

*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

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June 19, 2007

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

Re: AC# 3-MNC-J2 – Heartland of West Ashley Rehabilitation and Nursing Center

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.

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/ms

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

**HEARTLAND OF WEST ASHLEY  
REHABILITATION AND NURSING CENTER  
CHARLESTON, SOUTH CAROLINA**

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

May 9, 2007

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 Heartland of West Ashley Rehabilitation and Nursing Center, 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 Heartland of West Ashley Rehabilitation and Nursing Center 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 Heartland of West Ashley Rehabilitation and Nursing Center, 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 Heartland of West Ashley Rehabilitation and Nursing Center 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 9, 2007

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

**HEARTLAND OF WEST ASHLEY REHABILITATION AND NURSING CENTER**

Computation of Rate Change  
For the Contract Period  
Beginning October 1, 2003  
AC# 3-MNC-J2

	<u>10/01/03-</u> <u>09/30/04</u>
Interim Reimbursement Rate (1)	\$138.21
Adjusted Reimbursement Rate	<u>110.76</u>
Decrease in Reimbursement Rate	\$ <u>27.45</u>

- (1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated January 24, 2007.

**HEARTLAND OF WEST ASHLEY REHABILITATION AND NURSING CENTER**  
 Computation of Adjusted Reimbursement Rate  
 For the Contract Period October 1, 2003 Through September 30, 2004  
 AC# 3-MNC-J2

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$52.41	\$63.18	
Dietary		10.00	11.76	
Laundry/Housekeeping/Maintenance		<u>8.63</u>	<u>10.49</u>	
Subtotal	\$ <u>5.98</u>	71.04	85.43	\$ 71.04
Administration & Medical Records	\$ <u>-</u>	<u>18.30</u>	<u>13.25</u>	<u>13.25</u>
Subtotal		89.34	<u>\$98.68</u>	84.29
<u>Costs Not Subject to Standards:</u>				
Utilities		3.31		3.31
Special Services		.02		.02
Medical Supplies & Oxygen		2.91		2.91
Taxes and Insurance		3.06		3.06
Legal Fees		<u>.07</u>		<u>.07</u>
<b>TOTAL</b>		<u>\$98.71</u>		93.66
Inflation Factor (4.70%)				4.40
Cost of Capital				11.12
Cost of Capital Limitation				(.17)
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				5.98
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(4.23)</u>
<b>ADJUSTED REIMBURSEMENT RATE</b>				<u>\$110.76</u>

**HEARTLAND OF WEST ASHLEY REHABILITATION AND NURSING CENTER**

Summary of Costs and Total Patient Days  
 For the Cost Report Period Ended September 30, 2002  
 AC# 3-MNC-J2

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$1,858,869	\$ 386 (6)	\$114,826 (4) 182,942 (5) 9,123 (5) 5,355 (6) 20,766 (8) 20,360 (8)	\$1,505,883
Dietary	362,058	18 (6)	17,690 (5) 57,052 (8)	287,334
Laundry	60,705	-	3,573 (5) 9,490 (8)	47,642
Housekeeping	172,623	1,083 (7)	12,668 (5) 38,169 (8)	122,869
Maintenance	104,281	636 (7)	3,887 (5) 874 (6) 22,608 (8)	77,548
Administration & Medical Records	722,692	3,154 (7)	43,065 (4) 29,128 (5) 884 (5) 54,903 (6) 64,462 (8) 7,533 (8)	525,871
Utilities	123,336	753 (7)	251 (6) 28,751 (8)	95,087
Special Services	671	-	-	671

**HEARTLAND OF WEST ASHLEY REHABILITATION AND NURSING CENTER**

Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 2002  
AC# 3-MNC-J2

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	<u>Debit</u>	Adjustments <u>Credit</u>	<u>Adjusted Totals</u>
Medical Supplies & Oxygen	106,368	3 (6)	5,377 (3) 764 (5) 16,647 (8)	83,583
Taxes and Insurance	420,892	2,031 (6) 2,515 (7)	318,816 (2) 18,690 (8)	87,932
Legal Fees	5,976	28 (7)	3,588 (6) 375 (8)	2,041
Cost of Capital	314,626	1,427 (7) 66,485 (9)	43,815 (1) 10,607 (6) <u>8,634 (8)</u>	319,482
Subtotal	4,253,097	78,519	1,175,673	3,155,943
Ancillary	183,574	5,377 (3)	-	188,951
Nonallowable	500,377	43,815 (1) 318,816 (2) 157,891 (4) 260,659 (5) 73,140 (6) <u>313,537 (8)</u>	9,596 (7) 66,485 (9)	1,592,154
Total Operating Expenses	<u>\$4,937,048</u>	<u>\$1,251,754</u>	<u>\$1,251,754</u>	<u>\$4,937,048</u>
Total Patient Days	<u>28,733</u>	<u>-</u>	<u>-</u>	<u>28,733</u>

Total Beds 82

**HEARTLAND OF WEST ASHLEY REHABILITATION AND NURSING CENTER**  
 Adjustment Report  
 Cost Report Period Ended September 30, 2002  
 AC# 3-MNC-J2

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$970,556	
	Nonallowable	43,815	
	Fixed Assets		\$882,734
	Other Equity		87,822
	Cost of Capital		43,815
	To adjust fixed assets and related depreciation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
2	Nonallowable	318,816	
	Taxes and Insurance		318,816
	To adjust liability insurance expense		
	HIM-15-1, Section 2304		
3	Ancillary	5,377	
	Medical Supplies		5,377
	To reclassify expense to the proper cost center		
	DH&HS Expense Crosswalk		
4	Nonallowable	157,891	
	Nursing		114,826
	Administration		43,065
	To reclassify salaries to the proper cost center		
	HIM-15-1, Section 2102.3		
	DH&HS Expense Crosswalk		

**HEARTLAND OF WEST ASHLEY REHABILITATION AND NURSING CENTER**

Adjustment Report  
Cost Report Period Ended September 30, 2002  
AC# 3-MNC-J2

<u>ADJUSTMENT</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
<u>NUMBER</u>			
5	Nonallowable	260,659	
	Nursing		182,942
	Restorative		9,123
	Dietary		17,690
	Laundry		3,573
	Housekeeping		12,668
	Maintenance		3,887
	Administration		29,128
	Medical Records		884
	Medical Supplies		764
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
6	Restorative	386	
	Dietary	18	
	Taxes and Insurance	2,031	
	Medical Supplies	3	
	Nonallowable	73,140	
	Nursing		5,355
	Maintenance		874
	Administration		54,903
	Legal		3,588
	Utilities		251
	Cost of Capital		10,607
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

**HEARTLAND OF WEST ASHLEY REHABILITATION AND NURSING CENTER**

Adjustment Report  
Cost Report Period Ended September 30, 2002  
AC# 3-MNC-J2

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
7	Housekeeping	1,083	
	Maintenance	636	
	Administration	3,154	
	Legal	28	
	Utilities	753	
	Taxes and Insurance	2,515	
	Cost of Capital	1,427	
	Nonallowable		9,596
	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		
8	Nonallowable	313,537	
	Nursing		20,766
	Restorative		20,360
	Dietary		57,052
	Laundry		9,490
	Housekeeping		38,169
	Maintenance		22,608
	Administration		64,462
	Medical Records		7,533
	Legal		375
	Utilities		28,751
	Taxes and Insurance		18,690
	Medial Supplies		16,647
	Cost of Capital		8,634
	To remove indirect cost applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		

**HEARTLAND OF WEST ASHLEY REHABILITATION AND NURSING CENTER**

Adjustment Report  
Cost Report Period Ended September 30, 2002  
AC# 3-MNC-J2

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
9	Cost of Capital Nonallowable	66,485	66,485
	To adjust capital return State Plan, Attachment 4.19D		
	<b>TOTAL ADJUSTMENTS</b>	<b><u>\$2,222,310</u></b>	<b><u>\$2,222,310</u></b>

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 OF WEST ASHLEY REHABILITATION AND NURSING CENTER**  
 Cost of Capital Reimbursement Analysis  
 For the Cost Report Period Ended September 30, 2002  
 AC# 3-MNC-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>82</u>
Deemed Asset Value	3,265,896
Improvements Since 1981	2,350,216
Accumulated Depreciation at 9/30/02	<u>(2,906,808)</u>
Deemed Depreciated Value	2,709,304
Market Rate of Return	<u>.0561</u>
Total Annual Return	151,992
Return Applicable to Non-Reimbursable Cost Centers	(7,852)
Allocation of Interest to Non-Reimbursable Cost Centers	<u>88</u>
Allowable Annual Return	144,228
Depreciation Expense	186,571
Amortization Expense	-
Capital Related Income Offsets	(2,683)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(8,634)</u>
Allowable Cost of Capital Expense	319,482
Total Patient Days (Minimum 96% Occupancy)	<u>28,733</u>
Cost of Capital Per Diem	\$ <u><u>11.12</u></u>

**HEARTLAND OF WEST ASHLEY REHABILITATION AND NURSING CENTER**

Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 2002  
AC# 3-MNC-J2

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$ 6.96
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$10.95</u>
Reimbursable Cost of Capital Per Diem	\$10.95
Cost of Capital Per Diem	<u>11.12</u>
Cost of Capital Per Diem Limitation	<u>\$ (.17)</u>

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