

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

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

June 19, 2007

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

Re: AC# 3-OKE-J3 – HCR Manor Care d/b/a Oakmont East 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 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/cwc

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

**HCR MANOR CARE
D/B/A OAKMONT EAST NURSING CENTER
GREENVILLE, SOUTH CAROLINA**

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2004
AC# 3-OKE-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 26, 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 HCR Manor Care d/b/a Oakmont East 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 HCR Manor Care d/b/a Oakmont East 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.

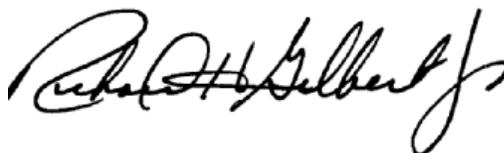
The procedures and the associated findings are as follows:

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 HCR Manor Care d/b/a Oakmont East 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 HCR Manor Care d/b/a Oakmont East 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 26, 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

OAKMONT EAST NURSING CENTER
Computation of Rate Change
For the Contract Period
Beginning October 1, 2004
AC# 3-OKE-J3

	10/01/04- <u>09/30/05</u>
Interim Reimbursement Rate (1)	\$124.01
Adjusted Reimbursement Rate	<u>118.95</u>
Decrease in Reimbursement Rate	\$ <u>5.06</u>

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

OAKMONT EAST NURSING CENTER
 Computation of Adjusted Reimbursement Rate
 For the Contract Period October 1, 2004 Through September 30, 2005
 AC# 3-OKE-J3

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 60.54	\$ 75.95	
Dietary		11.45	12.15	
Laundry/Housekeeping/Maintenance		<u>9.48</u>	<u>10.42</u>	
Subtotal	\$ <u>6.90</u>	81.47	98.52	\$ 81.47
Administration & Medical Records	\$ <u>-</u>	<u>15.42</u>	<u>15.06</u>	<u>15.06</u>
Subtotal		96.89	<u>\$113.58</u>	96.53
<u>Costs Not Subject to Standards:</u>				
Utilities		2.41		2.41
Special Services		.05		.05
Medical Supplies & Oxygen		3.67		3.67
Taxes and Insurance		1.78		1.78
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$104.80</u>		104.44
Inflation Factor (4.70%)				4.91
Cost of Capital				9.68
Cost of Capital Limitation				(1.83)
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				6.90
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(5.15)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$118.95</u>

OAKMONT EAST NURSING CENTER
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2003
 AC# 3-OKE-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	\$2,886,455	\$ 137 (6)	\$41,430 (4) 944 (4) 90 (5) 1,110 (5) 19,249 (6)	\$2,823,769
Dietary	537,904	663 (6)	4,414 (4)	534,153
Laundry	110,940	2,599 (4)	1 (5)	113,538
Housekeeping	204,736	1,487 (7)	2,415 (4) 1,490 (8)	202,318
Maintenance	125,190	1,465 (4) 893 (7)	182 (5) 1 (6) 914 (8) 173 (9)	126,278
Administration & Medical Records	755,445	846 (4) 69 (5) 4,670 (7)	3,984 (4) 695 (5) 28,045 (6) 5,745 (8) 3,130 (9)	719,431
Utilities	119,132	844 (7)	6,657 (2) 1 (6) 814 (8)	112,504
Special Services	2,065	6,606 (9)	6,345 (4) 146 (5)	2,180
Medical Supplies & Oxygen	178,674	91 (5)	7,689 (9)	171,076

OAKMONT EAST NURSING CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2003
AC# 3-OKE-J3

<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>
Taxes and Insurance	186,773	2,831 (5) 1,344 (6) 1,325 (7)	108,806 (3) 604 (8)	82,863
Legal Fees	5,365	37 (7)	5,327 (6) 1 (8)	74
Cost of Capital	363,086	6,566 (5) 1,976 (7) <u>124,404 (10)</u>	18,472 (1) 24,466 (6) <u>1,766 (8)</u>	451,328
Subtotal	5,475,765	158,853	295,106	5,339,512
Ancillary	348,040	3,364 (9)	-	351,404
Nonallowable	892,502	18,472 (1) 108,806 (3) 54,622 (4) 74,945 (6) 11,334 (8) <u>1,022 (9)</u>	7,333 (5) 11,232 (7) 124,404 (10)	1,018,734
Total Operating Expenses	<u>\$6,716,307</u>	<u>\$431,418</u>	<u>\$438,075</u>	<u>\$6,709,650</u>
Total Patient Days	<u>46,253</u>	<u>393 (11)</u>	<u>-</u>	<u>46,646</u>
Total Beds	<u>132</u>			

OAKMONT EAST NURSING CENTER
Adjustment Report
Cost Report Period Ended September 30, 2003
AC# 3-OKE-J3

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Other Equity	\$350,996	
	Nonallowable	18,472	
	Fixed Assets		\$ 85,684
	Accumulated Depreciation		265,312
	Cost of Capital		18,472
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Accounts Payable	2,217	
	Retained Earnings	4,440	
	Utilities		6,657
	To adjust utilities expense HIM-15-1, Sections 2302.1 and 2304		
3	Nonallowable	108,806	
	Taxes and Insurance		108,806
	To adjust liability insurance expense HIM-15-1, Section 2304		
4	Laundry	2,599	
	Maintenance	1,465	
	Medical Records	846	
	Nonallowable	54,622	
	Nursing		41,430
	Restorative		944
	Dietary		4,414
	Housekeeping		2,415
	Administration		3,984
	Special Services		6,345
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

OAKMONT EAST NURSING CENTER
Adjustment Report
Cost Report Period Ended September 30, 2003
AC# 3-OKE-J3

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Medical Records	69	
	Taxes and Insurance	2,831	
	Medical Supplies	91	
	Cost of Capital	6,566	
	Nursing		90
	Restorative		1,110
	Laundry		1
	Maintenance		182
	Administration		695
	Special Services		146
	Nonallowable		7,333
	To adjust shared service allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
6	Restorative	137	
	Dietary	663	
	Taxes and Insurance	1,344	
	Nonallowable	74,945	
	Nursing		19,249
	Maintenance		1
	Administration		28,045
	Legal		5,327
	Utilities		1
	Cost of Capital		24,466
	To adjust home office cost allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
7	Housekeeping	1,487	
	Maintenance	893	
	Administration	4,670	
	Legal	37	
	Utilities	844	
	Taxes and Insurance	1,325	
	Cost of Capital	1,976	
	Nonallowable		11,232
	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		

OAKMONT EAST NURSING CENTER
Adjustment Report
Cost Report Period Ended September 30, 2003
AC# 3-OKE-J3

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
8	Nonallowable	11,334	
	Housekeeping		1,490
	Maintenance		914
	Administration		5,745
	Legal		1
	Utilities		814
	Taxes and Insurance		604
	Cost of Capital		1,766
	To remove indirect cost applicable to a non-reimbursable cost center HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
9	Special Services	6,606	
	Ancillary	3,364	
	Nonallowable	1,022	
	Maintenance		173
	Administration		3,130
	Medical Supplies		7,689
	To adjust special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
10	Cost of Capital	124,404	
	Nonallowable		124,404
	To adjust capital return State Plan, Attachment 4.19D		
11	<u>Memo Adjustment:</u>		
	To increase total patient days by 393 to 46,646		
		\$789,071	\$789,071
	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.

OAKMONT EAST NURSING CENTER
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2003
 AC# 3-OKE-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>132</u>
Deemed Asset Value	5,438,136
Improvements Since 1981	2,338,801
Accumulated Depreciation at 9/30/03	<u>(2,711,583)</u>
Deemed Depreciated Value	5,065,354
Market Rate of Return	<u>.0531</u>
Total Annual Return	268,970
Return Applicable to Non-Reimbursable Cost Centers	(1,945)
Allocation of Interest to Non-Reimbursable Cost Centers	<u>424</u>
Allowable Annual Return	267,449
Depreciation Expense	189,580
Amortization Expense	-
Capital Related Income Offsets	(3,935)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(1,766)</u>
Allowable Cost of Capital Expense	451,328
Total Patient Days (Actual)	<u>46,646</u>
Cost of Capital Per Diem	\$ <u><u>9.68</u></u>

OAKMONT EAST NURSING CENTER
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2003
AC# 3-OKE-J3

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$ 3.86
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	\$ <u>7.85</u>
Reimbursable Cost of Capital Per Diem	\$ 7.85
Cost of Capital Per Diem	<u>9.68</u>
Cost of Capital Per Diem Limitation	\$ (<u>1.83</u>)

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