

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-J3 – 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, 2002 through September 30, 2003. That report was used to set the rate covering the contract period beginning October 1, 2004.

We are recommending that the Department of Health and Human Services certify an accounts payable for amounts underpaid as a result of the rate change shown on Exhibit A. You will be notified of settlement 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, 2004
AC# 3-MNC-J3**

**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

March 29, 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, 2004, and for the twelve month cost report period ended September 30, 2003, 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
March 29, 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, 2004
AC# 3-MNC-J3

	10/01/04- <u>09/30/05</u>
Adjusted Reimbursement Rate	\$123.14
Interim Reimbursement Rate (1)	<u>120.60</u>
Increase in Reimbursement Rate	\$ <u><u>2.54</u></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, 2004 Through September 30, 2005
 AC# 3-MNC-J3

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 58.83	\$ 65.45	
Dietary		11.16	12.42	
Laundry/Housekeeping/Maintenance		<u>8.96</u>	<u>11.28</u>	
Subtotal	<u>\$6.24</u>	78.95	89.15	\$ 78.95
Administration & Medical Records	<u>\$ -</u>	<u>19.88</u>	<u>14.65</u>	<u>14.65</u>
Subtotal		98.83	<u>\$103.80</u>	93.60
<u>Costs Not Subject to Standards:</u>				
Utilities		3.58		3.58
Special Services		.03		.03
Medical Supplies & Oxygen		2.88		2.88
Taxes and Insurance		5.34		5.34
Legal Fees		<u>.05</u>		<u>.05</u>
TOTAL		<u>\$110.71</u>		105.48
Inflation Factor (4.70%)				4.96
Cost of Capital				11.86
Cost of Capital Limitation				(.91)
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				6.24
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(4.49)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$123.14</u>

HEARTLAND OF WEST ASHLEY REHABILITATION AND NURSING CENTER

Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2003
 AC# 3-MNC-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	\$1,688,304	\$50,125 (7) 4,424 (7) 86 (8) 18,760 (11)	\$ 3,980 (6) 15,802 (8) 3,013 (9) 28,999 (12) 19,439 (12)	\$1,690,466
Dietary	313,354	8,268 (7) 215 (8) 56,758 (11)	57,830 (12)	320,765
Laundry	50,207	1,288 (7) 9,095 (11)	9,293 (12)	51,297
Housekeeping	114,716	5,172 (7) 45,219 (11)	38,733 (12)	126,374
Maintenance	76,231	4,057 (7) 29,757 (11)	1,056 (8) 6,614 (10) 22,489 (12)	79,886
Administration & Medical Records	653,063	1,717 (5) 2,384 (5) 479 (7) 6,614 (10) 54,663 (11) 5,756 (11)	36,659 (6) 670 (7) 46,887 (8) 80 (9) 62,966 (12) 6,196 (12)	571,218
Utilities	97,571	37,916 (11)	1,882 (2) 233 (8) 30,587 (12)	102,785
Special Services	738	13,208 (7)	13,182 (9)	764

HEARTLAND OF WEST ASHLEY REHABILITATION AND NURSING CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2003
AC# 3-MNC-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>	
Medical Supplies & Oxygen	95,320	634 (7)	8,448 (4)	82,613
		17,265 (11)	4,101 (5)	
			2,618 (9)	
			15,439 (12)	
Taxes and Insurance	98,500	61,636 (3)	42,633 (12)	153,386
		522 (8)		
		35,361 (11)		
Legal Fees	4,973	507 (11)	3,905 (8)	1,348
			227 (12)	
Cost of Capital	314,626	8,850 (11)	12,373 (1)	340,885
		49,139 (13)	10,076 (8)	
			<u>9,281 (12)</u>	
Subtotal	3,507,603	529,875	515,691	3,521,787
Ancillary	212,586	8,448 (4)	-	221,034
Nonallowable	1,107,992	12,373 (1)	61,636 (3)	1,083,478
		40,639 (6)	86,985 (7)	
		77,136 (8)	319,907 (11)	
		18,893 (9)	49,139 (13)	
		<u>344,112 (12)</u>		
Total Operating Expenses	<u>\$4,828,181</u>	<u>\$1,031,476</u>	<u>\$1,033,358</u>	<u>\$4,826,299</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, 2003
AC# 3-MNC-J3

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$982,937	
	Nonallowable	12,373	
	Fixed Assets		\$947,705
	Other Equity		35,232
	Cost of Capital		12,373
	To adjust fixed assets and related depreciation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
2	Accrued Expenses	3,149	
	Retained Earnings		1,267
	Utilities		1,882
	To adjust utility expense		
	HIM-15-1, Section 2302.1		
3	Taxes and Insurance	61,636	
	Nonallowable		61,636
	To adjust liability insurance expense		
	HIM-15-1, Section 2304		
4	Ancillary	8,448	
	Medical Supplies		8,448
	To reclassify expense to the proper cost center		
	DH&HS Expense Crosswalk		
5	Administration	1,717	
	Medical Records	2,384	
	Medical Supplies		4,101
	To reclassify expense to the proper cost center		
	DH&HS Expense Crosswalk		

HEARTLAND OF WEST ASHLEY REHABILITATION AND NURSING CENTER

Adjustment Report
Cost Report Period Ended September 30, 2003
AC# 3-MNC-J3

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Nonallowable	40,639	
	Nursing		3,980
	Administration		36,659
	To reclassify salaries to the proper cost center HIM-15-1, Section 2102.3 DH&HS Expense Crosswalk		
7	Nursing	50,125	
	Restorative	4,424	
	Dietary	8,268	
	Laundry	1,288	
	Housekeeping	5,172	
	Maintenance	4,057	
	Medical Records	479	
	Medical Supplies	634	
	Special Services	13,208	
	Administration		670
	Nonallowable		86,985
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
8	Restorative	86	
	Dietary	215	
	Taxes and Insurance	522	
	Nonallowable	77,136	
	Nursing		15,802
	Maintenance		1,056
	Administration		46,887
	Legal		3,905
	Utilities		233
	Cost of Capital		10,076
	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, 2003
AC# 3-MNC-J3

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
9	Nonallowable	18,893	
	Nursing		3,013
	Administration		80
	Medical Supplies		2,618
	Special Services		13,182
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
10	Administration	6,614	
	Maintenance		6,614
	To reclassify income offset to the proper cost center HIM-15-1, Section 2302.5		
11	Restorative	18,760	
	Dietary	56,758	
	Laundry	9,095	
	Housekeeping	45,219	
	Maintenance	29,757	
	Administration	54,663	
	Medical Records	5,756	
	Legal	507	
	Utilities	37,916	
	Taxes and Insurance	35,361	
	Medical Supplies	17,265	
	Cost of Capital	8,850	
	Nonallowable		319,907
	Te 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		

HEARTLAND OF WEST ASHLEY REHABILITATION AND NURSING CENTER

Adjustment Report
Cost Report Period Ended September 30, 2003
AC# 3-MNC-J3

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
12	Nonallowable	344,112	
	Nursing		28,999
	Restorative		19,439
	Dietary		57,830
	Laundry		9,293
	Housekeeping		38,733
	Maintenance		22,489
	Administration		62,966
	Medical Records		6,196
	Legal		227
	Utilities		30,587
	Taxes and Insurance		42,633
	Medical Supplies		15,439
	Cost of Capital		9,281
	To remove indirect cost applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
13	Cost of Capital	49,139	
	Nonallowable		49,139
	To adjust capital return State Plan, Attachment 4.19D		
	TOTAL ADJUSTMENTS	\$2,017,562	\$2,017,562

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, 2003
AC# 3-MNC-J3

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.63785</u>
Deemed Asset Value (Per Bed)	41,198
Number of Beds	<u>82</u>
Deemed Asset Value	3,378,236
Improvements Since 1981	2,538,116
Accumulated Depreciation at 9/30/03	<u>(3,095,641)</u>
Deemed Depreciated Value	2,820,711
Market Rate of Return	<u>0.0531</u>
Total Annual Return	149,780
Return Applicable to Non-Reimbursable Cost Centers	(7,262)
Allocation of Interest to Non-Reimbursable Cost Centers	<u>129</u>
Allowable Annual Return	142,647
Depreciation Expense	210,048
Amortization Expense	-
Capital Related Income Offsets	(2,529)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(9,281)</u>
Allowable Cost of Capital Expense	340,885
Total Patient Days (Minimum 96% Occupancy)	<u>28,733</u>
Cost of Capital Per Diem	\$ <u><u>11.86</u></u>

HEARTLAND OF WEST ASHLEY REHABILITATION AND NURSING CENTER

Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2003
AC# 3-MNC-J3

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>11.86</u>
Cost of Capital Per Diem Limitation	<u>\$ (.91)</u>

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