

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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August 13, 2009

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

Re: AC# 3-ELH-J6 – 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, 2005 through September 30, 2006. That report was used to set the rate covering the contract periods beginning October 1, 2007.

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

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

**CONTRACT PERIODS
BEGINNING OCTOBER 1, 2007
AC# 3-ELH-J6**

**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

June 9, 2009

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 periods beginning October 1, 2007, and for the twelve month cost report period ended September 30, 2006, 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.

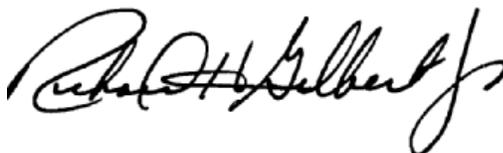
The procedures and the associated findings are as follows:

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 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 Health Care & Retirement Corporation of America d/b/a Heartland Health Care Center - Charleston dated as of October 1, 2006, 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
June 9, 2009

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 HEALTH CARE CENTER - CHARLESTON

Computation of Rate Change
For the Contract Periods
Beginning October 1, 2007
AC# 3-ELH-J6

	Beginning <u>10/01/07</u>
Interim Reimbursement Rate (1)	\$145.01
Adjusted Reimbursement Rate	<u>137.89</u>
Decrease in Reimbursement Rate	\$ <u><u>7.12</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated February 13, 2008.

HEARTLAND HEALTH CARE CENTER - CHARLESTON
 Computation of Adjusted Reimbursement Rate
 For the Contract Periods Beginning October 1, 2007
 AC# 3-ELH-J6

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 66.49	\$ 82.94	
Dietary		12.27	13.85	
Laundry/Housekeeping/Maintenance		<u>10.63</u>	<u>12.55</u>	
Subtotal	\$ <u>7.65</u>	89.39	109.34	\$ 89.39
Administration & Medical Records	\$ <u>-</u>	<u>26.63</u>	<u>18.22</u>	<u>18.22</u>
Subtotal		116.02	<u>\$127.56</u>	107.61
<u>Costs Not Subject to Standards:</u>				
Utilities		3.87		3.87
Special Services		.84		.84
Medical Supplies & Oxygen		4.50		4.50
Taxes and Insurance		3.73		3.73
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$128.96</u>		120.55
Inflation Factor (4.60%)				5.55
Cost of Capital				9.53
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				7.65
Effect of \$1.75 Cap on Cost/Profit Incentives				(5.90)
Transportation Escort Add-On				<u>.51</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$137.89</u>

HEARTLAND HEALTH CARE CENTER - CHARLESTON
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2006
 AC# 3-ELH-J6

<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	\$2,490,433	\$ 104 (7)	\$ 2,756 (5) 26,439 (6) 1,126 (6) 5,817 (7) 8,181 (10)	\$2,446,218
Dietary	458,180	5 (7)	3,520 (6) 3,224 (10)	451,441
Laundry	84,193	-	-	84,193
Housekeeping	168,722	944 (8)	874 (9)	168,792
Maintenance	138,608	761 (8)	597 (6) 7 (7) 701 (9)	138,064
Administration & Medical Records	1,002,834	57 (6) 2,950 (8)	5,180 (6) 17,993 (7) 2,713 (9) 77 (10)	979,878
Utilities	142,346	779 (8)	5 (7) 722 (9)	142,398
Special Services	31,361	6,509 (10)	6,841 (6)	31,029
Medical Supplies & Oxygen	206,387	-	9,104 (4) 226 (6) 85 (7) 31,574 (10)	165,398

HEARTLAND HEALTH CARE CENTER - CHARLESTON
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2006
AC# 3-ELH-J6

<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	207,128	1,095 (8)	70,000 (3) 219 (7) 675 (9)	137,329
Legal Fees	5,719	18 (8)	5,737 (7)	-
Cost of Capital	436,900	7,763 (2) 2,768 (8)	39,949 (1) 11,361 (7) 1,486 (9) <u>44,104 (11)</u>	350,531
Subtotal	5,372,811	23,753	301,293	5,095,271
Ancillary	313,533	9,104 (4)	-	322,637
Nonallowable	1,735,769	39,949 (1) 70,000 (3) 43,872 (6) 41,115 (7) 7,171 (9) 36,547 (10) 44,104 (11)	7,763 (2) 9,315 (8)	2,001,449
CNA Training and Testing	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Operating Expenses	<u>\$7,422,113</u>	<u>\$315,615</u>	<u>\$318,371</u>	<u>\$7,419,357</u>
Total Patient Days	<u>36,792</u>	<u>-</u>	<u>-</u>	<u>36,792</u>
Total Beds	<u>105</u>			

HEARTLAND HEALTH CARE CENTER - CHARLESTON
Adjustment Report
Cost Report Period Ended September 30, 2006
AC# 3-ELH-J6

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$83,217	
	Nonallowable	39,949	
	Fixed Assets		\$19,309
	Other Equity		63,908
	Cost of Capital		39,949
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Cost of Capital	7,763	
	Nonallowable		7,763
	To adjust depreciation expense to comply with capital cost policy State Plan, Attachment 4.19D		
3	Nonallowable	70,000	
	Taxes and Insurance		70,000
	To adjust liability insurance expense State Plan, Attachment 4.19D		
4	Ancillary	9,104	
	Medical Supplies		9,104
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		
5	Retained Earnings	2,756	
	Nursing		2,756
	To properly charge expense applicable to the prior period HIM-15-1, Section 2302.1		

HEARTLAND HEALTH CARE CENTER - CHARLESTON
Adjustment Report
Cost Report Period Ended September 30, 2006
AC# 3-ELH-J6

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Medical Records	57	
	Nonallowable	43,872	
	Nursing		26,439
	Restorative		1,126
	Dietary		3,520
	Maintenance		597
	Administration		5,180
	Medical Supplies		226
	Special Services		6,841
	To adjust fringe benefits and related allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
7	Restorative	104	
	Dietary	5	
	Nonallowable	41,115	
	Nursing		5,817
	Maintenance		7
	Administration		17,993
	Legal		5,737
	Utilities		5
	Taxes and Insurance		219
	Medical Supplies		85
	Cost of Capital		11,361
	To adjust home office cost allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
8	Housekeeping	944	
	Maintenance	761	
	Administration	2,950	
	Legal	18	
	Utilities	779	
	Taxes and Insurance	1,095	
	Cost of Capital	2,768	
	Nonallowable		9,315
	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		

HEARTLAND HEALTH CARE CENTER - CHARLESTON
Adjustment Report
Cost Report Period Ended September 30, 2006
AC# 3-ELH-J6

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
9	Nonallowable	7,171	
	Housekeeping		874
	Maintenance		701
	Administration		2,713
	Utilities		722
	Taxes and Insurance		675
	Cost of Capital		1,486
	To remove indirect cost applicable to a non-reimbursable cost center HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
10	Special Services	6,509	
	Nonallowable	36,547	
	Nursing		8,181
	Dietary		3,224
	Medical Records		77
	Medical Supplies		31,574
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
11	Nonallowable	44,104	
	Cost of Capital		44,104
	To adjust capital return State Plan, Attachment 4.19D		
	<u>TOTAL ADJUSTMENTS</u>	<u>\$401,588</u>	<u>\$401,588</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.

HEARTLAND HEALTH CARE CENTER - CHARLESTON
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2006
 AC# 3-ELH-J6

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.85382</u>	<u>2.85382</u>	
Deemed Asset Value (Per Bed)	44,571	44,571	
Number of Beds	<u>93</u>	<u>12</u>	
Deemed Asset Value	4,145,103	534,852	
Improvements Since 1981	989,888	18,053	
Accumulated Depreciation at 09/30/06	<u>(1,808,229)</u>	<u>(48,750)</u>	
Deemed Depreciated Value	3,326,762	504,155	
Market Rate of Return	<u>.0489</u>	<u>.0489</u>	
Total Annual Return	162,679	24,653	
Return Applicable to Non-Reimbursable Cost Centers	(795)	(120)	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>616</u>	<u>65</u>	
Allowable Annual Return	162,500	24,598	
Depreciation Expense	154,355	20,740	
Amortization Expense	-	-	
Capital Related Income Offsets	(9,013)	(1,163)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(1,326)</u>	<u>(160)</u>	<u>Total</u>
Allowable Cost of Capital Expense	306,516	44,015	\$350,531
Total Patient Days (Minimum 96% Occupancy)	<u>32,587</u>	<u>4,205</u>	<u>36,792</u>
Cost of Capital Per Diem	\$ <u>9.41</u>	\$ <u>10.47</u>	\$ <u>9.53</u>

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