

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-OKW-J6 – HCR Manor Care d/b/a Oakmont West Nursing Home

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 WEST NURSING HOME
GREENVILLE, SOUTH CAROLINA**

**CONTRACT PERIODS
BEGINNING OCTOBER 1, 2007
AC# 3-OKW-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 West Nursing Home, 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 West Nursing Home 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 West Nursing Home, 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 West Nursing Home 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 WEST NURSING HOME
Computation of Rate Change
For the Contract Periods
Beginning October 1, 2007
AC# 3-OKW-J6

	<u>Beginning 10/01/07</u>
Interim Reimbursement Rate (1)	\$143.69
Adjusted Reimbursement Rate	<u>134.14</u>
Decrease in Reimbursement Rate	\$ <u><u>9.55</u></u>

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

OAKMONT WEST NURSING HOME
 Computation of Adjusted Reimbursement Rate
 For the Contract Periods Beginning October 1, 2007
 AC# 3-OKW-J6

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 66.93	\$ 82.94	
Dietary		13.84	13.85	
Laundry/Housekeeping/Maintenance		<u>11.90</u>	<u>12.55</u>	
Subtotal	<u>\$7.65</u>	92.67	109.34	\$ 92.67
Administration & Medical Records	<u>\$ -</u>	<u>19.57</u>	<u>18.22</u>	<u>18.22</u>
Subtotal		112.24	<u>\$127.56</u>	110.89
<u>Costs Not Subject to Standards:</u>				
Utilities		3.18		3.18
Special Services		-		-
Medical Supplies & Oxygen		3.70		3.70
Taxes and Insurance		2.97		2.97
Legal Fees		<u>.03</u>		<u>.03</u>
TOTAL		<u>\$122.12</u>		120.77
Inflation Factor (4.60%)				5.56
Cost of Capital				12.47
Cost of Capital Limitation				(6.91)
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>.50</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$134.14</u>

OAKMONT WEST NURSING HOME
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2006
 AC# 3-OKW-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	\$3,142,295	\$ 109 (9)	\$176,196 (6) 15,187 (6) 184 (8) 2,228 (8) 6,145 (9) 10,780 (12)	\$2,931,684
Dietary	626,474	6 (9)	20,448 (6)	606,032
Laundry	132,449	-	8,932 (6) 385 (8)	123,132
Housekeeping	216,816	1,886 (10)	1,888 (11)	216,814
Maintenance	190,249	21 (8) 1,621 (10)	2,678 (2) 6,315 (6) 6 (9) 1,545 (11) 248 (12)	181,099
Administration & Medical Records	907,691	2,128 (8) 4,045 (10)	30,153 (6) 3,411 (6) 19,006 (9) 3,921 (11) 79 (12)	857,294
Utilities	147,484	1,256 (10)	8,151 (3) 2 (8) 5 (9) 1,188 (11)	139,394
Special Services	22	24,488 (12)	24,489 (6)	21

OAKMONT WEST NURSING HOME
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2006
AC# 3-OKW-J6

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	<u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
Medical Supplies & Oxygen	197,693	-	1,129 (5) 1,193 (6) 90 (9) 33,115 (12)	162,166
Taxes and Insurance	230,943	4,906 (8) 1,894 (10)	95,000 (4) 11,155 (7) 232 (9) 1,069 (11)	130,287
Legal Fees	7,397	37 (10)	6,059 (9) 6 (11)	1,369
Cost of Capital	243,528	6,443 (8) 2,598 (10) <u>330,205</u> (13)	22,171 (1) 12,003 (9) <u>2,373</u> (11)	546,227
Subtotal	6,043,041	381,643	529,165	5,895,519
Ancillary	377,989	1,129 (5)	-	379,118
Nonallowable	1,809,167	22,171 (1) 95,000 (4) 286,324 (6) 43,431 (9) 11,990 (11) 19,734 (12)	10,699 (8) 13,337 (10) 330,205 (13)	1,933,576
CNA Training and Testing	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Operating Expenses	<u>\$8,230,197</u>	<u>\$861,422</u>	<u>\$883,406</u>	<u>\$8,208,213</u>
Total Patient Days	<u>43,800</u>	<u>-</u>	<u>-</u>	<u>43,800</u>
Total Beds	<u>125</u>			

OAKMONT WEST NURSING HOME
Adjustment Report
Cost Report Period Ended September 30, 2006
AC# 3-OKW-J6

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$290,760	
	Other Equity	24,565	
	Nonallowable	22,171	
	Fixed Assets		\$315,325
	Cost of Capital		22,171
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Construction in Progress	2,678	
	Maintenance		2,678
	To properly record construction in progress HIM-15-1, Section 108		
3	Accounts Payable	3,549	
	Retained Earnings	4,602	
	Utilities		8,151
	To properly charge expense applicable to the prior period and adjust year-end accrual HIM-15-1, Sections 2302.1 and 2304		
4	Nonallowable	95,000	
	Taxes and Insurance		95,000
	To adjust liability insurance expense State Plan Attachment 4.19D		
5	Ancillary	1,129	
	Medical Supplies		1,129
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		

OAKMONT WEST NURSING HOME
Adjustment Report
Cost Report Period Ended September 30, 2006
AC# 3-OKW-J6

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Nonallowable	286,324	
	Nursing		176,196
	Restorative		15,187
	Dietary		20,448
	Laundry		8,932
	Maintenance		6,315
	Administration		30,153
	Medical Records		3,411
	Medical Supplies		1,193
	Special Services		24,489
	To adjust fringe benefits and related allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
7	Intercompany	11,155	
	Taxes and Insurance		11,155
	To remove expense applicable to shared service laundry facility		
	HIM-15-1, Section 2304		
8	Maintenance	21	
	Administration	2,128	
	Taxes and Insurance	4,906	
	Cost of Capital	6,443	
	Nursing		184
	Restorative		2,228
	Laundry		385
	Utilities		2
	Nonallowable		10,699
	To adjust shared service allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		

OAKMONT WEST NURSING HOME
Adjustment Report
Cost Report Period Ended September 30, 2006
AC# 3-OKW-J6

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
9	Restorative	109	
	Dietary	6	
	Nonallowable	43,431	
	Nursing		6,145
	Maintenance		6
	Administration		19,006
	Legal		6,059
	Utilities		5
	Taxes and Insurance		232
	Medical Supplies		90
	Cost of Capital		12,003
	To adjust home office cost allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
10	Housekeeping	1,886	
	Maintenance	1,621	
	Administration	4,045	
	Legal	37	
	Utilities	1,256	
	Taxes and Insurance	1,894	
	Cost of Capital	2,598	
	Nonallowable		13,337
	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	11,990	
	Housekeeping		1,888
	Maintenance		1,545
	Administration		3,921
	Legal		6
	Utilities		1,188
	Taxes and Insurance		1,069
	Cost of Capital		2,373
	To remove indirect cost applicable to a non-reimbursable cost center		
	HIM-15-1, Section 2102.3		
	State Plan, Attachment 4.19D		

OAKMONT WEST NURSING HOME
 Adjustment Report
 Cost Report Period Ended September 30, 2006
 AC# 3-OKW-J6

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
12	Special Services	24,488	
	Nonallowable	19,734	
	Nursing		10,780
	Maintenance		248
	Administration		79
	Medical Supplies		33,115
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
13	Cost of Capital	330,205	
	Nonallowable		330,205
	To adjust capital return State Plan, Attachment 4.19D		
		_____	_____
	TOTAL ADJUSTMENTS	\$ <u>1,198,731</u>	\$ <u>1,198,731</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.

OAKMONT WEST NURSING HOME
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2006
 AC# 3-OKW-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>125</u>
Deemed Asset Value	5,571,375
Improvements since 1981	3,684,501
Accumulated Depreciation at 9/30/06	<u>(3,204,859)</u>
Deemed Depreciated Value	6,051,017
Market Rate of Return	<u>.0489</u>
Total Annual Return	295,895
Return Applicable to Non-Reimbursable Cost Centers	(2,407)
Allocation of Interest to Non-Reimbursable Cost Centers	<u>300</u>
Allowable Annual Return	293,788
Depreciation Expense	265,609
Amortization Expense	-
Capital Related Income Offsets	(10,797)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(2,373)</u>
Allowable Cost of Capital Expense	546,227
Total Patient Days (Minimum 96% Occupancy)	<u>43,800</u>
Cost of Capital Per Diem	\$ <u><u>12.47</u></u>

OAKMONT WEST NURSING HOME
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2006
AC# 3-OKW-J6

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$ 1.57
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	\$ <u>5.56</u>
Reimbursable Cost of Capital Per Diem	\$ 5.56
Cost of Capital Per Diem	<u>12.47</u>
Cost of Capital Per Diem Limitation	\$ <u>(6.91)</u>

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