



**South Carolina
Office of the State Auditor**

**George L. Kennedy, III, CPA
State Auditor**

April 19, 2016

Mr. Gary Geise
Divisional Director of Reimbursement Services
HCR – Manor Care
Post Office Box 10086
Toledo, Ohio 43699-0086

Re: AC# 3-ELH-J2 – Heartland – Charleston of Hanahan SC, LLC d/b/a Heartland Health
Care Center - Charleston

Dear Mr. Geise:

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, 2011 through September 30, 2012. That report was used to set the rate covering the contract period beginning October 1, 2013.

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.

Yours very truly,

A handwritten signature in blue ink that reads "George L. Kennedy, III".

George L. Kennedy, III, CPA
State Auditor

GLKIII/sag

cc: Mr. Jeff Saxon
Ms. Melissa Simmons
Mr. Byron Roberts
Ms. Nicole Mitchell Threat
Ms. Brittany Sandifer
Ms. Chari Preacher

**HEARTLAND – CHARLESTON OF HANAHAN SC, LLC D/B/A
HEARTLAND HEALTH CARE CENTER - CHARLESTON**

HANAHAN, SOUTH CAROLINA

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2013
AC# 3-ELH-J2**

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

February 24, 2016

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 Heartland – Charleston of Hanahan SC, LLC d/b/a Heartland Health Care Center - Charleston, for the contract period beginning October 1, 2013, and for the twelve month cost report period ended September 30, 2012, as set forth in the accompanying schedules. The management of Heartland – Charleston of Hanahan SC, LLC 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 Heartland – Charleston of Hanahan SC, LLC 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 Heartland – Charleston of Hanahan SC, LLC d/b/a Heartland Health Care Center - Charleston dated as of October 1, 2011, 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
February 24, 2016

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.



George L. Kennedy, III, CPA
State Auditor

HEARTLAND HEALTH CARE CENTER - CHARLESTON

Computation of Rate Change
For the Contract Period
Beginning October 1, 2013
AC# 3-ELH-J2

10/01/13-
09/30/14

Interim Reimbursement Rate (1)	\$179.69
Adjusted Reimbursement Rate	<u>146.33</u>
Decrease in Reimbursement Rate	<u>\$ 33.36</u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated January 12, 2015.

HEARTLAND HEALTH CARE CENTER - CHARLESTON
 Computation of Adjusted Reimbursement Rate
 For the Contract Period October 1, 2013 Through September 30, 2014
 AC# 3-ELH-J2

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 72.75	\$ 95.25	
Dietary		13.73	17.41	
Laundry/Housekeeping/Maintenance		<u>12.39</u>	<u>16.17</u>	
Subtotal	<u>\$9.02</u>	98.87	128.83	\$ 98.87
Administration & Medical Records	<u>\$3.10</u>	<u>20.61</u>	<u>23.71</u>	<u>20.61</u>
Subtotal		119.48	<u>\$152.54</u>	119.48
<u>Costs Not Subject to Standards:</u>				
Utilities		4.45		4.45
Special Services		.42		.42
Medical Supplies & Oxygen		4.18		4.18
Taxes and Insurance		6.29		6.29
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$134.82</u>		134.82
Inflation Factor (3.60%)				4.85
Cost of Capital				9.32
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				3.10
Cost Incentive				9.02
Effect of \$1.75 Cap on Cost/Profit Incentives				(10.37)
Budget Neutrality Adjustment (2.9241%)				<u>(4.41)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$146.33</u>

HEARTLAND HEALTH CARE CENTER - CHARLESTON
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2012
 AC# 3-ELH-J2

<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>	
General Services	\$2,885,994	\$ 27,614 (3) 1,675 (3) 54,247 (5)	\$762,347 (6) 54,709 (6) 2,397 (7)	\$2,150,077
Dietary	403,755	2,806 (3) 153,882 (5)	154,658 (6)	405,785
Laundry	56,039	310 (3) 21,359 (5)	21,444 (6)	56,264
Housekeeping	186,452	2,017 (3) 64,786 (5)	81,633 (6)	171,622
Maintenance	154,275	377 (3) 54,221 (5)	5,479 (1) 60,346 (6) 4,661 (7)	138,387
Administration & Medical Records	753,023	6,076 (3) 376 (3) 82,403 (5) 22,800 (5)	166,494 (6) 22,903 (6) 66,011 (7)	609,270
Utilities	143,588	49,725 (5)	61,392 (6) 544 (7)	131,377
Special Services	12,225	11,845 (3) 308,408 (8)	320,030 (4)	12,448
Medical Supplies & Oxygen	169,655	349 (3) 64,660 (5)	47,259 (4) 48,704 (6) 15,257 (8)	123,444

HEARTLAND HEALTH CARE CENTER - CHARLESTON
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2012
AC# 3-ELH-J2

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
Taxes and Insurance	202,897	66,248 (5)	82,587 (6) 591 (7)	185,967
Legal Fees	-	-	-	-
Cost of Capital	324,703	23,308 (5)	11,799 (1) 5,584 (2) 17,279 (6) 3,692 (7) 1,629 (8) <u>32,446 (9)</u>	275,582
Subtotal	5,292,606	1,019,492	2,051,875	4,260,223
Ancillary	424,063	1,541 (3) 82,214 (8)	-	507,818
Nonallowable	3,886,030	11,799 (1) 5,584 (2) 367,289 (4) 1,534,496 (6) 77,896 (7) 32,446 (9)	54,986 (3) 657,639 (5) 373,736 (8)	4,829,179
CNA Training and Testing	<u>336</u>	-	-	<u>336</u>
Total Operating Expenses	<u>\$9,603,035</u>	<u>\$3,132,757</u>	<u>\$3,138,236</u>	<u>\$9,597,556</u>
Total Patient Days	<u>29,544</u>	<u>11</u> (10)	<u>-</u>	<u>29,555</u>
Total Beds	<u>95</u>			

HEARTLAND HEALTH CARE CENTER - CHARLESTON
Adjustment Report
Cost Report Period Ended September 30, 2012
AC# 3-ELH-J2

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$ 15,394	
	Nonallowable	11,799	
	Fixed Assets		\$ 5,225
	Other Equity		4,690
	Maintenance		5,479
	Cost of Capital		11,799
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	5,584	
	Cost of Capital		5,584
	To adjust depreciation expense to comply with capital cost policy State Plan, Attachment 4.19D		
3	Nursing	27,614	
	Restorative	1,675	
	Dietary	2,806	
	Laundry	310	
	Housekeeping	2,017	
	Maintenance	377	
	Administration	6,076	
	Medical Records	376	
	Medical Supplies	349	
	Special Services	11,845	
	Ancillary	1,541	
	Nonallowable		54,986
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
4	Nonallowable	367,289	
	Medical Supplies		47,259
	Special Services		320,030
	To reclassify ancillary service cost to a non-reimbursable cost center HIM-15-1, Sections 2102.3 and 2304 State Plan, Attachment 4.19D		

HEARTLAND HEALTH CARE CENTER - CHARLESTON
Adjustment Report
Cost Report Period Ended September 30, 2012
AC# 3-ELH-J2

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Restorative	54,247	
	Dietary	153,882	
	Laundry	21,359	
	Housekeeping	64,786	
	Maintenance	54,221	
	Administration	82,403	
	Medical Records	22,800	
	Utilities	49,725	
	Taxes and Insurance	66,248	
	Medical Supplies	64,660	
	Cost of Capital	23,308	
	Nonallowable		657,639
	To reverse DH&HS adjustment to remove indirect cost applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
6	Nonallowable	1,534,496	
	Nursing		762,347
	Restorative		54,709
	Dietary		154,658
	Laundry		21,444
	Housekeeping		81,633
	Maintenance		60,346
	Administration		166,494
	Medical Records		22,903
	Utilities		61,392
	Taxes and Insurance		82,587
	Medical Supplies		48,704
	Cost of Capital		17,279
	To remove indirect cost applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		

HEARTLAND HEALTH CARE CENTER - CHARLESTON
Adjustment Report
Cost Report Period Ended September 30, 2012
AC# 3-ELH-J2

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
7	Nonallowable	77,896	
	Nursing		2,397
	Maintenance		4,661
	Administration		66,011
	Utilities		544
	Taxes and Insurance		591
	Cost of Capital		3,692
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
8	Special Services	308,408	
	Ancillary	82,214	
	Medical Supplies		15,257
	Cost of Capital		1,629
	Nonallowable		373,736
	To remove special (ancillary) services reimbursed by Medicare and reclassify expense to the proper cost center State Plan, Attachment 4.19D DH&HS Expense Crosswalk		
9	Nonallowable	32,446	
	Cost of Capital		32,446
	To adjust capital return State Plan, Attachment 4.19D		

HEARTLAND HEALTH CARE CENTER - CHARLESTON
 Adjustment Report
 Cost Report Period Ended September 30, 2012
 AC# 3-ELH-J2

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
10	<u>Memo Adjustment:</u> To increase total patient days by 11 to 29,555		
	TOTAL ADJUSTMENTS	<u>\$3,148,151</u>	<u>\$3,148,151</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, 2012
 AC# 3-ELH-J2

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>3.21571</u>	<u>3.21571</u>	
Deemed Asset Value (Per Bed)	50,223	50,223	
Number of Beds	<u>83</u>	<u>12</u>	
Deemed Asset Value	4,168,509	602,676	
Improvements Since 1981	1,293,020	69,248	
Accumulated Depreciation at 9/30/12	<u>(2,469,231)</u>	<u>(190,821)</u>	
Deemed Depreciated Value	2,992,298	481,103	
Market Rate of Return	<u>.0369</u>	<u>.0369</u>	
Total Annual Return	110,416	17,753	
Return Applicable to Non-Reimbursable Cost Centers	(6,444)	(1,035)	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>7,249</u>	<u>931</u>	
Allowable Annual Return	111,221	17,649	
Depreciation Expense	136,174	27,103	
Amortization Expense	1,047	151	
Capital Related Income Offsets	(423)	(61)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(14,821)</u>	<u>(2,458)</u>	<u>Total</u>
Allowable Cost of Capital Expense	233,198	42,384	\$275,582
Total Patient Days	<u>25,822</u>	<u>3,733</u>	<u>29,555</u>
Cost of Capital Per Diem	\$ <u>9.03</u>	\$ <u>11.35</u>	\$ <u>9.32</u>

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