

*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-MMP-J0 – THI of South Carolina at Magnolia Place at Spartanburg, LLC d/b/a  
Magnolia Place - Spartanburg

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, 2009 through September 30, 2010. That report was used to set the rate covering the contract period beginning November 1, 2011.

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/cwc

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 PLACE AT SPARTANBURG, LLC D/B/A  
MAGNOLIA PLACE - SPARTANBURG  
SPARTANBURG, SOUTH CAROLINA**

**CONTRACT PERIOD  
BEGINNING NOVEMBER 1, 2011  
AC# 3-MMP-J0**

**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

July 25, 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 Place at Spartanburg, LLC d/b/a Magnolia Place - Spartanburg, for the contract period beginning November 1, 2011, and for the twelve month cost report period ended September 30, 2010, as set forth in the accompanying schedules. The management of THI of South Carolina at Magnolia Place at Spartanburg, LLC d/b/a Magnolia Place - Spartanburg 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 Place at Spartanburg, LLC d/b/a Magnolia Place - Spartanburg, 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 THI of South Carolina at Magnolia Place at Spartanburg, LLC d/b/a Magnolia Place - Spartanburg dated as of October 1, 2011, 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  
July 25, 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

**MAGNOLIA PLACE - SPARTANBURG**  
Computation of Rate Change  
For the Contract Period  
Beginning November 1, 2011  
AC# 3-MMP-J0

	<u>11/01/11-</u> <u>09/30/12</u>
Interim Reimbursement Rate (1)	\$162.23
Adjusted Reimbursement Rate	<u>160.03</u>
Decrease in Reimbursement Rate	\$ <u><u>2.20</u></u>

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

**MAGNOLIA PLACE - SPARTANBURG**  
 Computation of Adjusted Reimbursement Rate  
 For the Contract Period November 1, 2011 Through September 30, 2012  
 AC# 3-MMP-J0

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 85.55	\$ 95.25	
Dietary		14.78	16.01	
Laundry/Housekeeping/Maintenance		<u>11.53</u>	<u>15.28</u>	
Subtotal	<u>\$8.86</u>	111.86	126.54	\$111.86
Administration & Medical Records	<u>\$ -</u>	<u>25.75</u>	<u>22.48</u>	<u>22.48</u>
Subtotal		137.61	<u>\$149.02</u>	134.34
<u>Costs Not Subject to Standards:</u>				
Utilities		3.21		3.21
Special Services		-		-
Medical Supplies & Oxygen		6.37		6.37
Taxes and Insurance		11.58		11.58
Legal Fees		<u>.53</u>		<u>.53</u>
<b>TOTAL</b>		<u>\$159.30</u>		156.03
Inflation Factor (N/A)				-
Cost of Capital				7.23
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				8.86
Effect of \$1.75 Cap on Cost/Profit Incentives				(7.11)
Budget Neutrality Adjustment (3.02%)				<u>(4.98)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$160.03</u>

**MAGNOLIA PLACE - SPARTANBURG**  
 Summary of Costs and Total Patient Days  
 For the Cost Report Period Ended September 30, 2010  
 AC# 3-MMP-J0

<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	\$2,677,552	\$ -	\$ 34,427 (4) 1,332 (4) 3,928 (5)	\$2,637,865
Dietary	459,160	-	3,485 (4)	455,675
Laundry	105,335	-	-	105,335
Housekeeping	136,532	-	-	136,532
Maintenance	116,676	-	2,470 (1) 651 (4)	113,555
Administration & Medical Records	871,703	-	490 (4) 185 (4) 76,905 (5)	794,123
Utilities	98,995	-	-	98,995
Special Services	78	-	-	78
Medical Supplies & Oxygen	197,058	-	159 (4) 451 (6)	196,448
Taxes and Insurance	357,220	-	-	357,220
Legal Fees	16,686	-	214 (5)	16,472
Cost of Capital	246,167	12,187 (2)	28,881 (1) 6,083 (3) 450 (5)	222,940
Subtotal	5,283,162	12,187	160,111	5,135,238

**MAGNOLIA PLACE - SPARTANBURG**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 2010  
AC# 3-MMP-J0

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
Ancillary	210,183	662 (6)	-	210,845
Nonallowable	736,846	28,881 (1) 6,083 (3) 40,729 (4) 81,497 (5)	12,187 (2) 211 (6)	881,638
CNA Training and Testing	<u>458</u>	<u>-</u>	<u>-</u>	<u>458</u>
Total Operating Expenses	<u>\$6,230,649</u>	<u>\$170,039</u>	<u>\$172,509</u>	<u>\$6,228,179</u>
Total Patient Days	<u>30,835</u>	<u>-</u>	<u>-</u>	<u>30,835</u>
Total Beds	<u>88</u>			

**MAGNOLIA PLACE - SPARTANBURG**  
Adjustment Report  
Cost Report Period Ended September 30, 2010  
AC# 3-MMP-J0

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$40,399	
	Retained Earnings	2,470	
	Nonallowable	28,881	
	Other Equity		\$40,399
	Maintenance		2,470
	Cost of Capital		28,881
	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	12,187	
	Nonallowable		12,187
	To adjust depreciation expense to comply with capital cost policy State Plan, Attachment 4.19D		
3	Nonallowable	6,083	
	Cost of Capital		6,083
	To adjust capital return State Plan, Attachment 4.19D		
4	Nonallowable	40,729	
	Nursing		34,427
	Restorative		1,332
	Dietary		3,485
	Maintenance		651
	Administration		490
	Medical Records		185
	Medical Supplies		159
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

**MAGNOLIA PLACE - SPARTANBURG**  
Adjustment Report  
Cost Report Period Ended September 30, 2010  
AC# 3-MMP-J0

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Nonallowable	81,497	
	Nursing		3,928
	Administration		76,905
	Legal		214
	Cost of Capital		450
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
6	Ancillary	662	
	Medical Supplies		451
	Nonallowable		211
	To remove special (ancillary) services reimbursed by Medicare and reclassify expense to the proper cost center State Plan, Attachment 4.19D DH&HS Expense Crosswalk		
	<b>TOTAL ADJUSTMENTS</b>	<b>\$212,908</b>	<b>\$212,908</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.

**MAGNOLIA PLACE - SPARTANBURG**  
 Cost of Capital Reimbursement Analysis  
 For the Cost Report Period Ended September 30, 2010  
 AC# 3-MMP-J0

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>3,15264</u>
Deemed Asset Value (Per Bed)	49,238
Number of Beds	<u>88</u>
Deemed Asset Value	4,332,944
Improvements Since 1981	507,850
Accumulated Depreciation at 9/30/10	<u>(1,462,834)</u>
Deemed Depreciated Value	3,377,960
Market Rate of Return	<u>.0420</u>
Total Annual Return	141,874
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	141,874
Depreciation Expense	81,516
Amortization Expense	-
Capital Related Income Offsets	(450)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	222,940
Total Patient Days (Minimum 96% Occupancy)	<u>30,835</u>
Cost of Capital Per Diem	\$ <u><u>7.23</u></u>

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