



**South Carolina
Office of the State Auditor**

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

March 30, 2016

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

Re: AC# 3-MAN-J1 – Lexington Rehabilitation and Nursing Center – Lexington SC, LLC d/b/a
Heartland of Lexington Rehabilitation and Nursing Center

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, 2010 through September 30, 2011. That report was used to set the rate covering the contract period beginning October 1, 2012.

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

**LEXINGTON REHABILITATION AND NURSING CENTER –
LEXINGTON SC, LLC D/B/A HEARTLAND OF LEXINGTON
REHABILITATION AND NURSING CENTER**

WEST COLUMBIA, SOUTH CAROLINA

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2012
AC# 3-MAN-J1**

AGREED-UPON PROCEDURES REPORT

ON CONTRACT

FOR

PURCHASE OF NURSING CARE SERVICES

WITH

STATE OF SOUTH CAROLINA

DEPARTMENT OF HEALTH AND HUMAN SERVICES

CONTENTS

	<u>EXHIBIT OR SCHEDULE</u>	<u>PAGE</u>
INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES		1
COMPUTATION OF RATE CHANGE FOR THE CONTRACT PERIOD BEGINNING OCTOBER 1, 2012	A	3
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIOD OCTOBER 1, 2012 THROUGH SEPTEMBER 30, 2013	B	4
SUMMARY OF COSTS AND TOTAL PATIENT DAYS FOR THE COST REPORT PERIOD ENDED SEPTEMBER 30, 2011	C	5
ADJUSTMENT REPORT	1	7
COST OF CAPITAL REIMBURSEMENT ANALYSIS	2	11



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

October 30, 2015

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 Lexington Rehabilitation and Nursing Center – Lexington SC, LLC d/b/a Heartland of Lexington Rehabilitation and Nursing Center, for the contract period beginning October 1, 2012, and for the twelve month cost report period ended September 30, 2011, as set forth in the accompanying schedules. The management of Lexington Rehabilitation and Nursing Center – Lexington SC, LLC 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 Lexington Rehabilitation and Nursing Center – Lexington SC, LLC 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 Lexington Rehabilitation and Nursing Center – Lexington SC, LLC d/b/a Heartland of Lexington Rehabilitation and Nursing Center 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
October 30, 2015

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 OF LEXINGTON REHABILITATION AND NURSING CENTER

Computation of Rate Change
For the Contract Period
Beginning October 1, 2012
AC# 3-MAN-J1

10/01/12-
09/30/13

Interim Reimbursement Rate (1)	\$166.83
Adjusted Reimbursement Rate	<u>162.25</u>
Decrease in Reimbursement Rate	\$ <u>4.58</u>

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

HEARTLAND OF LEXINGTON REHABILITATION AND NURSING CENTER
 Computation of Adjusted Reimbursement Rate
 For the Contract Period October 1, 2012 Through September 30, 2013
 AC# 3-MAN-J1

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 88.10	\$101.11	
Dietary		15.36	17.37	
Laundry/Housekeeping/Maintenance		<u>13.17</u>	<u>15.73</u>	
Subtotal	<u>\$9.39</u>	116.63	134.21	\$116.63
Administration & Medical Records	<u>\$.75</u>	<u>22.20</u>	<u>22.95</u>	<u>22.20</u>
Subtotal		138.83	<u>\$157.16</u>	138.83
<u>Costs Not Subject to Standards:</u>				
Utilities		4.63		4.63
Special Services		1.27		1.27
Medical Supplies & Oxygen		5.31		5.31
Taxes and Insurance		6.28		6.28
Legal Fees		<u>.02</u>		<u>.02</u>
TOTAL		<u>\$156.34</u>		156.34
Inflation Factor (N/A)				-
Cost of Capital				12.78
Cost of Capital Limitation				(2.20)
Profit Incentive (Maximum 3.5% of Allowable Cost)				.75
Cost Incentive				9.39
Effect of \$1.75 Cap on Cost/Profit Incentives				(8.39)
Budget Neutrality Adjustment (3.805%)				<u>(6.42)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$162.25</u>

HEARTLAND OF LEXINGTON REHABILITATION AND NURSING CENTER

Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2011
 AC# 3-MAN-J1

<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	\$3,968,837	\$ 4,782 (7) 681 (10) 5,008 (10)	\$ 7,474 (3) 56,561 (4) 9,943 (9)	\$3,905,330
Dietary	680,931	1,392 (10)	1,285 (9)	681,038
Laundry	83,389	4,542 (5)	-	87,931
Housekeeping	303,296	1,574 (11)	33,817 (5) 1,399 (12)	269,654
Maintenance	250,470	1,232 (11)	7,652 (1) 6,405 (6) 10,225 (9) 4 (10) 1,112 (12)	226,304
Administration & Medical Records	1,018,289	7,474 (3) 2,016 (11)	4,782 (7) 972 (9) 3,071 (9) 32,866 (10) 1,906 (12) 183 (13)	983,999
Utilities	205,253	31 (10) 1,009 (11)	1,009 (12)	205,284
Special Services	56,136	3 (10)	2 (13)	56,137
Medical Supplies & Oxygen	284,692	56,561 (4)	105,951 (13)	235,302
Taxes and Insurance	279,940	150 (10) 1,312 (11)	1,781 (8) 1,304 (12)	278,317
Legal Fees	1,005	2 (11)	2 (12)	1,005

HEARTLAND OF LEXINGTON REHABILITATION AND NURSING CENTER

Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2011
AC# 3-MAN-J1

<u>Expenses</u>	Totals (From Schedule SC 13) as Adjusted by DH&HS	Adjustments <u>Debit</u>	<u>Credit</u>	Adjusted <u>Totals</u>
Cost of Capital	478,815	260 (2) 1,815 (11) 95,507 (14)	3,378 (1) 3,947 (10) 1,486 (12) 912 (13)	566,674
	-----	-----	-----	-----
Subtotal	7,611,053	185,351	299,429	7,496,975
Ancillary	533,604	53,333 (13)	-	586,937
Nonallowable	3,129,453	3,378 (1) 29,275 (5) 6,405 (6) 29,552 (10) 8,218 (12) 53,715 (13)	260 (2) 8,960 (11) 95,507 (14)	3,155,269
CNA Training and Testing	588	-	-	588
Total Operating Expenses	<u>\$11,274,698</u>	<u>\$369,227</u>	<u>\$404,156</u>	<u>\$11,239,769</u>
Total Patient Days	<u>44,326</u>	<u>-</u>	<u>-</u>	<u>44,326</u>
Total Beds	<u>132</u>			

HEARTLAND OF LEXINGTON REHABILITATION AND NURSING CENTER
Adjustment Report
Cost Report Period Ended September 30, 2011
AC# 3-MAN-J1

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$ 7,652	
	Other Equity	499	
	Nonallowable	3,378	
	Accumulated Depreciation		\$ 499
	Maintenance		7,652
	Cost of Capital		3,378
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Cost of Capital	260	
	Nonallowable		260
	To adjust depreciation expense to comply with capital cost policy State Plan, Attachment 4.19D		
3	Administration	7,474	
	Nursing		7,474
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		
4	Medical Supplies	56,561	
	Nursing		56,561
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		
5	Laundry	4,542	
	Nonallowable	29,275	
	Housekeeping		33,817
	To adjust laundry and housekeeping expense HIM-15-1, Section 2304 DH&HS Expense Crosswalk		

HEARTLAND OF LEXINGTON REHABILITATION AND NURSING CENTER
Adjustment Report
Cost Report Period Ended September 30, 2011
AC# 3-MAN-J1

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Nonallowable Maintenance	6,405	6,405
	To disallow duplicate expense HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
7	Nursing Administration	4,782	4,782
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		
8	Accounts Payable Taxes and Insurance	1,781	1,781
	To adjust liability insurance expense HIM-15-1, Sections 2302.1 and 2304 State Plan Attachment 4.19D		
9	Retained Earnings	25,496	
	Nursing		9,943
	Dietary		1,285
	Maintenance		10,225
	Administration		972
	Medical Records		3,071
	To properly charge expense applicable to the prior period HIM-15-1, Section 2302.1		

HEARTLAND OF LEXINGTON REHABILITATION AND NURSING CENTER
Adjustment Report
Cost Report Period Ended September 30, 2011
AC# 3-MAN-J1

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
10	Nursing	681	
	Restorative	5,008	
	Dietary	1,392	
	Utilities	31	
	Taxes and Insurance	150	
	Special Services	3	
	Nonallowable	29,552	
	Maintenance		4
	Administration		32,866
	Cost of Capital		3,947
	To adjust home office cost allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
11	Housekeeping	1,574	
	Maintenance	1,232	
	Administration	2,016	
	Legal	2	
	Utilities	1,009	
	Taxes and Insurance	1,312	
	Cost of Capital	1,815	
	Nonallowable		8,960
	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		
12	Nonallowable	8,218	
	Housekeeping		1,399
	Maintenance		1,112
	Administration		1,906
	Legal		2
	Utilities		1,009
	Taxes and Insurance		1,304
	Cost of Capital		1,486
	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, 2011
AC# 3-MAN-J1

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
13	Ancillary	53,333	
	Nonallowable	53,715	
	Administration		183
	Medical Supplies		105,951
	Special Services		2
	Cost of Capital		912
	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		
14	Cost of Capital	95,507	
	Nonallowable		95,507
	To adjust capital return State Plan, Attachment 4.19D		
		\$404,655	\$404,655
	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.

HEARTLAND OF LEXINGTON REHABILITATION AND NURSING CENTER
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2011
 AC# 3-MAN-J1

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>3.1821</u>	<u>3.1821</u>	
Deemed Asset Value (Per Bed)	49,698	49,698	
Number of Beds	<u>120</u>	<u>12</u>	
Deemed Asset Value	5,963,760	596,376	
Improvements Since 1981	4,271,224	42,475	
Accumulated Depreciation at 9/30/11	<u>(4,286,672)</u>	<u>(222,478)</u>	
Deemed Depreciated Value	5,948,312	416,373	
Market Rate of Return	<u>.0408</u>	<u>.0408</u>	
Total Annual Return	242,691	16,988	
Return Applicable to Non-Reimbursable Cost Centers	(1,133)	(78)	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>35</u>	<u>3</u>	
Allowable Annual Return	241,593	16,913	
Depreciation Expense	301,603	12,721	
Amortization Expense	-	-	
Capital Related Income Offsets	(4,246)	(424)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(1,426)</u>	<u>(60)</u>	<u>Total</u>
Allowable Cost of Capital Expense	537,524	29,150	\$566,674
Total Patient Days (Minimum 92% Occupancy)	<u>40,296</u>	<u>4,030</u>	<u>44,326</u>
Cost of Capital Per Diem	\$ <u><u>13.34</u></u>	\$ <u><u>7.23</u></u>	\$ <u><u>12.78</u></u>

HEARTLAND OF LEXINGTON REHABILITATION AND NURSING CENTER

Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2011
AC# 3-MAN-J1

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>\$7.23</u>
Reimbursable Cost of Capital Per Diem		\$10.58
Cost of Capital Per Diem		<u>12.78</u>
Cost of Capital Per Diem Limitation		<u>\$(2.20)</u>

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