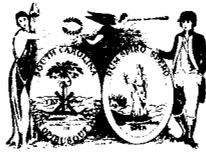


State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

June 15, 2004

Mr. Craig G. DeKany, Reimbursement Manager
HCR – Manor Care
Post Office Box 10086
Toledo, Ohio 43699-0086

Re: AC# 3-OKU-J1 – Health Care & Retirement Corporation of America
d/b/a Oakmont of Union Nursing and ICF

Dear Mr. DeKany:

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, 2000 through September 30, 2001. That report was used to set the rate covering the contract period beginning January 1, 2003.

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.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

A handwritten signature in black ink that reads 'Thomas L. Wagner, Jr.' with a stylized flourish at the end.

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/sag

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Joseph Hayes

**HEALTH CARE & RETIREMENT CORPORATION OF AMERICA
D/B/A OAKMONT OF UNION NURSING AND ICF**

UNION, SOUTH CAROLINA

**CONTRACT PERIOD
BEGINNING JANUARY 1, 2003
AC# 3-OKU-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 13, 2004

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 Health Care & Retirement Corporation of America d/b/a Oakmont of Union Nursing and ICF, for the contract period beginning January 1, 2003, and for the twelve month cost report period ended September 30, 2001, as set forth in the accompanying schedules. The management of Health Care & Retirement Corporation of America d/b/a Oakmont of Union Nursing and ICF 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 Health Care & Retirement Corporation of America d/b/a Oakmont of Union Nursing and ICF, 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 Adjustment Report, Summary of Costs and Total Patient Days, 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 Health Care & Retirement Corporation of America d/b/a Oakmont of Union Nursing and ICF dated as of October 1, 2001 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 13, 2004

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 "Thomas L. Wagner, Jr.", written in a cursive style.

Thomas L. Wagner, Jr., CPA
State Auditor

OAKMONT OF UNION NURSING AND ICF

Computation of Rate Change
For the Contract Period
Beginning January 1, 2003
AC# 3-OKU-J1

01/01/03-
09/30/03

Interim Reimbursement Rate (1)	\$108.15
Adjusted Reimbursement Rate	<u>102.94</u>
Decrease in Reimbursement Rate	\$ <u><u>5.21</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated May 8, 2003

OAKMONT OF UNION NURSING AND ICF
 Computation of Adjusted Reimbursement Rate
 For the Contract Period January 1, 2003 Through September 30, 2003
 AC# 3-OKU-J1

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$48.86	\$59.01	
Dietary		8.86	11.63	
Laundry/Housekeeping/Maintenance		<u>6.26</u>	<u>10.22</u>	
Subtotal	\$ <u>5.66</u>	63.98	80.86	\$ 63.98
Administration & Medical Records	\$ <u>-</u>	<u>13.88</u>	<u>12.63</u>	<u>12.63</u>
Subtotal		77.86	<u>\$93.49</u>	76.61
<u>Costs Not Subject to Standards:</u>				
Utilities		2.60		2.60
Special Services		.01		.01
Medical Supplies & Oxygen		5.07		5.07
Taxes and Insurance		5.18		5.18
Legal Fees		<u>.06</u>		<u>.06</u>
TOTAL		<u>\$90.78</u>		89.53
Inflation Factor (3.70%)				3.31
Cost of Capital				8.35
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				-
Cost Incentive				5.66
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(3.91)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$102.94</u>

OAKMONT OF UNION NURSING AND ICF
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2001
 AC# 3-OKU-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	\$1,840,285	\$ 563 (1) 31,843 (6)	\$ 121,021 (3) 140,833 (4) 6,693 (4) 2,259 (5) 366 (5) 61,373 (7) 29,740 (7) 3,784 (8)	\$1,506,622
Dietary	229,434	165,683 (6)	13,978 (4) 2,457 (5) 105,401 (7) 209 (8)	273,072
Laundry	60,436	23,916 (6)	2,181 (4) 11,722 (5) 11,577 (7)	58,872
Housekeeping	74,476	54,600 (6)	7,141 (4) 113 (5) 50,799 (7)	71,023
Maintenance	63,995	46,519 (6)	3,954 (4) 432 (5) 41,810 (7) 1,224 (8)	63,094
Administration & Medical Records	509,770	92,758 (6) 15,052 (6)	23,954 (3) 21,775 (4) 2,071 (4) 10,839 (5) 150 (5) 62,786 (7) 14,316 (7) 53,624 (8)	428,065
Utilities	78,658	55,879 (6)	1,753 (5) 52,095 (7) 387 (8)	80,302

OAKMONT OF UNION NURSING AND ICF
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2001
 AC# 3-OKU-J1

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	<u>Debit</u>	Adjustments <u>Credit</u>	<u>Adjusted Totals</u>
Special Services	162	-	-	162
Medical Supplies & Oxygen	109,815	48,021 (6)	1,129 (4) 363 (7)	156,344
Taxes and Insurance	113,458	77,403 (2) 70,760 (6)	101,516 (7) 302 (8)	159,803
Legal Fees	2,126	472 (6)	737 (8)	1,861
Cost of Capital	208,959	74,545 (6) 35,323 (9)	40,262 (1) 1,425 (5) 12,145 (7) 7,515 (8)	257,480
Subtotal	3,291,574	793,337	1,028,211	3,056,700
Ancillary	121,217	-	-	121,217
Nonallowable	991,327	39,699 (1) 144,975 (3) 199,755 (4) 31,516 (5) 543,921 (7) 67,782 (8)	77,403 (2) 680,048 (6) 35,323 (9)	1,226,201
Total Operating Expenses	<u>\$4,404,118</u>	<u>\$1,820,985</u>	<u>\$1,820,985</u>	<u>\$4,404,118</u>
Total Patient Days	<u>30,835</u>	<u>-</u>	<u>-</u>	<u>30,835</u>

Total Beds 88

OAKMONT OF UNION NURSING AND ICF
Adjustment Report
Cost Report Period Ended September 30, 2001
AC# 3-OKU-J1

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$459,533	
	Other Equity	492,751	
	Restorative	563	
	Nonallowable	39,699	
	Fixed Assets		\$952,284
	Cost of Capital		40,262
	To adjust fixed assets and related depreciation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
2	Taxes and Insurance	77,403	
	Nonallowable		77,403
	To adjust liability insurance expense		
	HIM-15-1, Section 2304		
3	Nonallowable	144,975	
	Nursing		121,021
	Administration		23,954
	To reclassify salaries to the proper cost center		
	HIM-15-1, Section 2102.3		
	DH&HS Expense Crosswalk		
4	Nonallowable	199,755	
	Nursing		140,833
	Restorative		6,693
	Dietary		13,978
	Laundry		2,181
	Housekeeping		7,141
	Maintenance		3,954
	Administration		21,775
	Medical Records		2,071
	Medical Supplies		1,129
	To adjust fringe benefits and related allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		

OAKMONT OF UNION NURSING AND ICF
Adjustment Report
Cost Report Period Ended September 30, 2001
AC# 3-OKU-J1

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Nonallowable	31,516	
	Nursing		2,259
	Restorative		366
	Dietary		2,457
	Laundry		11,722
	Housekeeping		113
	Maintenance		432
	Administration		10,839
	Medical Records		150
	Utilities		1,753
	Cost of Capital		1,425
	To adjust shared service allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
6	Restorative	31,843	
	Dietary	165,683	
	Laundry	23,916	
	Housekeeping	54,600	
	Maintenance	46,519	
	Administration	92,758	
	Medical Records	15,052	
	Legal	472	
	Utilities	55,879	
	Taxes and Insurance	70,760	
	Medical Supplies	48,021	
	Cost of Capital	74,545	
	Nonallowable		680,048
	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		

OAKMONT OF UNION NURSING AND ICF
Adjustment Report
Cost Report Period Ended September 30, 2001
AC# 3-OKU-J1

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
7	Nonallowable	543,921	
	Nursing		61,373
	Restorative		29,740
	Dietary		105,401
	Laundry		11,577
	Housekeeping		50,799
	Maintenance		41,810
	Administration		62,786
	Medical Records		14,316
	Utilities		52,095
	Taxes and Insurance		101,516
	Medical Supplies		363
	Cost of Capital		12,145
	To remove indirect cost applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
8	Nonallowable	67,782	
	Nursing		3,784
	Dietary		209
	Maintenance		1,224
	Administration		53,624
	Legal		737
	Utilities		387
	Taxes and Insurance		302
	Cost of Capital		7,515
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

OAKMONT OF UNION NURSING AND ICF
Adjustment Report
Cost Report Period Ended September 30, 2001
AC# 3-OKU-J1

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
9	Cost of Capital Nonallowable	35,323	35,323
	To adjust capital return State Plan, Attachment 4.19D		
		_____	_____
	TOTAL ADJUSTMENTS	<u>\$2,773,269</u>	<u>\$2,773,269</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.

OAKMONT OF UNION NURSING AND ICF
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2001
 AC# 3-OKU-J1

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.4607</u>
Deemed Asset Value (Per Bed)	38,431
Number of Beds	<u>88</u>
Deemed Asset Value	3,381,928
Improvements Since 1981	858,400
Accumulated Depreciation at 9/30/01	(<u>1,022,081</u>)
Deemed Depreciated Value	3,218,247
Market Rate of Return	<u>.0577</u>
Total Annual Return	185,693
Return Applicable to Non-Reimbursable Cost Centers	(21,396)
Allocation of Interest to Non-Reimbursable Cost Centers	<u>2,952</u>
Allowable Annual Return	167,249
Depreciation Expense	102,034
Amortization Expense	343
Capital Related Income Offsets	(1)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(12,145)</u>
Allowable Cost of Capital Expense	257,480
Total Patient Days (Minimum 96% Occupancy)	<u>30,835</u>
Cost of Capital Per Diem	\$ <u><u>8.35</u></u>

OAKMONT OF UNION NURSING AND ICF
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2001
AC# 3-OKU-J1

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$4.83
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$8.82</u>
Reimbursable Cost of Capital Per Diem	\$8.35
Cost of Capital Per Diem	<u>8.35</u>
Cost of Capital Per Diem Limitation	<u>\$ -</u>

2 copies of this document were published at an estimated printing cost of \$1.43 each, and a total printing cost of \$2.86. The FY 2003-04 Appropriation Act requires that this information on printing costs be added to the document.