



**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-MAN-J2 – 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, 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/cwc

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, 2013
AC# 3-MAN-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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**South Carolina
Office of the State Auditor**

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State Auditor**

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

January 20, 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 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, 2013, and for the twelve month cost report period ended September 30, 2012, 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
January 20, 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 OF LEXINGTON REHABILITATION AND NURSING CENTER

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

| | 10/01/13- <u>09/30/14</u> |
|--------------------------------|------------------------------|
| Interim Reimbursement Rate (1) | \$163.17 |
| Adjusted Reimbursement Rate | <u>159.45</u> |
| Decrease in Reimbursement Rate | \$ <u><u>3.72</u></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, 2013 Through September 30, 2014
 AC# 3-MAN-J2

| | <u>Incentives</u> | <u>Allowable Cost</u> | <u>Cost Standard</u> | <u>Computed Rate</u> |
|---|-------------------|---------------------------|--------------------------|--------------------------|
| <u>Costs Subject to Standards:</u> | | | | |
| General Services | | \$ 79.08 | \$ 99.52 | |
| Dietary | | 16.38 | 17.31 | |
| Laundry/Housekeeping/Maintenance | | <u>16.53</u> | <u>15.32</u> | |
| Subtotal | <u>\$9.25</u> | 111.99 | 132.15 | \$111.99 |
| Administration & Medical Records | <u>\$1.98</u> | <u>20.31</u> | <u>22.29</u> | <u>20.31</u> |
| Subtotal | | 132.30 | <u>\$154.44</u> | 132.30 |
| <u>Costs Not Subject to Standards:</u> | | | | |
| Utilities | | 4.63 | | 4.63 |
| Special Services | | .14 | | .14 |
| Medical Supplies & Oxygen | | 5.89 | | 5.89 |
| Taxes and Insurance | | 3.70 | | 3.70 |
| Legal Fees | | <u>-</u> | | <u>-</u> |
| TOTAL | | <u>\$146.66</u> | | 146.66 |
| Inflation Factor (3.60%) | | | | 5.28 |
| Cost of Capital | | | | 12.71 |
| Cost of Capital Limitation | | | | (2.15) |
| Profit Incentive (Maximum 3.5% of Allowable Cost) | | | | 1.98 |
| Cost Incentive | | | | 9.25 |
| Effect of \$1.75 Cap on Cost/Profit Incentives | | | | (9.48) |
| Budget Neutrality Adjustment (2.9241%) | | | | <u>(4.80)</u> |
| ADJUSTED REIMBURSEMENT RATE | | | | <u>\$159.45</u> |

HEARTLAND OF LEXINGTON REHABILITATION AND NURSING CENTER

Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2012
 AC# 3-MAN-J2

| <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 | \$3,609,088 | \$ - | \$16,790 (3) 72,098 (6) 5,549 (6) | \$3,514,651 |
| Dietary | 737,415 | - | 9,176 (6) | 728,239 |
| Laundry | 88,956 | - | - | 88,956 |
| Housekeeping | 313,867 | 1,628 (7) | 1,444 (8) | 314,051 |
| Maintenance | 358,484 | 1,762 (7) | 24,175 (1) 2,281 (6) 1,632 (8) 351 (9) | 331,807 |
| Administration & Medical Records | 907,723 | 1,727 (7) | 3,891 (6) 836 (6) 1,708 (8) 154 (9) | 902,861 |
| Utilities | 205,810 | 1,011 (7) | 1,011 (8) | 205,810 |
| Special Services | 2,072 | 25,507 (9) | 21,544 (6) | 6,035 |
| Medical Supplies & Oxygen | 286,572 | 16,790 (3) | 1,066 (6) 40,361 (9) | 261,935 |

HEARTLAND OF LEXINGTON REHABILITATION AND NURSING CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2012
AC# 3-MAN-J2

| <u>Expenses</u> | Totals (From Schedule SC 13) as Adjusted by DH&HS | Adjustments <u>Debit</u> | <u>Credit</u> | <u>Adjusted Totals</u> |
|-----------------------------|---|---|--|----------------------------|
| Taxes and Insurance | 162,539 | 1,781 (5) 760 (7) | 769 (8) | 164,311 |
| Legal Fees | - | - | - | - |
| Cost of Capital | 480,219 | 17,015 (1) 105,909 (4) <u>1,787 (7)</u> | 36,293 (2) 1,565 (8) <u>2,064 (9)</u> | 565,008 |
| Subtotal | 7,152,745 | 175,677 | 244,758 | 7,083,664 |
| Ancillary | 393,601 | 1,254 (6) 30,889 (9) | - | 425,744 |
| Nonallowable | 2,195,394 | 36,293 (2) 115,187 (6) 8,129 (8) | 15,975 (1) 105,909 (4) 8,675 (7) 13,466 (9) | 2,210,978 |
| CNA Training and Testing | <u>252</u> | <u>-</u> | <u>-</u> | <u>252</u> |
| Total Operating Expenses | <u>\$9,741,992</u> | <u>\$367,429</u> | <u>\$388,783</u> | <u>\$9,720,638</u> |
| Total Patient Days | <u>44,447</u> | <u>-</u> | <u>-</u> | <u>44,447</u> |
| Total Beds | <u>132</u> | | | |

HEARTLAND OF LEXINGTON REHABILITATION AND NURSING CENTER
Adjustment Report
Cost Report Period Ended September 30, 2012
AC# 3-MAN-J2

| <u>ADJUSTMENT</u> <u>NUMBER</u> | <u>ACCOUNT TITLE</u> | <u>DEBIT</u> | <u>CREDIT</u> |
|------------------------------------|---|--------------|---------------|
| 1 | Fixed Assets | \$ 30,788 | |
| | Other Equity | 9,859 | |
| | Cost of Capital | 17,015 | |
| | Accumulated Depreciation | | \$ 17,512 |
| | Maintenance | | 24,175 |
| | Nonallowable | | 15,975 |
| | To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D | | |
| 2 | Nonallowable | 36,293 | |
| | Cost of Capital | | 36,293 |
| | To adjust depreciation expense to comply with capital cost policy State Plan, Attachment 4.19D | | |
| 3 | Medical Supplies | 16,790 | |
| | Nursing | | 16,790 |
| | To reclassify expense to the proper cost center DH&HS Expense Crosswalk | | |
| 4 | Cost of Capital | 105,909 | |
| | Nonallowable | | 105,909 |
| | To adjust capital return State Plan, Attachment 4.19D | | |
| 5 | Taxes and Insurance | 1,781 | |
| | Retained Earnings | | 1,781 |
| | To adjust liability insurance expense HIM-15-1, Sections 2302.1 and 2304 State Plan, Attachment 4.19D | | |

HEARTLAND OF LEXINGTON REHABILITATION AND NURSING CENTER
Adjustment Report
Cost Report Period Ended September 30, 2012
AC# 3-MAN-J2

| <u>ADJUSTMENT</u> <u>NUMBER</u> | <u>ACCOUNT TITLE</u> | <u>DEBIT</u> | <u>CREDIT</u> |
|------------------------------------|--|--------------|---------------|
| 6 | Ancillary | 1,254 | |
| | Nonallowable | 115,187 | |
| | Nursing | | 72,098 |
| | Restorative | | 5,549 |
| | Dietary | | 9,176 |
| | Maintenance | | 2,281 |
| | Administration | | 3,891 |
| | Medical Records | | 836 |
| | Medical Supplies | | 1,066 |
| | Special Services | | 21,544 |
| | To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D | | |
| 7 | Housekeeping | 1,628 | |
| | Maintenance | 1,762 | |
| | Administration | 1,727 | |
| | Utilities | 1,011 | |
| | Taxes and Insurance | 760 | |
| | Cost of Capital | 1,787 | |
| | Nonallowable | | 8,675 |
| | 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 | | |
| 8 | Nonallowable | 8,129 | |
| | Housekeeping | | 1,444 |
| | Maintenance | | 1,632 |
| | Administration | | 1,708 |
| | Utilities | | 1,011 |
| | Taxes and Insurance | | 769 |
| | Cost of Capital | | 1,565 |
| | 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, 2012
AC# 3-MAN-J2

| <u>ADJUSTMENT NUMBER</u> | <u>ACCOUNT TITLE</u> | <u>DEBIT</u> | <u>CREDIT</u> |
|------------------------------|---|--------------|---------------|
| 9 | Special Services | 25,507 | |
| | Ancillary | 30,889 | |
| | Maintenance | | 351 |
| | Administration | | 154 |
| | Medical Supplies | | 40,361 |
| | Cost of Capital | | 2,064 |
| | Nonallowable | | 13,466 |
| | 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 | | |
| | TOTAL ADJUSTMENTS | \$408,076 | \$408,076 |

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, 2012
AC# 3-MAN-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>120</u> | <u>12</u> | |
| Deemed Asset Value | 6,026,760 | 602,676 | |
| Improvements Since 1981 | 4,777,297 | 50,384 | |
| Accumulated Depreciation at 9/30/12 | (4,586,228) | (234,289) | |
| Deemed Depreciated Value | 6,217,829 | 418,771 | |
| Market Rate of Return | <u>.0369</u> | <u>.0369</u> | |
| Total Annual Return | 229,438 | 15,453 | |
| Return Applicable to Non-Reimbursable Cost Centers | (1,069) | (71) | |
| Allocation of Interest to Non-Reimbursable Cost Centers | <u>51</u> | <u>1</u> | |
| Allowable Annual Return | 228,420 | 15,383 | |
| Depreciation Expense | 309,058 | 12,761 | |
| Amortization Expense | 1,545 | 154 | |
| Capital Related Income Offsets | (679) | (69) | |
| Allocation of Capital Expenses to Non-Reimbursable Cost Centers | <u>(1,504)</u> | <u>(61)</u> | <u>Total</u> |
| Allowable Cost of Capital Expense | 536,840 | 28,168 | \$565,008 |
| Total Patient Days (Minimum 92% Occupancy) | <u>40,406</u> | <u>4,041</u> | <u>44,447</u> |
| Cost of Capital Per Diem | \$ <u>13.29</u> | \$ <u>6.97</u> | \$ <u>12.71</u> |

HEARTLAND OF LEXINGTON REHABILITATION AND NURSING CENTER
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2012
 AC# 3-MAN-J2

| | | |
|--|-----------------|---------------|
| 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>\$6.97</u> |
| Reimbursable Cost of Capital Per Diem | \$10.56 | |
| Cost of Capital Per Diem | <u>12.71</u> | |
| Cost of Capital Per Diem Limitation | <u>\$(2.15)</u> | |

2 copies of this document were published at an estimated printing cost of \$1.41 each, and a total printing cost of \$2.82. Section 1-11-425 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.