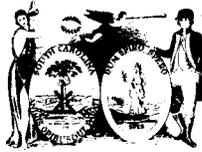


State of South Carolina



Office of the State Auditor

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

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
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May 13, 2005

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

Re: AC# 3-ELH-J2 – Health Care & Retirement Corporation of America
d/b/a Heartland Health Care Center - Charleston

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, 2001 through September 30, 2002. That report was used to set the rate covering the contract period beginning October 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.


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/ksg

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Ms. Kathleen C. Snider

**HEALTH CARE & RETIREMENT
CORPORATION OF AMERICA
D/B/A HEARTLAND HEALTH
CARE CENTER - CHARLESTON
HANAHAN, SOUTH CAROLINA**

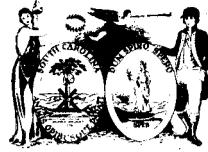
**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2003
AC# 3-ELH-J2**

**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

April 15, 2005

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 Heartland Health Care Center - Charleston, for the contract period beginning October 1, 2003, and for the twelve month cost report period ended September 30, 2002, as set forth in the accompanying schedules. The management of Health Care & Retirement Corporation of America d/b/a Heartland Health Care Center - 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 Health Care & Retirement Corporation of America d/b/a Heartland Health Care Center - 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 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 Heartland Health Care Center - Charleston 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
April 15, 2005

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.



Thomas L. Wagner, Jr. CPA
State Auditor

HEARTLAND HEALTH CARE CENTER - CHARLESTON
Computation of Rate Change
For the Contract Period
Beginning October 1, 2003
AC# 3-ELH-J2

	10/01/03- <u>09/30/04</u>
Interim Reimbursement Rate (1)	\$141.40
Adjusted Reimbursement Rate	<u>121.18</u>
Decrease in Reimbursement Rate	\$ <u><u>20.22</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 6, 2004

HEARTLAND HEALTH CARE CENTER - CHARLESTON
 Computation of Adjusted Reimbursement Rate
 For the Contract Period October 1, 2003 Through September 30, 2004
 AC# 3-ELH-J2

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 61.02	\$ 67.92	
Dietary		11.24	11.76	
Laundry/Housekeeping/Maintenance		<u>8.03</u>	<u>10.49</u>	
Subtotal	\$ <u>6.31</u>	80.29	90.17	\$ 80.29
Administration & Medical Records	\$ <u>-</u>	<u>20.56</u>	<u>13.25</u>	<u>13.25</u>
Subtotal		100.85	<u>\$103.42</u>	93.54
<u>Costs Not Subject to Standards:</u>				
Utilities		3.34		3.34
Special Services		.06		.06
Medical Supplies & Oxygen		3.55		3.55
Taxes and Insurance		3.73		3.73
Legal Fees		<u>.26</u>		<u>.26</u>
TOTAL		<u>\$111.79</u>		104.48
Inflation Factor (4.70%)				4.91
Cost of Capital				10.04
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				6.31
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(4.56)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$121.18</u>

HEARTLAND HEALTH CARE CENTER - CHARLESTON
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2002
 AC# 3-ELH-J2

<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	\$2,144,357	\$ 459 (9)	\$135,914 (8) 8,071 (8) 4,805 (9)	\$1,996,026
Dietary	389,374	211 (9)	4,800 (3) 2,611 (7) 14,609 (8)	367,565
Laundry	57,654	-	3,075 (8)	54,579
Housekeeping	128,645	718 (10)	8,118 (8) 674 (11)	120,571
Maintenance	90,883	501 (10)	758 (7) 2,664 (8) 51 (9) 478 (11)	87,433
Administration & Medical Records	732,534	272 (6) 3,005 (10)	26,815 (8) 1,389 (8) 31,936 (9) 2,815 (11) 421 (12)	672,435
Utilities	109,344	597 (10)	5 (9) 597 (11)	109,339
Special Services	1,893	19,119 (12)	19,208 (8)	1,804
Medical Supplies & Oxygen	142,775	4 (9)	7,350 (5) 7,489 (6) 938 (7) 1,115 (8) 9,829 (12)	116,058

HEARTLAND HEALTH CARE CENTER - CHARLESTON
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2002
 AC# 3-ELH-J2

<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>	
Taxes and Insurance	480,211	2,997 (9) 2,570 (10)	362,741 (4) 321 (7) 654 (11)	122,062
Legal Fees	12,245	54 (10)	3,891 (9) 39 (11)	8,369
Cost of Capital	339,228	27,754 (2) 1,807 (10)	19,694 (1) 7,222 (9) 1,310 (11) <u>12,039 (13)</u>	328,524
Subtotal	4,629,143	60,068	704,446	3,984,765
Ancillary	157,267	7,350 (5) 5,942 (6)	-	170,559
Nonallowable	400,525	19,694 (1) 4,800 (3) 362,741 (4) 1,275 (6) 220,978 (8) 44,239 (9) 6,567 (11) <u>12,039 (13)</u>	27,754 (2) 9,252 (10) 8,869 (12)	1,026,983
Total Operating Expenses	<u>\$5,186,935</u>	<u>\$745,693</u>	<u>\$750,321</u>	<u>\$5,182,307</u>
Total Patient Days	<u>32,308</u>	<u>403 (14)</u>	<u>-</u>	<u>32,711</u>
Total Beds	<u>96</u>			

HEARTLAND HEALTH CARE CENTER - CHARLESTON
Adjustment Report
Cost Report Period Ended September 30, 2002
AC# 3-ELH-J2

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$327,827	
	Other Equity	427,119	
	Nonallowable	19,694	
	Fixed Assets		\$754,946
	Cost of Capital		19,694
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Cost of Capital	27,754	
	Nonallowable		27,754
	To adjust depreciation expense to comply with capital cost policy State Plan, Attachment 4.19D		
3	Nonallowable	4,800	
	Dietary		4,800
	To disallow expense due to lack of documentation HIM-15-1, Section 2304		
4	Nonallowable	362,741	
	Taxes and Insurance		362,741
	To adjust liability insurance expense HIM-15-1, Section 2304		
5	Ancillary	7,350	
	Medical Supplies		7,350
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		

HEARTLAND HEALTH CARE CENTER - CHARLESTON
Adjustment Report
Cost Report Period Ended September 30, 2002
AC# 3-ELH-J2

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Medical Records	272	
	Ancillary	5,942	
	Nonallowable	1,275	
	Medical Supplies		7,489
	To reclassify expense to the proper cost center and disallow expense due to lack of documentation HIM-15-1, Section 2304 DH&HS Expense Crosswalk		
7	Retained Earnings	4,628	
	Dietary		2,611
	Maintenance		758
	Taxes and Insurance		321
	Medical Supplies		938
	To properly charge expense applicable to the prior period HIM-15-1, Section 2302.1		
8	Nonallowable	220,978	
	Nursing		135,914
	Restorative		8,071
	Dietary		14,609
	Laundry		3,075
	Housekeeping		8,118
	Maintenance		2,664
	Administration		26,815
	Medical Records		1,389
	Medical Supplies		1,115
	Special Services		19,208
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

HEARTLAND HEALTH CARE CENTER - CHARLESTON
Adjustment Report
Cost Report Period Ended September 30, 2002
AC# 3-ELH-J2

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
9	Restorative	459	
	Dietary	211	
	Taxes and Insurance	2,997	
	Medical Supplies	4	
	Nonallowable	44,239	
	Nursing		4,805
	Maintenance		51
	Administration		31,936
	Legal		3,891
	Utilities		5
	Cost of Capital		7,222
	To adjust home office cost allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
10	Housekeeping	718	
	Maintenance	501	
	Administration	3,005	
	Legal	54	
	Utilities	597	
	Taxes and Insurance	2,570	
	Cost of Capital	1,807	
	Nonallowable		9,252
	To reverse DH&HS adjustment to remove		
	indirect cost applicable to a non-		
	reimbursable cost center		
	HIM-15-1, Section 2102.3		
	State Plan, Attachment 4.19D		
11	Nonallowable	6,567	
	Housekeeping		674
	Maintenance		478
	Administration		2,815
	Legal		39
	Utilities		597
	Taxes and Insurance		654
	Cost of Capital		1,310
	To remove indirect cost applicable		
	to a non-reimbursable cost center		
	HIM-15-1, Section 2102.3		
	State Plan, Attachment 4.19D		

HEARTLAND HEALTH CARE CENTER - CHARLESTON
Adjustment Report
Cost Report Period Ended September 30, 2002
AC# 3-ELH-J2

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
12	Special Services	19,119	
	Administration		421
	Medical Supplies		9,829
	Nonallowable		8,869
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
13	Nonallowable	12,039	
	Cost of Capital		12,039
	To adjust capital return State Plan, Attachment 4.19D		
14	<u>Memo Adjustment:</u>		
	To increase total patient days by 403 to 32,711		
		\$1,505,267	\$1,505,267
	TOTAL ADJUSTMENTS		

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.

HEARTLAND HEALTH CARE CENTER - CHARLESTON
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2002
 AC# 3-ELH-J2

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.55013</u>
Deemed Asset Value (Per Bed)	39,828
Number of Beds	<u>96</u>
Deemed Asset Value	3,823,488
Improvements Since 1981	691,027
Accumulated Depreciation at 9/30/02	<u>(1,257,280)</u>
Deemed Depreciated Value	3,257,235
Market Rate of Return	<u>.0561</u>
Total Annual Return	182,731
Return Applicable to Non-Reimbursable Cost Centers	(974)
Allocation of Interest to Non-Reimbursable Cost Centers	<u>523</u>
Allowable Annual Return	182,280
Depreciation Expense	150,582
Amortization Expense	-
Capital Related Income Offsets	(3,028)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(1,310)</u>
Allowable Cost of Capital Expense	328,524
Total Patient Days (Actual)	<u>32,711</u>
Cost of Capital Per Diem	\$ <u><u>10.04</u></u>

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