

*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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October 30, 2013

Ms. Autumn Grove, Senior Reimbursement Manager  
Fundamental Administrative Services  
920 Ridgebrook Road  
Sparks, Maryland 21152

Re: AC# 3-MIN-J9 – THI of South Carolina at Magnolia Manor - Inman, LLC d/b/a  
Magnolia Manor - Inman

Dear Ms. Grove:

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  
Ms. Nicole Mitchell Threat  
Ms. Melissa Simmons

**THI OF SOUTH CAROLINA AT MAGNOLIA MANOR - INMAN, LLC D/B/A  
MAGNOLIA MANOR - INMAN  
INMAN, SOUTH CAROLINA**

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

September 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 THI of South Carolina at Magnolia Manor - Inman, LLC d/b/a Magnolia Manor - Inman, 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 THI of South Carolina at Magnolia Manor - Inman, LLC d/b/a Magnolia Manor - Inman 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 THI of South Carolina at Magnolia Manor - Inman, LLC d/b/a Magnolia Manor - Inman, 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 THI of South Carolina at Magnolia Manor - Inman, LLC d/b/a Magnolia Manor - Inman 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  
September 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.", with a stylized flourish at the end.

Richard H. Gilbert, Jr., CPA  
Deputy State Auditor

**MAGNOLIA MANOR - INMAN**  
 Computation of Rate Change  
 For the Contract Periods  
 Beginning October 1, 2010  
 AC# 3-MIN-J9

|                                | <u>10/01/10-</u><br><u>04/07/11</u> | <u>04/08/11-</u><br><u>10/31/11</u> |
|--------------------------------|-------------------------------------|-------------------------------------|
| Interim Reimbursement Rate (1) | \$144.79                            | \$140.45                            |
| Adjusted Reimbursement Rate    | <u>142.68</u>                       | <u>138.40</u>                       |
| Decrease in Reimbursement Rate | \$ <u><u>2.11</u></u>               | \$ <u><u>2.05</u></u>               |

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

**MAGNOLIA MANOR - INMAN**  
 Computation of Adjusted Reimbursement Rate  
 For the Contract Period October 1, 2010 Through April 7, 2011  
 AC# 3-MIN-J9

|   | <u>Incentives</u> | <u>Allowable<br/>Cost</u> | <u>Cost<br/>Standard</u> | <u>Computed<br/>Rate</u> |
|---|-------------------|---------------------------|--------------------------|--------------------------|
| <u>Costs Subject to Standards:</u>                |                   |                           |                          |                          |
| General Services                                  |                   | \$ 79.07                  | \$ 86.60                 |                          |
| Dietary   |                   | 13.29                     | 15.58                    |                          |
| Laundry/Housekeeping/Maintenance                  |                   | <u>9.40</u>               | <u>14.87</u>             |                          |
| Subtotal  | <u>\$8.19</u>     | 101.76                    | 117.05                   | \$101.76                 |
| Administration & Medical Records                  | <u>\$2.68</u>     | <u>17.47</u>              | <u>20.15</u>             | <u>17.47</u>             |
| Subtotal  |                   | 119.23                    | <u>\$137.20</u>          | 119.23                   |
| <u>Costs Not Subject to Standards:</u>            |                   |                           |                          |                          |
| Utilities   |                   | 2.40                      |                          | 2.40                     |
| Special Services                                  |                   | .12                       |                          | .12                      |
| Medical Supplies & Oxygen                         |                   | 6.18                      |                          | 6.18                     |
| Taxes and Insurance                               |                   | 2.95                      |                          | 2.95                     |
| Legal Fees  |                   | <u>.51</u>                |                          | <u>.51</u>               |
| <b>TOTAL</b>                                      |                   | <u>\$131.39</u>           |                          | 131.39                   |
| Inflation Factor (2.00%)                          |                   |                           |                          | 2.63                     |
| Cost of Capital                                   |                   |                           |                          | 6.94                     |
| Cost of Capital Limitation                        |                   |                           |                          | (.03)                    |
| Profit Incentive (Maximum 3.5% of Allowable Cost) |                   |                           |                          | 2.68                     |
| Cost Incentive                                    |                   |                           |                          | 8.19                     |
| Effect of \$1.75 Cap on Cost/Profit Incentives    |                   |                           |                          | <u>(9.12)</u>            |
| <b>ADJUSTED REIMBURSEMENT RATE</b>                |                   |                           |                          | <u>\$142.68</u>          |

**MAGNOLIA MANOR - INMAN**  
 Computation of Adjusted Reimbursement Rate  
 For the Contract Period April 8, 2011 Through October 31, 2011  
 AC# 3-MIN-J9

|   | <u>Incentives</u> | <u>Allowable<br/>Cost</u> | <u>Cost<br/>Standard</u> | <u>Computed<br/>Rate</u> |
|---|-------------------|---------------------------|--------------------------|--------------------------|
| <u>Costs Subject to Standards:</u>                |                   |                           |                          |                          |
| General Services                                  |                   | \$ 79.07                  | \$ 86.60                 |                          |
| Dietary   |                   | 13.29                     | 15.58                    |                          |
| Laundry/Housekeeping/Maintenance                  |                   | <u>9.40</u>               | <u>14.87</u>             |                          |
| Subtotal  | <u>\$8.19</u>     | 101.76                    | 117.05                   | \$101.76                 |
| Administration & Medical Records                  | <u>\$2.68</u>     | <u>17.47</u>              | <u>20.15</u>             | <u>17.47</u>             |
| Subtotal  |                   | 119.23                    | <u>\$137.20</u>          | 119.23                   |
| <u>Costs Not Subject to Standards:</u>            |                   |                           |                          |                          |
| Utilities   |                   | 2.40                      |                          | 2.40                     |
| Special Services                                  |                   | .12                       |                          | .12                      |
| Medical Supplies & Oxygen                         |                   | 6.18                      |                          | 6.18                     |
| Taxes and Insurance                               |                   | 2.95                      |                          | 2.95                     |
| Legal Fees  |                   | <u>.51</u>                |                          | <u>.51</u>               |
| <b>TOTAL</b>                                      |                   | <u>\$131.39</u>           |                          | 131.39                   |
| Inflation Factor (2.00%)                          |                   |                           |                          | 2.63                     |
| Cost of Capital                                   |                   |                           |                          | 6.94                     |
| Cost of Capital Limitation                        |                   |                           |                          | (.03)                    |
| Profit Incentive (Maximum 3.5% of Allowable Cost) |                   |                           |                          | 2.68                     |
| Cost Incentive                                    |                   |                           |                          | 8.19                     |
| Effect of \$1.75 Cap on Cost/Profit Incentives    |                   |                           |                          | (9.12)                   |
| Effect of 3% Rate Reduction                       |                   |                           |                          | <u>(4.28)</u>            |
| <b>ADJUSTED REIMBURSEMENT RATE</b>                |                   |                           |                          | <u>\$138.40</u>          |

**MAGNOLIA MANOR - INMAN**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 2009  
AC# 3-MIN-J9

| <u>Expenses</u>                     | Totals (From<br>Schedule SC 13) as<br><u>Adjusted by DH&amp;HS</u> | Adjustments  |   | <u>Adjusted<br/>Totals</u> |
|-------------------------------------|--|--------------|---|----------------------------|
|                                     |  | <u>Debit</u> | <u>Credit</u>   |                            |
| General Services                    | \$5,019,655  | \$ -         | \$ 1,021 (1)<br>4,080 (3)<br>37,354 (4)<br>1,645 (4)<br>9,967 (5) | \$4,965,588                |
| Dietary                             | 837,857  | -            | 3,256 (4)   | 834,601                    |
| Laundry                             | 204,478  | -            | -   | 204,478                    |
| Housekeeping                        | 176,698  | -            | -   | 176,698                    |
| Maintenance                         | 209,940  | -            | 971 (4)   | 208,969                    |
| Administration &<br>Medical Records | 1,152,358  | -            | 2,355 (4)<br>323 (4)<br>52,673 (5)                                | 1,097,007                  |
| Utilities                           | 150,885  | -            | -   | 150,885                    |
| Special Services                    | 7,347  | 74 (5)       | -   | 7,421                      |
| Medical Supplies &<br>Oxygen        | 404,345  | -            | 347 (4)<br>15,635 (6)   | 388,363                    |
| Taxes and Insurance                 | 185,266  | -            | -   | 185,266                    |
| Legal Fees                          | 31,875   | -            | -   | 31,875                     |

**MAGNOLIA MANOR - INMAN**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 2009  
AC# 3-MIN-J9

| <u>Expenses</u>             | Totals (From<br>Schedule SC 13) as<br>Adjusted by DH&HS | Adjustments<br><u>Debit</u>                         | <u>Credit</u>          | Adjusted<br><u>Totals</u> |
|-----------------------------|---|---|------------------------|---------------------------|
| Cost of Capital             | 433,920   | 2,154 (1)<br><u>2,070 (2)</u>                       | 2,162 (5)              | 435,982                   |
| Subtotal                    | 8,814,624   | 4,298   | 131,789                | 8,687,133                 |
| Ancillary                   | 191,406   | 602 (6)   | -                      | 192,008                   |
| Nonallowable                | 1,415,966   | 4,080 (3)<br>46,251 (4)<br>64,728 (5)<br>15,033 (6) | 2,154 (1)<br>2,070 (2) | 1,541,834                 |
| CNA Training and Testing    | <u>3,060</u>  | -   | -                      | <u>3,060</u>              |
| Total Operating<br>Expenses | <u>\$10,425,056</u>                                     | <u>\$134,992</u>                                    | <u>\$136,013</u>       | <u>\$10,424,035</u>       |
| Total Patient Days          | <u>62,796</u>   | <u>-</u>  | <u>-</u>               | <u>62,796</u>             |
| Total Beds                  | <u>176</u>  |   |                        |                           |

**MAGNOLIA MANOR - INMAN**  
Adjustment Report  
Cost Report Period Ended September 30, 2009  
AC# 3-MIN-J9

| <u>ADJUSTMENT</u><br><u>NUMBER</u> | <u>ACCOUNT TITLE</u>   | <u>DEBIT</u> | <u>CREDIT</u> |
|------------------------------------|--|--------------|---------------|
| 1                                  | Fixed Assets   | \$40,334     |               |
|                                    | Retained Earnings  | 1,021        |               |
|                                    | Cost of Capital  | 2,154        |               |
|                                    | Accumulated Depreciation   |              | \$25,763      |
|                                    | Other Equity   |              | 14,571        |
|                                    | Nursing  |              | 1,021         |
|                                    | Nonallowable   |              | 2,154         |
|                                    | To adjust fixed assets and related depreciation and properly charge expense applicable to the prior period HIM-15-1, Sections 2302.1 and 2304 State Plan, Attachment 4.19D |              |               |
| 2                                  | Cost of Capital  | 2,070        |               |
|                                    | Nonallowable   |              | 2,070         |
|                                    | To adjust capital return State Plan, Attachment 4.19D  |              |               |
| 3                                  | Nonallowable   | 4,080        |               |
|                                    | Restorative  |              | 4,080         |
|                                    | To disallow expense due to lack of adequate documentation HIM-15-1, Section 2304   |              |               |
| 4                                  | Nonallowable   | 46,251       |               |
|                                    | Nursing  |              | 37,354        |
|                                    | Restorative  |              | 1,645         |
|                                    | Dietary  |              | 3,256         |
|                                    | Maintenance  |              | 971           |
|                                    | Administration   |              | 2,355         |
|                                    | Medical Records  |              | 323           |
|                                    | Medical Supplies   |              | 347           |
|                                    | To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D   |              |               |

**MAGNOLIA MANOR - INMAN**  
Adjustment Report  
Cost Report Period Ended September 30, 2009  
AC# 3-MIN-J9

| <u>ADJUSTMENT<br/>NUMBER</u> | <u>ACCOUNT TITLE</u>  | <u>DEBIT</u>     | <u>CREDIT</u>    |
|------------------------------|---|------------------|------------------|
| 5                            | Special Services  | 74               |                  |
|                              | Nonallowable  | 64,728           |                  |
|                              | Nursing   |                  | 9,967            |
|                              | Administration  |                  | 52,673           |
|                              | Cost of Capital   |                  | 2,162            |
|                              | To adjust home office cost allocation<br>HIM-15-1, Section 2304<br>State Plan, Attachment 4.19D   |                  |                  |
| 6                            | Ancillary   | 602              |                  |
|                              | Nonallowable  | 15,033           |                  |
|                              | Medical Supplies  |                  | 15,635           |
|                              | To remove special (ancillary) services<br>reimbursed by Medicare and reclassify<br>expense to the proper cost center<br>State Plan, Attachment 4.19D<br>DH&HS Expense Crosswalk |                  |                  |
|                              | TOTAL ADJUSTMENTS   | <u>\$176,347</u> | <u>\$176,347</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.

**MAGNOLIA MANOR - INMAN**  
 Cost of Capital Reimbursement Analysis  
 For the Cost Report Period Ended September 30, 2009  
 AC# 3-MIN-J9

|  |                    |
|--|--------------------|
| Original Asset Cost (Per Bed)                                      | \$ 15,618          |
| Inflation Adjustment   | <u>3.10948</u>     |
| Deemed Asset Value (Per Bed)                                       | 48,564             |
| Number of Beds   | <u>176</u>         |
| Deemed Asset Value   | 8,547,264          |
| Improvements Since 1981  | 1,174,161          |
| Accumulated Depreciation at 9/30/09                                | <u>(1,734,909)</u> |
| Deemed Depreciated Value   | 7,986,516          |
| Market Rate of Return  | <u>.0440</u>       |
| Total Annual Return  | 351,407            |
| Return Applicable to Non-Reimbursable Cost Centers                 | -                  |
| Allocation of Interest to Non-Reimbursable<br>Cost Centers         | <u>-</u>           |
| Allowable Annual Return  | 351,407            |
| Depreciation Expense   | 86,737             |
| Amortization Expense   | -                  |
| Capital Related Income Offsets                                     | (2,162)            |
| Allocation of Capital Expenses to Non-Reimbursable<br>Cost Centers | <u>-</u>           |
| Allowable Cost of Capital Expense                                  | 435,982            |
| Total Patient Days (Actual)  | <u>62,796</u>      |
| Cost of Capital Per Diem   | <u>\$ 6.94</u>     |

**MAGNOLIA MANOR - INMAN**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 2009  
AC# 3-MIN-J9

|  |                |
|--|----------------|
| 6/30/89 Cost of Capital and Return on Equity<br>Capital Per Diem Reimbursement | \$2.92         |
| Adjustment for Maximum Increase  | <u>3.99</u>    |
| Maximum Cost of Capital Per Diem   | <u>\$6.91</u>  |
| Reimbursable Cost of Capital Per Diem  | \$6.91         |
| Cost of Capital Per Diem   | <u>6.94</u>    |
| Cost of Capital Per Diem Limitation  | <u>\$(.03)</u> |

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