

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-MSP-J9 – 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, 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 SPARTANBURG, LLC D/B/A
MAGNOLIA MANOR - SPARTANBURG
SPARTANBURG, SOUTH CAROLINA**

**CONTRACT PERIODS
BEGINNING OCTOBER 1, 2010
AC# 3-MSP-J9**

**AGREED-UPON PROCEDURES REPORT
ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

CONTENTS

	<u>EXHIBIT OR SCHEDULE</u>	<u>PAGE</u>
INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES		1
COMPUTATION OF RATE CHANGE FOR THE CONTRACT PERIODS BEGINNING OCTOBER 1, 2010	A	3
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIOD OCTOBER 1, 2010 THROUGH APRIL 7, 2011	B-1	4
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIOD APRIL 8, 2011 THROUGH OCTOBER 31, 2011	B-2	5
SUMMARY OF COSTS AND TOTAL PATIENT DAYS FOR THE COST REPORT PERIOD ENDED SEPTEMBER 30, 2009	C	6
ADJUSTMENT REPORT	1	8
COST OF CAPITAL REIMBURSEMENT ANALYSIS	2	10

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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 Spartanburg, LLC d/b/a Magnolia Manor - 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 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 contracts 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, 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.", written in a cursive style.

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

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

	10/01/10- <u>04/07/11</u>	04/08/11- <u>10/31/11</u>
Interim Reimbursement Rate (1)	\$156.30	\$151.61
Adjusted Reimbursement Rate	<u>155.01</u>	<u>150.36</u>
Decrease in Reimbursement Rate	\$ <u><u>1.29</u></u>	\$ <u><u>1.25</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 October 1, 2010 Through April 7, 2011
 AC# 3-MSP-J9

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 82.57	\$ 92.96	
Dietary		13.20	15.32	
Laundry/Housekeeping/Maintenance		<u>13.32</u>	<u>14.84</u>	
Subtotal	<u>\$8.62</u>	109.09	123.12	\$109.09
Administration & Medical Records	<u>\$ -</u>	<u>21.44</u>	<u>21.42</u>	<u>21.42</u>
Subtotal		130.53	<u>\$144.54</u>	130.51
<u>Costs Not Subject to Standards:</u>				
Utilities		2.54		2.54
Special Services		.01		.01
Medical Supplies & Oxygen		6.81		6.81
Taxes and Insurance		2.85		2.85
Legal Fees		<u>.39</u>		<u>.39</u>
TOTAL		<u>\$143.13</u>		143.11
Inflation Factor (2.00%)				2.86
Cost of Capital				7.29
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				8.62
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(6.87)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$155.01</u>

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

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 82.57	\$ 92.96	
Dietary		13.20	15.32	
Laundry/Housekeeping/Maintenance		<u>13.32</u>	<u>14.84</u>	
Subtotal	\$ <u>8.62</u>	109.09	123.12	\$109.09
Administration & Medical Records	\$ <u>-</u>	<u>21.44</u>	<u>21.42</u>	<u>21.42</u>
Subtotal		130.53	<u>\$144.54</u>	130.51
<u>Costs Not Subject to Standards:</u>				
Utilities		2.54		2.54
Special Services		.01		.01
Medical Supplies & Oxygen		6.81		6.81
Taxes and Insurance		2.85		2.85
Legal Fees		<u>.39</u>		<u>.39</u>
TOTAL		<u>\$143.13</u>		143.11
Inflation Factor (2.00%)				2.86
Cost of Capital				7.29
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				8.62
Effect of \$1.75 Cap on Cost/Profit Incentives				(6.87)
Effect of 3% Rate Reduction				<u>(4.65)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$150.36</u>

MAGNOLIA MANOR - SPARTANBURG
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2009
AC# 3-MSP-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	\$2,777,863	\$1,475 (1)	\$ 539 (1) 23,752 (2) 904 (2) 5,672 (3)	\$2,748,471
Dietary	441,361	-	1,894 (2)	439,467
Laundry	162,987	-	-	162,987
Housekeeping	102,510	-	-	102,510
Maintenance	172,534	5,941 (1)	645 (2)	177,830
Administration & Medical Records	761,685	515 (1)	2,867 (2) 307 (2) 45,456 (3)	713,570
Utilities	84,427	-	-	84,427
Special Services	177	3 (3)	-	180
Medical Supplies & Oxygen	229,607	-	347 (2) 2,449 (4)	226,811
Taxes and Insurance	95,014	-	-	95,014
Legal Fees	12,988	-	-	12,988

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

<u>Expenses</u>	Totals (From Schedule SC 13) as Adjusted by DH&HS	Adjustments <u>Debit</u>	<u>Credit</u>	Adjusted <u>Totals</u>
Cost of Capital	255,985	16,740 (5)	28,966 (1)	242,529
	<u> </u>	<u> </u>	<u>1,230 (3)</u>	<u> </u>
Subtotal	5,097,138	24,674	115,028	5,006,784
Ancillary	99,036	375 (4)	-	99,411
Nonallowable	570,285	28,966 (1)	16,740 (5)	667,656
		30,716 (2)		
		52,355 (3)		
		2,074 (4)		
CNA Training and Testing	<u>659</u>	<u>-</u>	<u>-</u>	<u>659</u>
Total Operating Expenses	<u>\$5,767,118</u>	<u>\$139,160</u>	<u>\$131,768</u>	<u>\$5,774,510</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, 2009
AC# 3-MSP-J9

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$31,325	
	Retained Earnings	539	
	Restorative	1,475	
	Maintenance	5,941	
	Administration	515	
	Nonallowable	28,966	
	Accumulated Depreciation		\$19,173
	Accounts Payable		7,931
	Other Equity		12,152
	Nursing		539
	Cost of Capital		28,966
	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	30,716	
	Nursing		23,752
	Restorative		904
	Dietary		1,894
	Maintenance		645
	Administration		2,867
	Medical Records		307
	Medical Supplies		347
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
3	Special Services	3	
	Nonallowable	52,355	
	Nursing		5,672
	Administration		45,456
	Cost of Capital		1,230
	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, 2009
AC# 3-MSP-J9

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
4	Ancillary Nonallowable Medical Supplies	375 2,074	2,449
	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	16,740	16,740
	To adjust capital return State Plan, Attachment 4.19D		
	TOTAL ADJUSTMENTS	<hr style="width: 100%;"/> <u>\$171,024</u>	<hr style="width: 100%;"/> <u>\$171,024</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 - SPARTANBURG
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2009
AC# 3-MSP-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>95</u>
Deemed Asset Value	4,613,580
Improvements Since 1981	989,711
Accumulated Depreciation at 9/30/09	<u>(1,489,253)</u>
Deemed Depreciated Value	4,114,038
Market Rate of Return	<u>.0440</u>
Total Annual Return	181,018
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	181,018
Depreciation Expense	62,741
Amortization Expense	-
Capital Related Income Offsets	(1,230)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	242,529
Total Patient Days (Minimum 96% Occupancy)	<u>33,288</u>
Cost of Capital Per Diem	\$ <u><u>7.29</u></u>

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

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	\$7.29
Cost of Capital Per Diem	<u>7.29</u>
Cost of Capital Per Diem Limitation	<u>\$ -</u>

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