

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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September 16, 2015

Mr. Doug Ruth, Director of Reimbursement
Life Care Centers of America
3570 Keith Street, NW
Post Office Box 3480
Cleveland, Tennessee 37320

Re: AC# 3-LCH-J1 – Charleston Medical Investors, LLC d/b/a Life Care Center of Charleston

Dear Mr. Ruth:

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, 2010 through September 30, 2011. That report was used to set the rate covering the contract period beginning October 1, 2012.

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: Mr. Jeff Saxon
Ms. Melissa Simmons
Mr. Byron Roberts
Ms. Nicole Mitchell Threat
Ms. Brittany Sandifer
Ms. Chari Preacher

**CHARLESTON MEDICAL INVESTORS, LLC D/B/A
LIFE CARE CENTER OF CHARLESTON
NORTH CHARLESTON, SOUTH CAROLINA**

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2012
AC# 3-LCH-J1**

**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

May 27, 2015

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 Charleston Medical Investors, LLC d/b/a Life Care Center of Charleston, for the contract period beginning October 1, 2012, and for the twelve month cost report period ended September 30, 2011, as set forth in the accompanying schedules. The management of Charleston Medical Investors, LLC d/b/a Life Care Center of Charleston 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 Charleston Medical Investors, LLC d/b/a Life Care Center of Charleston, 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 Charleston Medical Investors, LLC d/b/a Life Care Center of Charleston 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
May 27, 2015

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

LIFE CARE CENTER OF CHARLESTON
Computation of Rate Change
For the Contract Period
Beginning October 1, 2012
AC# 3-LCH-J1

	10/01/12- <u>09/30/13</u>
Interim Reimbursement Rate (1)	\$161.81
Adjusted Reimbursement Rate	<u>161.40</u>
Decrease in Reimbursement Rate	\$ <u><u>.41</u></u>

- (1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated January 12, 2015.

LIFE CARE CENTER OF CHARLESTON
 Computation of Adjusted Reimbursement Rate
 For the Contract Period October 1, 2012 Through September 30, 2013
 AC# 3-LCH-J1

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 96.42	\$ 87.01	
Dietary		16.38	17.37	
Laundry/Housekeeping/Maintenance		<u>16.49</u>	<u>15.73</u>	
Subtotal	\$ <u>-</u>	129.29	120.11	\$120.11
Administration & Medical Records	\$ <u>-</u>	<u>27.36</u>	<u>22.95</u>	<u>22.95</u>
Subtotal		156.65	<u>\$143.06</u>	143.06
<u>Costs Not Subject to Standards:</u>				
Utilities		7.19		7.19
Special Services		.04		.04
Medical Supplies & Oxygen		3.41		3.41
Taxes and Insurance		4.89		4.89
Legal Fees		<u>.08</u>		<u>.08</u>
TOTAL		<u>\$172.26</u>		158.67
Inflation Factor (N/A)				-
Cost of Capital				9.11
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				-
Effect of \$1.75 Cap on Cost/Profit Incentives				-
Budget Neutrality Adjustment (3.805%)				<u>(6.38)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$161.40</u>

LIFE CARE CENTER OF CHARLESTON
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2011
 AC# 3-LCH-J1

<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	\$5,058,371	\$ -	\$ 6 (1) 64,472 (5) 4,947 (5)	\$4,988,946
Dietary	853,743	-	6,034 (5)	847,709
Laundry	175,089	-	1,850 (5)	173,239
Housekeeping	340,542	16,220 (8)	4,328 (5) 16,021 (9)	336,413
Maintenance	345,705	15,987 (8)	2,096 (5) 175 (7) 15,883 (9)	343,538
Administration & Medical Records	1,447,853	41,960 (8)	21,878 (5) 1,286 (5) 7,076 (6) 3,170 (7) 40,692 (9)	1,415,711
Utilities	371,861	17,169 (8)	17,170 (9)	371,860
Special Services	1,896	34,914 (7)	34,942 (5)	1,868
Medical Supplies & Oxygen	176,813	-	431 (7)	176,382
Taxes and Insurance	254,403	11,368 (8)	1,529 (4) 11,295 (9)	252,947

LIFE CARE CENTER OF CHARLESTON
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2011
AC# 3-LCH-J1

<u>Expenses</u>	Totals (From Schedule SC 13) as Adjusted by DH&HS	Adjustments <u>Debit</u>	<u>Credit</u>	Adjusted <u>Totals</u>
Legal Fees	4,114	134 (8)	134 (9)	4,114
Cost of Capital	491,803	6,197 (2) 1,924 (3) 39,637 (8)	16,169 (1) 708 (6) 9,261 (9) <u>42,263 (10)</u>	471,160
Subtotal	<u>9,522,193</u>	<u>185,510</u>	<u>323,816</u>	<u>9,383,887</u>
Ancillary	744,999	-	-	744,999
Nonallowable	4,183,567	16,175 (1) 1,529 (4) 141,833 (5) 7,784 (6) 110,456 (9) 42,263 (10)	6,197 (2) 1,924 (3) 31,138 (7) 142,475 (8)	4,321,873
CNA Training and Testing	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Operating Expenses	<u>\$14,450,759</u>	<u>\$505,550</u>	<u>\$505,550</u>	<u>\$14,450,759</u>
Total Patient Days	<u>51,744</u>	<u>-</u>	<u>-</u>	<u>51,744</u>
Total Beds	<u>148</u>			

LIFE CARE CENTER OF CHARLESTON
Adjustment Report
Cost Report Period Ended September 30, 2011
AC# 3-LCH-J1

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$ 90,773	
	Nonallowable	16,175	
	Accumulated Depreciation		\$ 47,443
	Other Equity		43,330
	Restorative		6
	Cost of Capital		16,169
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Cost of Capital	6,197	
	Nonallowable		6,197
	To adjust depreciation and amortization expense to comply with capital cost policy State Plan, Attachment 4.19D		
3	Accumulated Amortization - Loan Cost	293,495	
	Cost of Capital	1,924	
	Loan Cost		276,125
	Other Equity		17,370
	Nonallowable		1,924
	To adjust loan cost and related amortization HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
4	Nonallowable	1,529	
	Taxes and Insurance		1,529
	To adjust liability insurance expense HIM-15-1, Sections 2162.2, 2162.7 and 2304 State Plan, Attachment 4.19D		

LIFE CARE CENTER OF CHARLESTON
Adjustment Report
Cost Report Period Ended September 30, 2011
AC# 3-LCH-J1

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Nonallowable	141,833	
	Nursing		64,472
	Restorative		4,947
	Dietary		6,034
	Laundry		1,850
	Housekeeping		4,328
	Maintenance		2,096
	Administration		21,878
	Medical Records		1,286
	Special Services		34,942
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
6	Nonallowable	7,784	
	Administration		7,076
	Cost of Capital		708
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
7	Special Services	34,914	
	Maintenance		175
	Administration		3,170
	Medical Supplies		431
	Nonallowable		31,138
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		

LIFE CARE CENTER OF CHARLESTON
Adjustment Report
Cost Report Period Ended September 30, 2011
AC# 3-LCH-J1

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
8	Housekeeping	16,220	
	Maintenance	15,987	
	Administration	41,960	
	Legal	134	
	Utilities	17,169	
	Taxes and Insurance	11,368	
	Cost of Capital	39,637	
	Nonallowable		142,475
	To reverse DH&HS adjustment to remove indirect cost applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
9	Nonallowable	110,456	
	Housekeeping		16,021
	Maintenance		15,883
	Administration		40,692
	Legal		134
	Utilities		17,170
	Taxes and Insurance		11,295
	Cost of Capital		9,261
	To remove indirect cost applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
10	Nonallowable	42,263	
	Cost of Capital		42,263
	To adjust capital return State Plan, Attachment 4.19D		
	TOTAL ADJUSTMENTS	<u>\$889,818</u>	<u>\$889,818</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.

LIFE CARE CENTER OF CHARLESTON
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2011
 AC# 3-LCH-J1

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>3.1821</u>	<u>3.1821</u>	
Deemed Asset Value (Per Bed)	49,698	49,698	
Number of Beds	<u>88</u>	<u>60</u>	
Deemed Asset Value	4,373,424	2,981,880	
Improvements Since 1981	1,064,921	351,082	
Accumulated Depreciation at 9/30/11	(1,863,545)	(885,019)	
Deemed Depreciated Value	3,574,800	2,447,943	
Market Rate of Return	<u>.0408</u>	<u>.0408</u>	
Total Annual Return	145,852	99,876	
Return Applicable to Non-Reimbursable Cost Centers	(2,477)	(7,107)	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>64</u>	<u>184</u>	
Allowable Annual Return	143,439	92,953	
Depreciation Expense	156,160	90,543	
Amortization Expense	95	769	
Capital Related Income Offsets	(2,104)	(1,434)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(2,682)</u>	<u>(6,579)</u>	<u>Total</u>
Allowable Cost of Capital Expense	294,908	176,252	\$471,160
Total Patient Days (Actual)	<u>31,220</u>	<u>20,524</u>	<u>51,744</u>
Cost of Capital Per Diem	\$ <u>9.45</u>	\$ <u>8.59</u>	\$ <u>9.11</u>

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