

# 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-MCC-J6 – Manor Care of Columbia, Inc. d/b/a Heartland of Columbia  
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 COLUMBIA, INC.  
D/B/A HEARTLAND OF COLUMBIA  
REHABILITATION AND NURSING CENTER**

**COLUMBIA, SOUTH CAROLINA**

**CONTRACT PERIODS  
BEGINNING OCTOBER 1, 2007  
AC# 3-MCC-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 Columbia, Inc. d/b/a Heartland of Columbia 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 Columbia, Inc. d/b/a Heartland of Columbia 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 Columbia, Inc. d/b/a Heartland of Columbia 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 Columbia, Inc. d/b/a Heartland of Columbia 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 COLUMBIA REHABILITATION AND NURSING CENTER**

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

	Beginning <u>10/01/07</u>
Interim Reimbursement Rate (1)	\$151.41
Adjusted Reimbursement Rate	<u>146.68</u>
Decrease in Reimbursement Rate	\$ <u>4.73</u>

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

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

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 68.86	\$ 82.94	
Dietary		12.97	13.85	
Laundry/Housekeeping/Maintenance		<u>9.71</u>	<u>12.55</u>	
Subtotal	\$ <u>7.65</u>	91.54	109.34	\$ 91.54
Administration & Medical Records	\$ <u>-</u>	<u>21.92</u>	<u>18.22</u>	<u>18.22</u>
Subtotal		113.46	<u>\$127.56</u>	109.76
<u>Costs Not Subject to Standards:</u>				
Utilities		3.91		3.91
Special Services		.07		.07
Medical Supplies & Oxygen		6.42		6.42
Taxes and Insurance		9.47		9.47
Legal Fees		<u>-</u>		<u>-</u>
<b>TOTAL</b>		<u>\$133.33</u>		129.63
Inflation Factor (4.60%)				5.96
Cost of Capital				12.46
Cost of Capital Limitation				(3.73)
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>.61</u>
<b>ADJUSTED REIMBURSEMENT RATE</b>				<u>\$146.68</u>

**HEARTLAND OF COLUMBIA REHABILITATION AND NURSING CENTER**

Summary of Costs and Total Patient Days  
 For the Cost Report Period Ended September 30, 2006  
 AC# 3-MCC-J6

<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	\$3,532,835	\$ 122 (8)	\$319,240 (7) 21,822 (7) 6,873 (8)	\$3,185,022
Dietary	639,841	6 (8)	38,071 (7) 1,714 (11)	600,062
Laundry	113,410	-	-	113,410
Housekeeping	165,990	3,504 (9)	3,857 (10)	165,637
Maintenance	189,264	3,157 (9)	8,245 (1) 4,210 (3) 5,033 (7) 8 (8) 3,855 (10) 783 (11)	170,287
Administration & Medical Records	1,085,941	4,017 (6) 6,730 (9)	52,169 (7) 3,380 (7) 21,254 (8) 6,241 (10)	1,013,644
Utilities	182,007	3,016 (9)	6 (8) 4,066 (10)	180,951
Special Services	3,241	1,332 (11)	1,339 (7)	3,234
Medical Supplies & Oxygen	326,287	-	6,564 (5) 4,017 (6) 2,588 (7) 101 (8) 16,303 (11)	296,714

**HEARTLAND OF COLUMBIA REHABILITATION AND NURSING CENTER**

Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 2006  
AC# 3-MCC-J6

<u>Expenses</u>	Totals (From Schedule SC 13) as Adjusted by DH&HS	Debit	Adjustments Credit	Adjusted Totals
Taxes and Insurance	1,295,845	20,351 (9)	868,838 (4) 259 (8) 9,242 (10)	437,857
Legal Fees	6,732	45 (9)	6,777 (8)	-
Cost of Capital	411,130	50 (2) 5,631 (9) <u>179,540 (12)</u>	603 (1) 13,423 (8) <u>6,119 (10)</u>	576,206
Subtotal	7,952,523	227,501	1,437,000	6,743,024
Ancillary	345,587	6,564 (5)	-	352,151
Nonallowable	(2,088)	603 (1) 868,838 (4) 443,642 (7) 48,573 (8) 33,380 (10) 17,468 (11)	50 (2) 42,434 (9) 179,540 (12)	1,188,392
CNA Training and Testing	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Operating Expenses	<u>\$8,296,022</u>	<u>\$1,646,569</u>	<u>\$1,659,024</u>	<u>\$8,283,567</u>
Total Patient Days	<u>46,253</u>	<u>-</u>	<u>-</u>	<u>46,253</u>
Total Beds	<u>132</u>			

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

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$ 8,246	
	Accumulated Depreciation	940	
	Nonallowable	603	
	Other Equity		\$ 941
	Maintenance		8,245
	Cost of Capital		603
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Cost of Capital	50	
	Nonallowable		50
	To adjust depreciation expense to comply with capital cost policy State Plan, Attachment 4.19D		
3	Retained Earnings	4,210	
	Maintenance		4,210
	To properly charge expense applicable to the prior period HIM-15-1, Section 2302.1		
4	Nonallowable	868,838	
	Taxes and Insurance		868,838
	To adjust liability insurance expense HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
5	Ancillary	6,564	
	Medical Supplies		6,564
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		
6	Administration	4,017	
	Medical Supplies		4,017
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		

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

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
7	Nonallowable	443,642	
	Nursing		319,240
	Restorative		21,822
	Dietary		38,071
	Maintenance		5,033
	Administration		52,169
	Medical Records		3,380
	Medical Supplies		2,588
	Special Services		1,339
	To adjust fringe benefits and related allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
8	Restorative	122	
	Dietary	6	
	Nonallowable	48,573	
	Nursing		6,873
	Maintenance		8
	Administration		21,254
	Legal		6,777
	Utilities		6
	Taxes and Insurance		259
	Medical Supplies		101
	Cost of Capital		13,423
	To adjust home office cost allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
9	Housekeeping	3,504	
	Maintenance	3,157	
	Administration	6,730	
	Legal	45	
	Utilities	3,016	
	Taxes and Insurance	20,351	
	Cost of Capital	5,631	
	Nonallowable		42,434
	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 COLUMBIA REHABILITATION AND NURSING CENTER**  
Adjustment Report  
Cost Report Period Ended September 30, 2006  
AC# 3-MCC-J6

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
10	Nonallowable	33,380	
	Housekeeping		3,857
	Maintenance		3,855
	Administration		6,241
	Utilities		4,066
	Taxes and Insurance		9,242
	Cost of Capital		6,119
	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	1,332	
	Nonallowable	17,468	
	Dietary		1,714
	Maintenance		783
	Medical Supplies		16,303
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
12	Cost of Capital	179,540	
	Nonallowable		179,540
	To adjust capital return State Plan, Attachment 4.19D		
	<u>TOTAL ADJUSTMENTS</u>	<u>\$1,659,965</u>	<u>\$1,659,965</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 OF COLUMBIA REHABILITATION AND NURSING CENTER**  
**Cost of Capital Reimbursement Analysis**  
**For the Cost Report Period Ended September 30, 2006**  
**AC# 3-MCC-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>118</u>	<u>14</u>	
Deemed Asset Value	5,259,378	623,994	
Improvements Since 1981	5,275,058	60,499	
Accumulated Depreciation at 09/30/06	<u>(4,498,915)</u>	<u>(210,603)</u>	
Deemed Depreciated Value	6,035,521	473,890	
Market Rate of Return	<u>.0489</u>	<u>.0489</u>	
Total Annual Return	295,137	23,173	
Return Applicable to Non-Reimbursable Cost Centers	(6,101)	(478)	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>480</u>	<u>57</u>	
Allowable Annual Return	289,516	22,752	
Depreciation Expense	261,577	20,623	
Amortization Expense	-	-	
Capital Related Income Offsets	(10,855)	(1,288)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(5,663)</u>	<u>(456)</u>	<u>Total</u>
Allowable Cost of Capital Expense	534,575	41,631	\$576,206
Total Patient Days (Minimum 96% Occupancy)	<u>41,347</u>	<u>4,906</u>	<u>46,253</u>
Cost of Capital Per Diem	\$ <u>12.93</u>	\$ <u>8.49</u>	\$ <u>12.46</u>

**HEARTLAND OF COLUMBIA REHABILITATION AND NURSING CENTER**

Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 2006  
AC# 3-MCC-J6

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$4.77	\$ N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	<u>\$8.76</u>	<u>\$8.49</u>
Reimbursable Cost of Capital Per Diem	\$ 8.73	
Cost of Capital Per Diem	<u>12.46</u>	
Cost of Capital Per Diem Limitation	<u>\$(3.73)</u>	

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