

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
FAX (803) 343-0723

October 30, 2013

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

Re: AC# 3-MMP-J9 – 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, 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 PLACE AT SPARTANBURG, LLC D/B/A
MAGNOLIA PLACE - SPARTANBURG
SPARTANBURG, SOUTH CAROLINA**

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

August 27, 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 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 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 contracts 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, 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
August 27, 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 Periods
 Beginning October 1, 2010
 AC# 3-MMP-J9

	<u>10/01/10-</u> <u>04/07/11</u>	<u>04/08/11-</u> <u>10/31/11</u>
Interim Reimbursement Rate (1)	\$165.70	\$160.73
Adjusted Reimbursement Rate	<u>164.04</u>	<u>159.12</u>
Decrease in Reimbursement Rate	\$ <u><u>1.66</u></u>	\$ <u><u>1.61</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 October 1, 2010 Through April 7, 2011
 AC# 3-MMP-J9

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 85.12	\$ 99.44	
Dietary		13.52	15.32	
Laundry/Housekeeping/Maintenance		<u>11.57</u>	<u>14.84</u>	
Subtotal	\$ <u>9.07</u>	110.21	129.60	\$110.21
Administration & Medical Records	\$ <u>-</u>	<u>24.29</u>	<u>21.42</u>	<u>21.42</u>
Subtotal		134.50	<u>\$151.02</u>	131.63
<u>Costs Not Subject to Standards:</u>				
Utilities		3.18		3.18
Special Services		.02		.02
Medical Supplies & Oxygen		6.71		6.71
Taxes and Insurance		10.25		10.25
Legal Fees		<u>.43</u>		<u>.43</u>
TOTAL		<u>\$155.09</u>		152.22
Inflation Factor (2.00%)				3.04
Cost of Capital				7.03
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				9.07
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(7.32)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$164.04</u>

MAGNOLIA PLACE - SPARTANBURG
 Computation of Adjusted Reimbursement Rate
 For the Contract Period April 8, 2011 Through October 31, 2011
 AC# 3-MMP-J9

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 85.12	\$ 99.44	
Dietary		13.52	15.32	
Laundry/Housekeeping/Maintenance		<u>11.57</u>	<u>14.84</u>	
Subtotal	\$ <u>9.07</u>	110.21	129.60	\$110.21
Administration & Medical Records	\$ <u>-</u>	<u>24.29</u>	<u>21.42</u>	<u>21.42</u>
Subtotal		134.50	<u>\$151.02</u>	131.63
<u>Costs Not Subject to Standards:</u>				
Utilities		3.18		3.18
Special Services		.02		.02
Medical Supplies & Oxygen		6.71		6.71
Taxes and Insurance		10.25		10.25
Legal Fees		<u>.43</u>		<u>.43</u>
TOTAL		<u>\$155.09</u>		152.22
Inflation Factor (2.00%)				3.04
Cost of Capital				7.03
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				9.07
Effect of \$1.75 Cap on Cost/Profit Incentives				(7.32)
Effect of 3% Rate Reduction				<u>(4.92)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$159.12</u>

MAGNOLIA PLACE - SPARTANBURG
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2009
AC# 3-MMP-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	\$2,661,575	\$ -	\$ 29,905 (4) 1,073 (4) 5,798 (5)	\$2,624,799
Dietary	419,976	-	3,196 (4)	416,780
Laundry	99,209	-	-	99,209
Housekeeping	142,241	-	-	142,241
Maintenance	114,237	1,948 (1)	774 (4)	115,411
Administration & Medical Records	799,089	-	3,343 (4) 314 (4) 46,470 (5)	748,962
Utilities	98,085	-	-	98,085
Special Services	732	6 (5)	-	738
Medical Supplies & Oxygen	207,164	-	161 (4)	207,003
Taxes and Insurance	316,185	-	-	316,185
Legal Fees	13,397	-	-	13,397

MAGNOLIA PLACE - SPARTANBURG
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2009
AC# 3-MMP-J9

<u>Expenses</u>	Totals (From Schedule SC 13) as Adjusted by DH&HS	Adjustments <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
Cost of Capital	227,414	8,871 (2)	11,121 (1) 7,063 (3) 1,258 (5)	216,843
	_____	_____	_____	_____
Subtotal	5,099,304	10,825	110,476	4,999,653
Ancillary	141,732	263 (6)	-	141,995
Nonallowable	718,005	11,121 (1) 7,063 (3) 38,766 (4) 53,520 (5)	8,871 (2) 263 (6)	819,341
CNA Training and Testing	<u>2,560</u>	<u>-</u>	<u>-</u>	<u>2,560</u>
Total Operating Expenses	<u>\$5,961,601</u>	<u>\$121,558</u>	<u>\$119,610</u>	<u>\$5,963,549</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, 2009
AC# 3-MMP-J9

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$13,656	
	Accumulated Depreciation	9,030	
	Retained Earnings	522	
	Maintenance	1,948	
	Nonallowable	11,121	
	Accounts Payable		\$ 2,470
	Other Equity		22,686
	Cost of Capital		11,121
	To adjust fixed assets and related depreciation, record expense to the current period, 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	8,871	
	Nonallowable		8,871
	To adjust depreciation expense to comply with capital cost policy State Plan, Attachment 4.19D		
3	Nonallowable	7,063	
	Cost of Capital		7,063
	To adjust capital return State Plan, Attachment 4.19D		
4	Nonallowable	38,766	
	Nursing		29,905
	Restorative		1,073
	Dietary		3,196
	Maintenance		774
	Administration		3,343
	Medical Records		314
	Medical Supplies		161
	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, 2009
AC# 3-MMP-J9

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Special Services Nonallowable	6 53,520	
	Nursing		5,798
	Administration		46,470
	Cost of Capital		1,258
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
6	Ancillary Nonallowable	263	263
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		
	TOTAL ADJUSTMENTS	\$144,766	\$144,766

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, 2009
 AC# 3-MMP-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>88</u>
Deemed Asset Value	4,273,632
Improvements Since 1981	417,440
Accumulated Depreciation at 9/30/09	<u>(1,387,136)</u>
Deemed Depreciated Value	3,303,936
Market Rate of Return	<u>.0440</u>
Total Annual Return	145,373
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	145,373
Depreciation Expense	72,728
Amortization Expense	-
Capital Related Income Offsets	(1,258)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	216,843
Total Patient Days (Minimum 96% Occupancy)	<u>30,835</u>
Cost of Capital Per Diem	\$ <u><u>7.03</u></u>

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