

*State of South Carolina*



*Office of the State Auditor*

1401 MAIN STREET, SUITE 1200  
COLUMBIA, S.C. 29201

RICHARD H. GILBERT, JR., CPA  
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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-MRH-J9 – THI of South Carolina at Rock Hill, LLC d/b/a  
Magnolia Manor – Rock Hill

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/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 ROCK HILL, LLC D/B/A  
MAGNOLIA MANOR – ROCK HILL**

**ROCK HILL, SOUTH CAROLINA**

**CONTRACT PERIODS  
BEGINNING OCTOBER 1, 2010  
AC# 3-MRH-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 29, 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 Rock Hill, LLC d/b/a Magnolia Manor – Rock Hill, 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 Rock Hill, LLC d/b/a Magnolia Manor – Rock Hill 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 Rock Hill, LLC d/b/a Magnolia Manor – Rock Hill, 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 Rock Hill, LLC d/b/a Magnolia Manor – Rock Hill 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 29, 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 MANOR – ROCK HILL**  
 Computation of Rate Change  
 For the Contract Periods  
 Beginning October 1, 2010  
 AC# 3-MRH-J9

	10/01/10- <u>04/07/11</u>	04/08/11- <u>10/31/11</u>
Interim Reimbursement Rate (1)	\$137.22	\$133.10
Adjusted Reimbursement Rate	<u>135.56</u>	<u>131.49</u>
Decrease in Reimbursement Rate	\$ <u>1.66</u>	\$ <u>1.61</u>

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

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

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 71.25	\$ 86.60	
Dietary		13.24	15.58	
Laundry/Housekeeping/Maintenance		<u>9.22</u>	<u>14.87</u>	
Subtotal	<u>\$8.19</u>	93.71	117.05	\$ 93.71
Administration & Medical Records	<u>\$ -</u>	<u>20.81</u>	<u>20.15</u>	<u>20.15</u>
Subtotal		114.52	<u>\$137.20</u>	113.86
<u>Costs Not Subject to Standards:</u>				
Utilities		3.14		3.14
Special Services		.05		.05
Medical Supplies & Oxygen		4.22		4.22
Taxes and Insurance		2.73		2.73
Legal Fees		<u>.38</u>		<u>.38</u>
<b>TOTAL</b>		<u>\$125.04</u>		124.38
Inflation Factor (2.00%)				2.49
Cost of Capital				6.94
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				8.19
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(6.44)</u>
<b>ADJUSTED REIMBURSEMENT RATE</b>				<u>\$135.56</u>

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

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 71.25	\$ 86.60	
Dietary		13.24	15.58	
Laundry/Housekeeping/Maintenance		<u>9.22</u>	<u>14.87</u>	
Subtotal	<u>\$8.19</u>	93.71	117.05	\$ 93.71
Administration & Medical Records	<u>\$ -</u>	<u>20.81</u>	<u>20.15</u>	<u>20.15</u>
Subtotal		114.52	<u>\$137.20</u>	113.86
<u>Costs Not Subject to Standards:</u>				
Utilities		3.14		3.14
Special Services		.05		.05
Medical Supplies & Oxygen		4.22		4.22
Taxes and Insurance		2.73		2.73
Legal Fees		<u>.38</u>		<u>.38</u>
<b>TOTAL</b>		<u>\$125.04</u>		124.38
Inflation Factor (2.00%)				2.49
Cost of Capital				6.94
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				8.19
Effect of \$1.75 Cap on Cost/Profit Incentives				(6.44)
Effect of 3% Rate Reduction				<u>(4.07)</u>
<b>ADJUSTED REIMBURSEMENT RATE</b>				<u>\$131.49</u>

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

<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	\$2,679,290	\$ -	\$ 25,262 (2) 1,487 (2) 6,116 (3)	\$2,646,425
Dietary	494,567	-	2,969 (2)	491,598
Laundry	66,401	-	-	66,401
Housekeeping	122,365	-	-	122,365
Maintenance	158,652	-	4,139 (1) 670 (2)	153,843
Administration & Medical Records	825,961	-	783 (1) 2,745 (2) 409 (2) 49,016 (3)	773,008
Utilities	116,660	1 (3)	-	116,661
Special Services	1,794	17 (3)	-	1,811
Medical Supplies & Oxygen	167,657	-	223 (2) 10,667 (4)	156,767
Taxes and Insurance	101,444	1 (3)	-	101,445
Legal Fees	14,006	-	-	14,006
Cost of Capital	266,644	3,995 (5)	11,414 (1) 1,327 (3)	257,898
Subtotal	5,015,441	4,014	117,227	4,902,228

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

<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>	
Ancillary	79,625	421 (4)	-	80,046
Nonallowable	1,167,738	11,414 (1) 33,765 (2) 56,440 (3) 10,246 (4)	3,995 (5)	1,275,608
CNA Training and Testing	<u>837</u>	<u>-</u>	<u>-</u>	<u>837</u>
Total Operating Expenses	<u>\$6,263,641</u>	<u>\$116,300</u>	<u>\$121,222</u>	<u>\$6,258,719</u>
Total Patient Days	<u>37,142</u>	<u>-</u>	<u>-</u>	<u>37,142</u>
Total Beds	<u>106</u>			

**MAGNOLIA MANOR – ROCK HILL**  
Adjustment Report  
Cost Report Period Ended September 30, 2009  
AC# 3-MRH-J9

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$11,225	
	Retained Earnings	5,830	
	Nonallowable	11,414	
	Accounts Payable		\$ 908
	Other Equity		11,225
	Maintenance		4,139
	Administration		783
	Cost of Capital		11,414
	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	Nonallowable	33,765	
	Nursing		25,262
	Restorative		1,487
	Dietary		2,969
	Maintenance		670
	Administration		2,745
	Medical Records		409
	Medical Supplies		223
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
3	Utilities	1	
	Taxes and Insurance	1	
	Special Services	17	
	Nonallowable	56,440	
	Nursing		6,116
	Administration		49,016
	Cost of Capital		1,327
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

**MAGNOLIA MANOR – ROCK HILL**  
Adjustment Report  
Cost Report Period Ended September 30, 2009  
AC# 3-MRH-J9

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
4	Ancillary Nonallowable Medical Supplies	421 10,246	  10,667
	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		
5	Cost of Capital Nonallowable	3,995	  3,995
	To adjust capital return State Plan, Attachment 4.19D		
	TOTAL ADJUSTMENTS	<hr style="width: 100px; margin: 0 auto;"/> \$133,355	<hr style="width: 100px; margin: 0 auto;"/> \$133,355

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 – ROCK HILL**  
 Cost of Capital Reimbursement Analysis  
 For the Cost Report Period Ended September 30, 2009  
 AC# 3-MRH-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>106</u>
Deemed Asset Value	5,147,784
Improvements Since 1981	951,245
Accumulated Depreciation at 9/30/09	<u>(1,729,377)</u>
Deemed Depreciated Value	4,369,652
Market Rate of Return	<u>.0440</u>
Total Annual Return	192,265
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	192,265
Depreciation Expense	66,960
Amortization Expense	-
Capital Related Income Offsets	(1,327)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	257,898
Total Patient Days (Minimum 96% Occupancy)	<u>37,142</u>
Cost of Capital Per Diem	<u><u>\$ 6.94</u></u>

**MAGNOLIA MANOR – ROCK HILL**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 2009  
AC# 3-MRH-J9

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$ 6.53
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$10.52</u>
Reimbursable Cost of Capital Per Diem	\$ 6.94
Cost of Capital Per Diem	<u>6.94</u>
Cost of Capital Per Diem Limitation	<u>\$ -</u>

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