

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-MAN-J6 – Manor Care of Lexington, Inc. d/b/a Heartland of Lexington
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, 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

**MANOR CARE OF LEXINGTON, INC.
D/B/A HEARTLAND OF LEXINGTON
REHABILITATION AND NURSING CENTER**

WEST COLUMBIA, SOUTH CAROLINA

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

May 28, 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 Manor Care of Lexington, Inc. d/b/a Heartland of Lexington Rehabilitation and Nursing Center, 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 Manor Care of Lexington, Inc. d/b/a Heartland of Lexington 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 Manor Care of Lexington, Inc. d/b/a Heartland of Lexington 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 Manor Care of Lexington, Inc. d/b/a Heartland of Lexington Rehabilitation and Nursing Center 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
May 28, 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 OF LEXINGTON REHABILITATION AND NURSING CENTER

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

	Beginning <u>10/01/07</u>
Interim Reimbursement Rate (1)	\$137.78
Adjusted Reimbursement Rate	<u>133.77</u>
Decrease in Reimbursement Rate	\$ <u><u>4.01</u></u>

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

HEARTLAND OF LEXINGTON REHABILITATION AND NURSING CENTER
 Computation of Adjusted Reimbursement Rate
 For the Contract Periods Beginning October 1, 2007
 AC# 3-MAN-J6

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 65.17	\$ 82.94	
Dietary		11.81	13.85	
Laundry/Housekeeping/Maintenance		<u>9.54</u>	<u>12.55</u>	
Subtotal	\$ <u>7.65</u>	86.52	109.34	\$ 86.52
Administration & Medical Records	\$ <u>-</u>	<u>22.67</u>	<u>18.22</u>	<u>18.22</u>
Subtotal		109.19	<u>\$127.56</u>	104.74
<u>Costs Not Subject to Standards:</u>				
Utilities		3.50		3.50
Special Services		.19		.19
Medical Supplies & Oxygen		5.31		5.31
Taxes and Insurance		1.90		1.90
Legal Fees		<u>.48</u>		<u>.48</u>
TOTAL		<u>\$120.57</u>		116.12
Inflation Factor (4.60%)				5.34
Cost of Capital				10.09
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>.47</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$133.77</u>

HEARTLAND OF LEXINGTON REHABILITATION AND NURSING CENTER

Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2006
 AC# 3-MAN-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	\$3,145,564	\$ 112 (8)	\$16,950 (3) 71,101 (4) 35,729 (7) 204 (7) 6,302 (8) 1,285 (11)	\$3,014,105
Dietary	551,991	5 (8)	3,530 (7) 2,110 (11)	546,356
Laundry	103,924	-	-	103,924
Housekeeping	167,926	872 (9)	871 (10)	167,927
Maintenance	176,642	867 (9)	6,705 (5) 342 (7) 8 (8) 832 (10)	169,622
Administration & Medical Records	984,958	16,950 (3) 71,101 (4) 1,701 (9)	4,612 (7) 387 (7) 19,493 (8) 1,812 (10)	1,048,406
Utilities	161,845	795 (9)	6 (8) 795 (10)	161,839
Special Services	8,966	3,509 (11)	3,541 (7)	8,934
Medical Supplies & Oxygen	253,770	-	3,558 (6) 84 (7) 92 (8) 4,598 (11)	245,438

HEARTLAND OF LEXINGTON REHABILITATION AND NURSING CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2006
AC# 3-MAN-J6

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		Adjusted <u>Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Taxes and Insurance	87,930	411 (9)	238 (8) 410 (10)	87,693
Legal Fees	28,366	54 (9)	6,215 (8) 43 (10)	22,162
Cost of Capital	486,060	88 (2) 1,347 (9)	1,146 (1) 12,310 (8) 922 (10) <u>6,244 (12)</u>	466,873
Subtotal	6,157,942	97,812	212,475	6,043,279
Ancillary	339,528	3,558 (6) 344 (11)	-	343,430
Nonallowable	1,650,605	1,146 (1) 48,429 (7) 44,547 (8) 5,685 (10) 4,140 (11) 6,244 (12)	88 (2) 6,047 (9)	1,754,661
CNA Training and Testing	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Operating Expenses	<u>\$8,148,075</u>	<u>\$211,905</u>	<u>\$218,610</u>	<u>\$8,141,370</u>
Total Patient Days	<u>46,253</u>	<u>-</u>	<u>-</u>	<u>46,253</u>
Total Beds	<u>132</u>			

HEARTLAND OF LEXINGTON REHABILITATION AND NURSING CENTER
Adjustment Report
Cost Report Period Ended September 30, 2006
AC# 3-MAN-J6

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$ 346	
	Other Equity	100,436	
	Nonallowable	1,146	
	Fixed Assets		\$100,782
	Cost of Capital		1,146
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Cost of Capital	88	
	Nonallowable		88
	To adjust depreciation expense to comply with capital cost policy State Plan, Attachment 4.19D		
3	Administration	16,950	
	Nursing		16,950
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		
4	Administration	71,101	
	Nursing		71,101
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		
5	Construction in Progress	2,790	
	Retained Earnings	3,915	
	Maintenance		6,705
	To properly charge expense applicable to the prior period and record Construction in Progress HIM-15-1, Sections 108 and 2302.1		
6	Ancillary	3,558	
	Medical Supplies		3,558
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		

HEARTLAND OF LEXINGTON REHABILITATION AND NURSING CENTER
Adjustment Report
Cost Report Period Ended September 30, 2006
AC# 3-MAN-J6

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
7	Nonallowable	48,429	
	Nursing		35,729
	Restorative		204
	Dietary		3,530
	Maintenance		342
	Administration		4,612
	Medical Records		387
	Medical Supplies		84
	Special Services		3,541
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
8	Restorative	112	
	Dietary	5	
	Nonallowable	44,547	
	Nursing		6,302
	Maintenance		8
	Administration		19,493
	Legal		6,215
	Utilities		6
	Taxes and Insurance		238
	Medical Supplies		92
	Cost of Capital		12,310
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
9	Housekeeping	872	
	Maintenance	867	
	Administration	1,701	
	Legal	54	
	Utilities	795	
	Taxes and Insurance	411	
	Cost of Capital	1,347	
	Nonallowable		6,047
	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 OF LEXINGTON REHABILITATION AND NURSING CENTER
Adjustment Report
Cost Report Period Ended September 30, 2006
AC# 3-MAN-J6

ADJUSTMENT NUMBER	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
10	Nonallowable	5,685	
	Housekeeping		871
	Maintenance		832
	Administration		1,812
	Legal		43
	Utilities		795
	Taxes and Insurance		410
	Cost of Capital		922
	To remove indirect cost applicable to a non-reimbursable cost center HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
11	Special Services	3,509	
	Ancillary	344	
	Nonallowable	4,140	
	Nursing		1,285
	Dietary		2,110
	Medical Supplies		4,598
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
12	Nonallowable	6,244	
	Cost of Capital		6,244
	To adjust capital return State Plan, Attachment 4.19D		
	TOTAL ADJUSTMENTS	\$319,392	\$319,392

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 LEXINGTON REHABILITATION AND NURSING CENTER
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2006
 AC# 3-MAN-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>120</u>	<u>12</u>	
Deemed Asset Value	5,348,520	534,852	
Improvements Since 1981	3,031,890	23,105	
Accumulated Depreciation at 9/30/06	<u>(2,999,162)</u>	<u>(164,597)</u>	
Deemed Depreciated Value	5,381,248	393,360	
Market Rate of Return	<u>.0489</u>	<u>.0489</u>	
Total Annual Return	263,143	19,235	
Return Applicable to Non-Reimbursable Cost Centers	(1,226)	(89)	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>48</u>	<u>5</u>	
Allowable Annual Return	261,965	19,151	
Depreciation Expense	181,854	15,901	
Amortization Expense	-	-	
Capital Related Income Offsets	(10,070)	(1,006)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(848)</u>	<u>(74)</u>	<u>Total</u>
Allowable Cost of Capital Expense	432,901	33,972	\$466,873
Total Patient Days (Minimum 96% Occupancy)	<u>42,048</u>	<u>4,205</u>	<u>46,253</u>
Cost of Capital Per Diem	\$ <u>10.30</u>	\$ <u>8.08</u>	\$ <u>10.09</u>

HEARTLAND OF LEXINGTON REHABILITATION AND NURSING CENTER
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2006
AC# 3-MAN-J6

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$ 6.93	\$ N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	<u>\$10.92</u>	<u>\$8.08</u>
Reimbursable Cost of Capital Per Diem		\$10.09
Cost of Capital Per Diem		<u>10.09</u>
Cost of Capital Per Diem Limitation		<u>\$ -</u>

2 copies of this document were published at an estimated printing cost of \$1.41 each, and a total printing cost of \$2.82. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.