cost Report Period Ended September 30, 2009
AC# 3-MBM-J9

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Nonallowable Maintenance	132,982	132,982
	To reclassify expense to the proper cost center State Plan, Attachment 4.19D DH&HS Expense Crosswalk		
6	Nonallowable Medical Records	15,900	15,900
	To reclassify expense to the proper cost center and disallow expense due to lack of adequate documentation HIM-15-1, Section 2304 DH&HS Expense Crosswalk		
7	Nonallowable Utilities	35,192	35,192
	To disallow cable television expense HIM-15-1, Section 2106 DH&HS Expense Crosswalk		
8	Nonallowable Taxes and Insurance	68,284	68,284
	To adjust liability insurance expense HIM-15-1, Sections 2162 and 2304 State Plan, Attachment 4.19D		
9	Nonallowable Medical Supplies	33,936	33,936
	To disallow expense due to lack of adequate documentation HIM-15-1, Section 2304		

MYRTLE BEACH MANOR
Adjustment Report
Cost Report Period Ended September 30, 2009
AC# 3-MBM-J9

<u>ADJUSTMENT</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
10	Retained Earnings	53,564	
	Legal	2,857	
	Accounts Payable		10,629
	Nursing		1,861
	Restorative		40
	Dietary		405
	Housekeeping		818
	Maintenance		1,111
	Administration		8,110
	Medical Records		690
	Utilities		16,702
	Taxes and Insurance		188
	Medical Supplies		15,867
	To properly charge expense applicable to the current and prior period HIM-15-1, Section 2302.1		
11	Medical Supplies	1,647	
	Nonallowable	202,621	
	Nursing		120,843
	Restorative		12,123
	Dietary		22,734
	Laundry		5,011
	Housekeeping		7,269
	Maintenance		12,853
	Administration		19,973
	Medical Records		3,462
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
12	Medical Supplies	8,917	
	Nursing		8,917
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		
13	Medical Supplies	21,519	
	Nursing		21,519
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		

MYRTLE BEACH MANOR
Adjustment Report
Cost Report Period Ended September 30, 2009
AC# 3-MBM-J9

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
14	Nonallowable Medical Supplies Special Services	18,128	18,126 2
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
15	Special Services Nonallowable Nursing Administration Cost of Capital	647 216,042	45,763 131,938 38,988
	To adjust home office cost allocation HIM-15-1, Section 2304		
16	Administration Other Routine Revenue	1,474	1,474
	To reverse DH&HS income offset HIM-15-1, Section 2304		
17	Restorative Dietary Laundry Housekeeping Maintenance Administration Legal Utilities Taxes and Insurance Cost of Capital Nonallowable	113,525 338,515 47,620 186,754 292,229 277,670 160 177,901 133,719 47,338	1,615,431
	To reverse DH&HS adjustment to remove indirect cost applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		

MYRTLE BEACH MANOR
Adjustment Report
Cost Report Period Ended September 30, 2009
AC# 3-MBM-J9

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
18	Nonallowable	1,270,277	
	Restorative		108,462
	Dietary		327,408
	Laundry		45,532
	Housekeeping		166,198
	Maintenance		171,726
	Administration		169,153
	Medical Records		17,780
	Legal		1,158
	Utilities		133,592
	Taxes and Insurance		88,581
	Medical Supplies		27,861
	Cost of Capital		12,826
	To remove indirect cost applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
19	Cost of Capital	35,083	
	Nonallowable		35,083
	To adjust capital return State Plan, Attachment 4.19D		
		\$3,868,145	\$3,868,145
	TOTAL ADJUSTMENTS		

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.

MYRTLE BEACH MANOR
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2009
 AC# 3-MBM-J9

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>3.10948</u>	<u>3.10948</u>	<u>3.10948</u>	
Deemed Asset Value (Per Bed)	48,564	48,564	48,564	
Number of Beds	<u>49</u>	<u>32</u>	<u>19</u>	
Deemed Asset Value	2,379,636	1,554,048	922,716	
Improvements Since 1981	1,446,428	431,346	180,442	
Accumulated Depreciation at 9/30/09	(<u>1,515,972</u>)	(<u>662,631</u>)	(<u>351,511</u>)	
Deemed Depreciated Value	2,310,092	1,322,763	751,647	
Market Rate of Return	<u>.0440</u>	<u>.0440</u>	<u>.0440</u>	
Total Annual Return	101,644	58,202	33,072	
Return Applicable to Non-Reimbursable Cost Centers	(8,384)	(4,800)	(2,729)	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	<u>-</u>	
Allowable Annual Return	93,260	53,402	30,343	
Depreciation Expense	89,041	46,140	28,216	
Amortization Expense	(100)	(65)	(39)	
Capital Related Income Offsets	(8,776)	(5,731)	(3,403)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(7,025)</u>	<u>(3,597)</u>	<u>(2,204)</u>	<u>Total</u>
Allowable Cost of Capital Expense	166,400	90,149	52,913	\$309,462
Total Patient Days (Minimum 96% Occupancy)	<u>17,170</u>	<u>11,213</u>	<u>6,658</u>	<u>35,041</u>
Cost of Capital Per Diem	\$ <u><u>9.69</u></u>	\$ <u><u>8.04</u></u>	\$ <u><u>7.95</u></u>	\$ <u><u>8.83</u></u>

MYRTLE BEACH MANOR
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2009
 AC# 3-MBM-J9

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$4.51	\$ N/A	\$ N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	<u>\$8.50</u>	<u>\$8.04</u>	<u>\$7.95</u>
Reimbursable Cost of Capital Per Diem		\$8.25	
Cost of Capital Per Diem		<u>8.83</u>	
Cost of Capital Per Diem Limitation		<u>\$(.58)</u>	

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