



**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-MNC-J2 – West Ashley Rehabilitation and Nursing Center – Charleston SC, LLC
d/b/a Heartland of West Ashley 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 payable for amounts underpaid as a result of the rate changes shown on Exhibit A. You will be notified of settlement 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

**WEST ASHLEY REHABILITATION AND NURSING
CENTER – CHARLESTON SC, LLC D/B/A
HEARTLAND OF WEST ASHLEY REHABILITATION
AND NURSING CENTER**

CHARLESTON, SOUTH CAROLINA

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2013
AC# 3-MNC-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 8, 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 West Ashley Rehabilitation and Nursing Center – Charleston SC, LLC d/b/a Heartland of West Ashley 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 West Ashley Rehabilitation and Nursing Center – Charleston SC, LLC d/b/a Heartland of West Ashley 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 West Ashley Rehabilitation and Nursing Center – Charleston SC, LLC d/b/a Heartland of West Ashley 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 West Ashley Rehabilitation and Nursing Center – Charleston SC, LLC d/b/a Heartland of West Ashley 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
February 8, 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 WEST ASHLEY REHABILITATION AND NURSING CENTER

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

10/01/13-
09/30/14

Adjusted Reimbursement Rate	\$175.76
Interim Reimbursement Rate (1)	<u>171.22</u>
Increase in Reimbursement Rate	\$ <u><u>4.54</u></u>

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

HEARTLAND OF WEST ASHLEY REHABILITATION AND NURSING CENTER
 Computation of Adjusted Reimbursement Rate
 For the Contract Period October 1, 2013 Through September 30, 2014
 AC# 3-MNC-J2

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$108.14	\$ 81.19	
Dietary		17.96	18.41	
Laundry/Housekeeping/Maintenance		<u>16.56</u>	<u>17.68</u>	
Subtotal	\$ <u>-</u>	142.66	117.28	\$117.28
Administration & Medical Records	<u>\$3.58</u>	<u>29.03</u>	<u>32.61</u>	<u>29.03</u>
Subtotal		171.69	<u>\$149.89</u>	146.31
<u>Costs Not Subject to Standards:</u>				
Utilities		5.40		5.40
Special Services		.76		.76
Medical Supplies & Oxygen		3.55		3.55
Taxes and Insurance		6.44		6.44
Legal Fees		<u>.04</u>		<u>.04</u>
TOTAL		<u>\$187.88</u>		162.50
Inflation Factor (3.60%)				5.85
Cost of Capital				17.34
Cost of Capital Limitation				(6.39)
Profit Incentive (Maximum 3.5% of Allowable Cost)				3.58
Cost Incentive				-
Effect of \$1.75 Cap on Cost/Profit Incentives				(1.83)
Budget Neutrality Adjustment (2.9241%)				<u>(5.29)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$175.76</u>

HEARTLAND OF WEST ASHLEY REHABILITATION AND NURSING CENTER

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

<u>Expenses</u>	Totals (From Schedule SC 13) as Adjusted by DH&HS	Adjustments		Adjusted Totals
		<u>Debit</u>	<u>Credit</u>	
General Services	\$3,091,060	\$79,394 (4) 6,682 (4)	\$2,037,829 (7) 150,554 (7) 5,695 (8)	\$983,058
Dietary	518,651	9,107 (4)	364,460 (7)	163,298
Laundry	106,741	1,904 (4)	75,027 (7)	33,618
Housekeeping	266,830	7,108 (4) 1,620 (6)	207,426 (7)	68,132
Maintenance	201,961	165 (4) 1,194 (6)	10,776 (2) 132,653 (7) 11,071 (8)	48,820
Administration & Medical Records	866,496	12,930 (4) 1,042 (4) 2,416 (6)	10 (5) 409,863 (7) 52,349 (7) 156,780 (8) 5 (9)	263,877
Utilities	193,056	1,140 (6)	143,795 (7) 1,291 (8)	49,110
Special Services	24,825	37,244 (4) 853,085 (9)	908,246 (5)	6,908
Medical Supplies & Oxygen	257,088	472 (4)	128,970 (5) 66,700 (7) 29,661 (9)	32,229

HEARTLAND OF WEST ASHLEY REHABILITATION AND NURSING CENTER

Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2012
AC# 3-MNC-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>	
Taxes and Insurance	204,857	2,627 (3) 1,173 (6)	148,728 (7) 1,403 (8)	58,526
Legal Fees	1,496	4 (6)	1,098 (7)	402
Cost of Capital	365,018	1,920 (6) 169,695 (10)	313,468 (1) 55,280 (7) 8,768 (8) 1,508 (9)	157,609
Subtotal	6,098,079	1,190,922	5,423,414	1,865,587
Ancillary	472,563	1,293 (4) 31,426 (9)	-	505,282
Nonallowable	3,270,451	313,468 (1) 10,776 (2) 1,037,226 (5) 3,845,762 (7) 185,008 (8)	157,341 (4) 9,467 (6) 853,337 (9) 169,695 (10)	7,472,851
CNA Training and Testing	392	-	-	392
Total Operating Expenses	<u>\$9,841,485</u>	<u>\$6,615,881</u>	<u>\$6,613,254</u>	<u>\$9,844,112</u>
Total Patient Days	<u>33,335</u>	<u>-</u>	<u>24,244</u> (11)	<u>9,091</u>
Total Beds	<u>27</u>			

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

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$4,640,722	
	Other Equity	1,356,023	
	Nonallowable	313,468	
	Fixed Assets		\$5,996,745
	Cost of Capital		313,468
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	10,776	
	Maintenance		10,776
	To remove cost applicable to a non-reimbursable cost center HIM-15-1, Section 2102.3		
3	Taxes and Insurance	2,627	
	Retained Earnings		2,627
	To adjust liability insurance expense HIM-15-1, Sections 2302.1 and 2304 State Plan, Attachment 4.19D		
4	Nursing	79,394	
	Restorative	6,682	
	Dietary	9,107	
	Laundry	1,904	
	Housekeeping	7,108	
	Maintenance	165	
	Administration	12,930	
	Medical Records	1,042	
	Medical Supplies	472	
	Special Services	37,244	
	Ancillary	1,293	
	Nonallowable		157,341
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

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

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Nonallowable	1,037,226	
	Administration		10
	Medical Supplies		128,970
	Special Services		908,246
	To reclassify ancillary service cost to a non-reimbursable center HIM-15-1, Sections 2102.3 and 2304 State Plan, Attachment 4.19D		
6	Housekeeping	1,620	
	Maintenance	1,194	
	Administration	2,416	
	Legal	4	
	Utilities	1,140	
	Taxes and Insurance	1,173	
	Cost of Capital	1,920	
	Nonallowable		9,467
	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		
7	Nonallowable	3,845,762	
	Nursing		2,037,829
	Restorative		150,554
	Dietary		364,460
	Laundry		75,027
	Housekeeping		207,426
	Maintenance		132,653
	Administration		409,863
	Medical Records		52,349
	Legal		1,098
	Utilities		143,795
	Taxes and Insurance		148,728
	Medical Supplies		66,700
	Cost of Capital		55,280
	To remove indirect cost applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		

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

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
8	Nonallowable	185,008	
	Nursing		5,695
	Maintenance		11,071
	Administration		156,780
	Utilities		1,291
	Taxes and Insurance		1,403
	Cost of Capital		8,768
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
9	Special Services	853,085	
	Ancillary	31,426	
	Administration		5
	Medical Supplies		29,661
	Cost of Capital		1,508
	Nonallowable		853,337
	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		
10	Cost of Capital	169,695	
	Nonallowable		169,695
	To adjust capital return State Plan, Attachment 4.19D		

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

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
11	<u>Memo Adjustment</u> To decrease total patient days by 24,244 to 9,091		
	TOTAL ADJUSTMENTS	<hr style="width: 100%;"/> <u>\$12,612,626</u>	<hr style="width: 100%;"/> <u>\$12,612,626</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 OF WEST ASHLEY REHABILITATION AND NURSING CENTER
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2012
 AC# 3-MNC-J2

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>3.21571</u>
Deemed Asset Value (Per Bed)	50,223
Number of Beds	<u>27</u>
Deemed Asset Value	1,356,021
Improvements Since 1981	2,891,785
Accumulated Depreciation at 9/30/12	<u>(3,111,607)</u>
Deemed Depreciated Value	1,136,199
Market Rate of Return	<u>.0369</u>
Total Annual Return	41,926
Return Applicable to Non-Reimbursable Cost Centers	(13,038)
Allocation of Interest to Non-Reimbursable Cost Centers	<u>661</u>
Allowable Annual Return	29,549
Depreciation Expense	183,079
Amortization Expense	486
Capital Related Income Offsets	(225)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(55,280)</u>
Allowable Cost of Capital Expense	157,609
Total Patient Days (Minimum 92% Occupancy)	<u>9,091</u>
Cost of Capital Per Diem	\$ <u><u>17.34</u></u>

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

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$ 6.96
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$10.95</u>
Reimbursable Cost of Capital Per Diem	\$10.95
Cost of Capital Per Diem	<u>17.34</u>
Cost of Capital Per Diem Limitation	<u>\$(6.39)</u>

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