

# 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-OKE-J6 – 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, 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/sag

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 PERIODS  
BEGINNING OCTOBER 1, 2007  
AC# 3-OKE-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 29, 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 HCR Manor Care d/b/a Oakmont East 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 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, 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 29, 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.", with a stylized flourish at the end.

Richard H. Gilbert, Jr., CPA  
Deputy State Auditor

**OAKMONT EAST NURSING CENTER**  
Computation of Rate Change  
For the Contract Periods  
Beginning October 1, 2007  
AC# 3-OKE-J6

	<u>Beginning 10/01/07</u>
Interim Reimbursement Rate (1)	\$143.02
Adjusted Reimbursement Rate	<u>137.13</u>
Decrease in Reimbursement Rate	\$ <u><u>5.89</u></u>

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

**OAKMONT EAST NURSING CENTER**  
 Computation of Adjusted Reimbursement Rate  
 For the Contract Periods Beginning October 1, 2007  
 AC# 3-OKE-J6

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 70.37	\$ 82.94	
Dietary		12.55	13.85	
Laundry/Housekeeping/Maintenance		<u>10.11</u>	<u>12.55</u>	
Subtotal	<u>\$7.65</u>	93.03	109.34	\$ 93.03
Administration & Medical Records	<u>\$ -</u>	<u>19.08</u>	<u>18.22</u>	<u>18.22</u>
Subtotal		112.11	<u>\$127.56</u>	111.25
<u>Costs Not Subject to Standards:</u>				
Utilities		2.91		2.91
Special Services		.41		.41
Medical Supplies & Oxygen		3.73		3.73
Taxes and Insurance		3.13		3.13
Legal Fees		<u>.08</u>		<u>.08</u>
<b>TOTAL</b>		<u>\$122.37</u>		121.51
Inflation Factor (4.60%)				5.59
Cost of Capital				10.40
Cost of Capital Limitation				(2.55)
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>.43</u>
<b>ADJUSTED REIMBURSEMENT RATE</b>				<u>\$137.13</u>

**OAKMONT EAST NURSING CENTER**  
 Summary of Costs and Total Patient Days  
 For the Cost Report Period Ended September 30, 2006  
 AC# 3-OKE-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	\$3,342,319	\$ 122 (9)	\$ 4,224 (2) 64,538 (7) 1,500 (7) 196 (8) 2,378 (8) 6,835 (9) 7,886 (12)	\$3,254,884
Dietary	588,480	6 (9)	6,269 (7) 1,810 (12)	580,407
Laundry	110,094	2,271 (7)	1,021 (8)	111,344
Housekeeping	202,769	1,472 (10)	4,163 (7) 1,463 (11)	198,615
Maintenance	172,440	1,628 (7) 1,231 (10)	15,863 (3) 156 (8) 8 (9) 1,145 (11) 247 (12)	157,880
Administration & Medical Records	895,795	5,444 (7) 1,018 (7) 1,276 (8) 4,746 (10)	21,141 (9) 4,794 (11)	882,344
Utilities	143,397	1,023 (10)	8,908 (4) 1 (8) 6 (9) 973 (11)	134,532
Special Services	19,179	13,199 (12)	13,601 (7)	18,777

**OAKMONT EAST NURSING CENTER**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 2006  
AC# 3-OKE-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>	
Medical Supplies & Oxygen	179,863	356 (7)	5,273 (6) 100 (9) 2,225 (12)	172,621
Taxes and Insurance	269,608	4,454 (8) 1,899 (10)	130,000 (5) 258 (9) 1,030 (11)	144,673
Legal Fees	10,325	60 (10)	6,740 (9) 22 (11)	3,623
Cost of Capital	363,086	5,856 (8) 2,296 (10) <u>143,993 (13)</u>	18,893 (1) 13,349 (9) <u>2,132 (11)</u>	480,857
Subtotal	6,297,355	192,350	349,148	6,140,557
Ancillary	451,386	5,273 (6) 44 (12)	-	456,703
Nonallowable	2,322,311	18,893 (1) 130,000 (5) 79,354 (7) 48,309 (9) 11,559 (11)	7,834 (8) 12,727 (10) 1,075 (12) 143,993 (13)	2,444,797
CNA Training and Testing	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Operating Expenses	<u>\$9,071,052</u>	<u>\$485,782</u>	<u>\$514,777</u>	<u>\$9,042,057</u>
Total Patient Days	<u>46,253</u>	<u>-</u>	<u>-</u>	<u>46,253</u>
Total Beds	<u>132</u>			

**OAKMONT EAST NURSING CENTER**  
Adjustment Report  
Cost Report Period Ended September 30, 2006  
AC# 3-OKE-J6

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Other Equity	\$310,924	
	Nonallowable	18,893	
	Fixed Assets		\$ 94,864
	Accumulated Depreciation		216,060
	Cost of Capital		18,893
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Retained Earnings	4,387	
	Accounts Payable		163
	Nursing		4,224
	To properly charge expense applicable to the prior period and adjust year-end accrual HIM-15-1, Sections 2302.1 and 2304		
3	Construction in Progress	15,863	
	Maintenance		15,863
	To properly record construction in progress HIM-15-1, Section 108		
4	Accounts Payable	3,366	
	Retained Earnings	5,542	
	Utilities		8,908
	To properly charge expense applicable to the prior period and adjust year-end accrual HIM-15-1, Sections 2302.1 and 2304		
5	Nonallowable	130,000	
	Taxes and Insurance		130,000
	To adjust liability insurance expense State Plan, Attachment 4.19D		

**OAKMONT EAST NURSING CENTER**  
Adjustment Report  
Cost Report Period Ended September 30, 2006  
AC# 3-OKE-J6

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Ancillary Medical Supplies	5,273	5,273
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		
7	Laundry	2,271	
	Maintenance	1,628	
	Administration	5,444	
	Medical Records	1,018	
	Medical Supplies	356	
	Nonallowable	79,354	
	Nursing		64,538
	Restorative		1,500
	Dietary		6,269
	Housekeeping		4,163
	Special Services		13,601
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
8	Administration	1,276	
	Taxes and Insurance	4,454	
	Cost of Capital	5,856	
	Nursing		196
	Restorative		2,378
	Laundry		1,021
	Maintenance		156
	Utilities		1
	Nonallowable		7,834
	To adjust shared service allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

**OAKMONT EAST NURSING CENTER**  
Adjustment Report  
Cost Report Period Ended September 30, 2006  
AC# 3-OKE-J6

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
9	Restorative	122	
	Dietary	6	
	Nonallowable	48,309	
	Nursing		6,835
	Maintenance		8
	Administration		21,141
	Legal		6,740
	Utilities		6
	Taxes and Insurance		258
	Medical Supplies		100
	Cost of Capital		13,349
	To adjust home office cost allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
10	Housekeeping	1,472	
	Maintenance	1,231	
	Administration	4,746	
	Legal	60	
	Utilities	1,023	
	Taxes and Insurance	1,899	
	Cost of Capital	2,296	
	Nonallowable		12,727
	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		
11	Nonallowable	11,559	
	Housekeeping		1,463
	Maintenance		1,145
	Administration		4,794
	Legal		22
	Utilities		973
	Taxes and Insurance		1,030
	Cost of Capital		2,132
	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, 2006  
AC# 3-OKE-J6

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
12	Special Services	13,199	
	Ancillary	44	
	Nursing		7,886
	Dietary		1,810
	Maintenance		247
	Medical Supplies		2,225
	Nonallowable		1,075
	To adjust special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
13	Cost of Capital	143,993	
	Nonallowable		143,993
	To adjust capital return State Plan, Attachment 4.19D		
		\$825,864	\$825,864
	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, 2006  
 AC# 3-OKE-J6

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.85382</u>
Deemed Asset Value (Per Bed)	44,571
Number of Beds	<u>132</u>
Deemed Asset Value	5,883,372
Improvements Since 1981	2,921,014
Accumulated Depreciation at 9/30/06	<u>(3,258,730)</u>
Deemed Depreciated Value	5,545,656
Market Rate of Return	<u>.0489</u>
Total Annual Return	271,183
Return Applicable to Non-Reimbursable Cost Centers	(1,918)
Allocation of Interest to Non-Reimbursable Cost Centers	<u>625</u>
Allowable Annual Return	269,890
Depreciation Expense	225,065
Amortization Expense	-
Capital Related Income Offsets	(11,966)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(2,132)</u>
Allowable Cost of Capital Expense	480,857
Total Patient Days (Minimum 96% Occupancy)	<u>46,253</u>
Cost of Capital Per Diem	\$ <u><u>10.40</u></u>

**OAKMONT EAST NURSING CENTER**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 2006  
AC# 3-OKE-J6

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>10.40</u>
Cost of Capital Per Diem Limitation	<u>\$(2.55)</u>

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