



**South Carolina
Office of the State Auditor**

**George L. Kennedy, III, CPA
State Auditor**

September 15, 2016

Mr. Scott Jones, Administrator
Pepper Hill Nursing and Rehab Center, LLC
3525 Augustus Drive
Aiken, South Carolina 29801

Re: AC# 3-PPH-J3 – Pepper Hill Nursing and Rehab Center, LLC

Dear Mr. Jones:

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, 2012 through September 30, 2013. That report was used to set the rate covering the contract period beginning October 1, 2014.

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 blue ink that reads "George L. Kennedy, III".

George L. Kennedy, III, CPA
State Auditor

GLKIII/cwc

cc: Mr. Jeff Saxon
Ms. Debra Myers
Mr. Byron Roberts
Ms. Nicole Mitchell Threat
Ms. Brittany Sandifer
Ms. Chari Preacher

PEPPER HILL NURSING AND REHAB CENTER, LLC

AIKEN, SOUTH CAROLINA

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2014
AC# 3-PPH-J3**

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, 2014	A	3
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIOD OCTOBER 1, 2014 THROUGH SEPTEMBER 30, 2015	B	4
SUMMARY OF COSTS AND TOTAL PATIENT DAYS FOR THE COST REPORT PERIOD ENDED SEPTEMBER 30, 2013	C	5
ADJUSTMENT REPORT	1	7
COST OF CAPITAL REIMBURSEMENT ANALYSIS	2	9



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

September 9, 2016

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 Pepper Hill Nursing and Rehab Center, LLC, for the contract period beginning October 1, 2014, and for the twelve month cost report period ended September 30, 2013, as set forth in the accompanying schedules. The management of Pepper Hill Nursing and Rehab Center, LLC 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 Pepper Hill Nursing and Rehab Center, LLC 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 Pepper Hill Nursing and Rehab Center, LLC dated as of October 1, 2014, 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
September 9, 2016

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.



George L. Kennedy, III, CPA
State Auditor

PEPPER HILL NURSING AND REHAB CENTER, LLC
Computation of Rate Change
For the Contract Period
Beginning October 1, 2014
AC# 3-PPH-J3

	10/01/14- <u>09/30/15</u>
Interim Reimbursement Rate (1)	\$166.64
Adjusted Reimbursement Rate	<u>166.35</u>
Decrease in Reimbursement Rate	\$ <u><u>.29</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated June 8, 2016.

PEPPER HILL NURSING AND REHAB CENTER, LLC
 Computation of Adjusted Reimbursement Rate
 For the Contract Period October 1, 2014 Through September 30, 2015
 AC# 3-PPH-J3

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 79.96	\$ 86.01	
Dietary		20.51	17.56	
Laundry/Housekeeping/Maintenance		<u>14.86</u>	<u>14.66</u>	
Subtotal	\$ <u>2.90</u>	115.33	118.23	\$115.33
Administration & Medical Records	\$ <u>-</u>	<u>26.47</u>	<u>23.03</u>	<u>23.03</u>
Subtotal		141.80	<u>\$141.26</u>	138.36
<u>Costs Not Subject to Standards:</u>				
Utilities		3.74		3.74
Special Services		-		-
Medical Supplies & Oxygen		5.97		5.97
Taxes and Insurance		4.22		4.22
Legal Fees		<u>.09</u>		<u>.09</u>
TOTAL		<u>\$155.82</u>		152.38
Inflation Factor (3.30%)				5.03
Cost of Capital				7.19
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				2.90
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(1.15)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$166.35</u>

PEPPER HILL NURSING AND REHAB CENTER, LLC
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2013
 AC# 3-PPH-J3

<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	\$3,544,155	\$ 204 (2)	\$ -	\$3,544,359
Dietary	885,553	23,587 (2)	-	909,140
Laundry	81,884	196 (2)	-	82,080
Housekeeping	322,370	783 (2)	-	323,153
Maintenance	253,325	-	-	253,325
Administration & Medical Records	1,747,128	-	573,601 (4)	1,173,527
Utilities	165,889	1 (4)	-	165,890
Special Services	-	-	-	-
Medical Supplies & Oxygen	289,538	-	24,770 (2)	264,768
Taxes and Insurance	186,996	-	-	186,996
Legal Fees	4,143	-	-	4,143
Cost of Capital	331,115	408 (3) 33 (4)	2,960 (1) 9,678 (5)	318,918
Subtotal	7,812,096	25,212	611,009	7,226,299

PEPPER HILL NURSING AND REHAB CENTER, LLC
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2013
AC# 3-PPH-J3

<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	110,532	-	-	110,532
Nonallowable	884,104	2,960 (1) 573,567 (4) 9,678 (5)	408 (3)	1,469,901
CNA Training and Testing	<u>3,200</u>	<u>-</u>	<u>-</u>	<u>3,200</u>
Total Operating Expenses	<u>\$8,809,932</u>	<u>\$611,417</u>	<u>\$611,417</u>	<u>\$8,809,932</u>
Total Patient Days	<u>44,326</u>	<u>-</u>	<u>-</u>	<u>44,326</u>
Total Beds	<u>132</u>			

PEPPER HILL NURSING AND REHAB CENTER, LLC
Adjustment Report
Cost Report Period Ended September 30, 2013
AC# 3-PPH-J3

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$371,366	
	Nonallowable	2,960	
	Accumulated Depreciation		\$340,878
	Other Equity		30,488
	Cost of Capital		2,960
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nursing	204	
	Dietary	23,587	
	Laundry	196	
	Housekeeping	783	
	Medical Supplies & Oxygen		24,770
	To reclassify expenses to the proper cost center DH&HS Expense Crosswalk		
3	Cost of Capital	408	
	Nonallowable		408
	To adjust depreciation expense to comply with capital cost policy State Plan, Attachment 4.19D		
4	Utilities	1	
	Cost of Capital	33	
	Nonallowable	573,567	
	Administration		573,601
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

PEPPER HILL NURSING AND REHAB CENTER, LLC
Adjustment Report
Cost Report Period Ended September 30, 2013
AC# 3-PPH-J3

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Nonallowable Cost of Capital	9,678	9,678
	To adjust capital return State Plan, Attachment 4.19D		
	TOTAL ADJUSTMENTS	<u>\$982,783</u>	<u>\$982,783</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.

PEPPER HILL NURSING AND REHAB CENTER, LLC
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2013
AC# 3-PPH-J3

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>3.27359</u>	<u>3.27359</u>	<u>3.27359</u>	
Deemed Asset Value (Per Bed)	51,127	51,127	51,127	
Number of Beds	<u>44</u>	<u>44</u>	<u>44</u>	
Deemed Asset Value	2,249,588	2,249,588	2,249,588	
Improvements Since 1981	274,157	302,515	334,815	
Accumulated Depreciation at 9/30/13	<u>(893,194)</u>	<u>(985,586)</u>	<u>(1,090,816)</u>	
Deemed Depreciated Value	1,630,551	1,566,517	1,493,587	
Market Rate of Return	<u>.0343</u>	<u>.0343</u>	<u>.0343</u>	
Total Annual Return	55,928	53,732	51,230	
Return Applicable to Non-Reimbursable Cost Centers	(673)	(647)	(616)	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>6</u>	<u>6</u>	<u>6</u>	
Allowable Annual Return	55,261	53,091	50,620	
Depreciation Expense	49,131	53,853	59,232	
Amortization Expense	-	-	-	
Capital Related Income Offsets	(40)	(40)	(40)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(717)</u>	<u>(717)</u>	<u>(716)</u>	<u>Total</u>
Allowable Cost of Capital Expense	103,635	106,187	109,096	\$318,918
Total Patient Days (Minimum 92% Occupancy)	<u>14,775</u>	<u>14,775</u>	<u>14,776</u>	<u>44,326</u>
Cost of Capital Per Diem	<u>\$ 7.01</u>	<u>\$ 7.19</u>	<u>\$ 7.38</u>	<u>\$ 7.19</u>

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