

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

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-LHH-J1 – Life Care Center of America, Inc. d/b/a Life Care Center of Hilton Head

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 payable for amounts underpaid as a result of the rate changes shown on Exhibit A. You will be notified of settlement 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

**LIFE CARE CENTER OF AMERICA, INC. D/B/A
LIFE CARE CENTER OF HILTON HEAD
HILTON HEAD ISLAND, SOUTH CAROLINA**

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

**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 PERIOD BEGINNING OCTOBER 1, 2012	A	3
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIOD OCTOBER 1, 2012 THROUGH SEPTEMBER 30, 2013	B	4
SUMMARY OF COSTS AND TOTAL PATIENT DAYS FOR THE COST REPORT PERIOD ENDED SEPTEMBER 30, 2011	C	5
ADJUSTMENT REPORT	1	7
COST OF CAPITAL REIMBURSEMENT ANALYSIS	2	10

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

May 22, 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 Life Care Center of America, Inc. d/b/a Life Care Center of Hilton Head, 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 Life Care Center of America, Inc. d/b/a Life Care Center of Hilton Head 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.

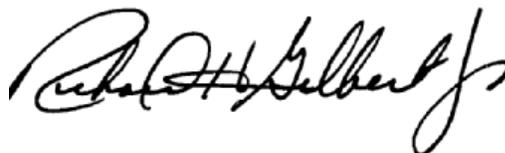
The procedures and the associated findings are as follows:

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 Life Care Center of America, Inc. d/b/a Life Care Center of Hilton Head, 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 Life Care Center of America, Inc. d/b/a Life Care Center of Hilton Head 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 22, 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 HILTON HEAD
Computation of Rate Change
For the Contract Period
Beginning October 1, 2012
AC# 3-LHH-J1

	<u>10/01/12-</u> <u>09/30/13</u>
Adjusted Reimbursement Rate	\$158.74
Interim Reimbursement Rate (1)	<u>155.27</u>
Increase in Reimbursement Rate	\$ <u><u>3.47</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 HILTON HEAD
 Computation of Adjusted Reimbursement Rate
 For the Contract Period October 1, 2012 Through September 30, 2013
 AC# 3-LHH-J1

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$105.01	\$ 83.27	
Dietary		18.04	17.38	
Laundry/Housekeeping/Maintenance		<u>16.70</u>	<u>16.63</u>	
Subtotal	\$ <u>-</u>	139.75	117.28	\$117.28
Administration & Medical Records	\$ <u>-</u>	<u>29.06</u>	<u>23.61</u>	<u>23.61</u>
Subtotal		168.81	<u>\$140.89</u>	140.89
<u>Costs Not Subject to Standards:</u>				
Utilities		5.62		5.62
Special Services		.14		.14
Medical Supplies & Oxygen		4.67		4.67
Taxes and Insurance		3.05		3.05
Legal Fees		<u>.10</u>		<u>.10</u>
TOTAL		<u>\$182.39</u>		154.47
Inflation Factor (N/A)				-
Cost of Capital				10.55
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>(6.28)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$158.74</u>

LIFE CARE CENTER OF HILTON HEAD
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2011
 AC# 3-LHH-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	\$2,175,442	\$282,990 (6) 17,504 (6)	\$ 4,999 (1)	\$2,470,937
Dietary	392,691	31,903 (6)	-	424,594
Laundry	68,637	8,312 (6)	-	76,949
Housekeeping	138,669	17,756 (6)	-	156,425
Maintenance	183,999	10,214 (6)	1,420 (3) 33,220 (4) 8 (8)	159,565
Administration & Medical Records	656,825	20,074 (6) 11,608 (6)	3,244 (7) 1,539 (8)	683,724
Utilities	134,687	-	2,330 (9)	132,357
Special Services	3,450	84,262 (6)	84,347 (8)	3,365
Medical Supplies & Oxygen	195,993	-	85,997 (8)	109,996
Taxes and Insurance	126,656	-	54,945 (5)	71,711
Legal Fees	2,462	-	-	2,462
Cost of Capital	291,855	4,199 (2) 157 (4)	20,348 (1) 323 (7) 4,777 (10)	270,763
Subtotal	4,371,366	488,979	297,497	4,562,848

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

<u>Expenses</u>	Totals (From Schedule SC 13) as Adjusted by DH&HS	Adjustments <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
Ancillary	196,706	-	-	196,706
Nonallowable	829,072	25,347 (1) 54,945 (5) 3,567 (7) 171,891 (8) 4,777 (10)	4,199 (2) 484,623 (6)	600,777
CNA Training and Testing	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Operating Expenses	<u>\$5,397,144</u>	<u>\$749,506</u>	<u>\$786,319</u>	<u>\$5,360,331</u>
Total Patient Days	<u>27,302</u>	<u>-</u>	<u>3,771 (11)</u>	<u>23,531</u>
			Cost of Capital Patient Days	<u>25,673</u>
Total Beds	<u>88</u>			

LIFE CARE CENTER OF HILTON HEAD
Adjustment Report
Cost Report Period Ended September 30, 2011
AC# 3-LHH-J1

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$312,418	
	Other Equity	11,996	
	Nonallowable	25,347	
	Accumulated Depreciation		\$324,414
	Restorative		4,999
	Cost of Capital		20,348
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Cost of Capital	4,199	
	Nonallowable		4,199
	To adjust depreciation expense to comply with capital cost policy State Plan, Attachment 4.19D		
3	Retained Earnings	1,420	
	Maintenance		1,420
	To properly charge expense applicable to the prior period HIM-15-1, Section 2302.1		
4	Fixed Assets	17,405	
	Intercompany	15,815	
	Cost of Capital	157	
	Accumulated Depreciation		157
	Maintenance		33,220
	To capitalize building improvements and record related depreciation and properly charge expense to the prior period HIM-15-1, Sections 108, 2302.1 and 2304		
5	Nonallowable	54,945	
	Taxes and Insurance		54,945
	To adjust liability insurance expense HIM-15-1, Sections 2162.2, 2162.7 and 2304 State Plan, Attachment 4.19D		

LIFE CARE CENTER OF HILTON HEAD
Adjustment Report
Cost Report Period Ended September 30, 2011
AC# 3-LHH-J1

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Nursing	282,990	
	Restorative	17,504	
	Dietary	31,903	
	Laundry	8,312	
	Housekeeping	17,756	
	Maintenance	10,214	
	Administration	20,074	
	Medical Records	11,608	
	Special Services	84,262	
	Nonallowable		484,623
	To adjust fringe benefits and related allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
7	Nonallowable	3,567	
	Administration		3,244
	Cost of Capital		323
	To adjust home office cost allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
8	Nonallowable	171,891	
	Maintenance		8
	Administration		1,539
	Medical Supplies		85,997
	Special Services		84,347
	To remove special (ancillary) services reimbursed by Medicare		
	State Plan, Attachment 4.19D		
9	Other Revenue	2,330	
	Utilities		2,330
	To offset income against related expense		
	HIM-15-1, Section 2102.3		
	DH&HS Expense Crosswalk		

LIFE CARE CENTER OF HILTON HEAD
Adjustment Report
Cost Report Period Ended September 30, 2011
AC# 3-LHH-J1

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
10	Nonallowable Cost of Capital	4,777	4,777
	To adjust capital return State Plan, Attachment 4.19D		
11	Memo Adjustment: To decrease total patient days by 3,771 to 23,531		
	TOTAL ADJUSTMENTS	\$ <u>1,110,890</u>	\$ <u>1,110,890</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 HILTON HEAD
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2011
 AC# 3-LHH-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>44</u>	<u>44</u>	
Deemed Asset Value	2,186,712	2,186,712	
Improvements Since 1981	476,202	913,573	
Accumulated Depreciation at 9/30/11	(1,036,051)	(1,444,701)	
Deemed Depreciated Value	1,626,863	1,655,584	
Market Rate of Return	<u>.0408</u>	<u>.0408</u>	
Total Annual Return	66,376	67,548	
Return Applicable to Non-Reimbursable Cost Centers	-	-	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	
Allowable Annual Return	66,376	67,548	
Depreciation Expense	48,970	88,836	
Amortization Expense	36	37	
Capital Related Income Offsets	(520)	(520)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	<u>Total</u>
Allowable Cost of Capital Expense	114,862	155,901	\$270,763
Total Patient Days	<u>13,907</u>	<u>11,766</u>	<u>25,673</u>
Cost of Capital Per Diem	\$ <u>8.26</u>	\$ <u>13.25</u>	\$ <u>10.55</u>

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

6/30/89 Cost of Capital and Return on Equity		
Capital Per Diem Reimbursement	\$ 8.11	\$ N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	<u>\$12.10</u>	<u>\$13.25</u>
Reimbursable Cost of Capital Per Diem	\$10.55	
Cost of Capital Per Diem	<u>10.55</u>	
Cost of Capital Per Diem Limitation	<u>\$ -</u>	

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