

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-MSP-J0 – THI of South Carolina at Spartanburg, LLC d/b/a
Magnolia Manor - 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 SPARTANBURG, LLC D/B/A
MAGNOLIA MANOR - SPARTANBURG**

SPARTANBURG, SOUTH CAROLINA

**CONTRACT PERIOD
BEGINNING NOVEMBER 1, 2011
AC# 3-MSP-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 24, 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 Spartanburg, LLC d/b/a Magnolia Manor - 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 Spartanburg, LLC d/b/a Magnolia Manor - 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 Spartanburg, LLC d/b/a Magnolia Manor - 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 Spartanburg, LLC d/b/a Magnolia Manor - 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 24, 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 - SPARTANBURG
Computation of Rate Change
For the Contract Period
Beginning November 1, 2011
AC# 3-MSP-J0

	11/01/11- <u>09/30/12</u>
Interim Reimbursement Rate (1)	\$143.14
Adjusted Reimbursement Rate	<u>143.12</u>
Decrease in Reimbursement Rate	\$ <u><u>.02</u></u>

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

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

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 77.88	\$ 95.25	
Dietary		13.77	16.01	
Laundry/Housekeeping/Maintenance		<u>12.93</u>	<u>15.28</u>	
Subtotal	<u>\$8.86</u>	104.58	126.54	\$104.58
Administration & Medical Records	<u>\$ -</u>	<u>22.65</u>	<u>22.48</u>	<u>22.48</u>
Subtotal		127.23	<u>\$149.02</u>	127.06
<u>Costs Not Subject to Standards:</u>				
Utilities		2.53		2.53
Special Services		.04		.04
Medical Supplies & Oxygen		6.67		6.67
Taxes and Insurance		2.18		2.18
Legal Fees		<u>.24</u>		<u>.24</u>
TOTAL		<u>\$138.89</u>		138.72
Inflation Factor (N/A)				-
Cost of Capital				7.11
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>(4.46)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$143.12</u>

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

<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	\$2,570,080	\$26,493 (2) 1,332 (2)	\$ 1,475 (1) 3,840 (3)	\$2,592,590
Dietary	455,650	2,831 (2)	-	458,481
Laundry	160,761	-	-	160,761
Housekeeping	99,948	-	-	99,948
Maintenance	174,824	768 (2)	5,941 (1)	169,651
Administration & Medical Records	826,039	3,401 (2) 393 (2)	515 (1) 75,196 (3)	754,122
Utilities	85,860	-	1,750 (4)	84,110
Special Services	1,429	10 (3)	-	1,439
Medical Supplies & Oxygen	221,438	593 (2)	1 (5)	222,030
Taxes and Insurance	72,720	-	-	72,720
Legal Fees	8,226	-	209 (3)	8,017
Cost of Capital	255,985	12,882 (6)	31,601 (1) 440 (3)	236,826
Subtotal	4,932,960	48,703	120,968	4,860,695

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

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
Ancillary	119,993	62 (5)	-	120,055
Nonallowable	912,371	31,601 (1) 79,675 (3) 1,750 (4)	35,811 (2) 61 (5) 12,882 (6)	976,643
CNA Training and Testing	<u>646</u>	<u>-</u>	<u>-</u>	<u>646</u>
Total Operating Expenses	<u>\$5,965,970</u>	<u>\$161,791</u>	<u>\$169,722</u>	<u>\$5,958,039</u>
Total Patient Days	<u>33,288</u>	<u>-</u>	<u>-</u>	<u>33,288</u>
Total Beds	<u>95</u>			

MAGNOLIA MANOR - SPARTANBURG
Adjustment Report
Cost Report Period Ended September 30, 2010
AC# 3-MSP-J0

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$51,643	
	Retained Earnings	7,931	
	Nonallowable	31,601	
	Accumulated Depreciation		\$ 3,808
	Other Equity		47,835
	Restorative		1,475
	Maintenance		5,941
	Administration		515
	Cost of Capital		31,601
	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	Nursing	26,493	
	Restorative	1,332	
	Dietary	2,831	
	Maintenance	768	
	Administration	3,401	
	Medical Records	393	
	Medical Supplies	593	
	Nonallowable		35,811
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
3	Special Services	10	
	Nonallowable	79,675	
	Nursing		3,840
	Administration		75,196
	Legal		209
	Cost of Capital		440
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

MAGNOLIA MANOR - SPARTANBURG
Adjustment Report
Cost Report Period Ended September 30, 2010
AC# 3-MSP-J0

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
4	Nonallowable Utilities	1,750	1,750
	To properly offset income against related expense HIM-15-1, Sections 2102.3, 2304 and 2328		
5	Ancillary Medical Supplies Nonallowable	62	1 61
	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		
6	Cost of Capital Nonallowable	12,882	12,882
	To adjust capital return State Plan, Attachment 4.19D		
	TOTAL ADJUSTMENTS	\$221,365	\$221,365

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 - SPARTANBURG
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2010
 AC# 3-MSP-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>95</u>
Deemed Asset Value	4,677,610
Improvements Since 1981	995,311
Accumulated Depreciation at 9/30/10	<u>(1,547,568)</u>
Deemed Depreciated Value	4,125,353
Market Rate of Return	<u>.0420</u>
Total Annual Return	173,265
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	173,265
Depreciation Expense	64,001
Amortization Expense	-
Capital Related Income Offsets	(440)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	236,826
Total Patient Days (Minimum 96% Occupancy)	<u>33,288</u>
Cost of Capital Per Diem	<u>\$ 7.11</u>

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

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$3.70
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$7.69</u>
Reimbursable Cost of Capital Per Diem	\$7.11
Cost of Capital Per Diem	<u>7.11</u>
Cost of Capital Per Diem Limitation	<u>\$ -</u>

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