

# 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

(803) 253-4160  
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December 14, 2007

Mr. John Twitty, Controller  
Health Management Resources  
101 Grace Drive  
Easley, South Carolina 29640

Re: AC# 3-BHC-J3 – Blue Ridge Nursing Center

Dear Mr. Twitty:

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, 2002 through September 30, 2003. That report was used to set the rate covering the contract period beginning October 1, 2004.

We are recommending that the Department of Health and Human Services certify an accounts payable for the amounts owed as a result of the rate change shown at Exhibit A. You will be notified of payment 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/ms

cc: Ms. Brenda L. Hyleman  
Mr. Jeff Saxon  
Ms. Kathleen C. Snider

**BLUE RIDGE NURSING CENTER  
EASLEY, SOUTH CAROLINA**

**CONTRACT PERIOD  
BEGINNING OCTOBER 1, 2004  
AC# 3-BHC-J3**

**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

August 3, 2007

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 Blue Ridge Nursing Center, for the contract period beginning October 1, 2004, and for the twelve month cost report period ended September 30, 2003, as set forth in the accompanying schedules. The management of Blue Ridge 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 Blue Ridge 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 Blue Ridge Nursing Center dated as of October 1, 2001, 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  
August 3, 2007

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.", written in a cursive style.

Richard H. Gilbert, Jr., CPA  
Deputy State Auditor

**BLUE RIDGE NURSING CENTER**  
Computation of Rate Change  
For the Contract Period  
Beginning October 1, 2004  
AC# 3-BHC-J3

	10/01/04- <u>09/30/05</u>
Adjusted Reimbursement Rate	\$126.83
Interim Reimbursement Rate (1)	<u>126.16</u>
Increase in Reimbursement Rate	\$ <u><u>.67</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated May 17, 2007.

**BLUE RIDGE NURSING CENTER**  
 Computation of Adjusted Reimbursement Rate  
 For the Contract Period October 1, 2004 Through September 30, 2005  
 AC# 3-BHC-J3

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 62.16	\$ 70.36	
Dietary		13.34	12.42	
Laundry/Housekeeping/Maintenance		<u>13.01</u>	<u>11.28</u>	
Subtotal	<u>\$5.55</u>	88.51	94.06	\$ 88.51
Administration & Medical Records	<u>\$2.86</u>	<u>11.79</u>	<u>14.65</u>	<u>11.79</u>
Subtotal		100.30	<u>\$108.71</u>	100.30
<u>Costs Not Subject to Standards:</u>				
Utilities		1.89		1.89
Special Services		-		-
Medical Supplies & Oxygen		5.10		5.10
Taxes and Insurance		5.70		5.70
Legal Fees		<u>.13</u>		<u>.13</u>
<b>TOTAL</b>		<u>\$113.12</u>		113.12
Inflation Factor (4.70%)				5.32
Cost of Capital				6.64
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				2.86
Cost Incentive				5.55
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(6.66)</u>
<b>ADJUSTED REIMBURSEMENT RATE</b>				<u>\$126.83</u>

**BLUE RIDGE NURSING CENTER**  
 Summary of Costs and Total Patient Days  
 For the Cost Report Period Ended September 30, 2003  
 AC# 3-BHC-J3

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$1,469,129	\$ -	\$ 706 (6)	\$1,468,423
Dietary	315,170	9 (6)	-	315,179
Laundry	92,767	1 (6)	-	92,768
Housekeeping	122,592	31 (6)	-	122,623
Maintenance	91,872	31 (6)	-	91,903
Administration & Medical Records	275,742	700 (5) 2,117 (6)	-	278,559
Utilities	44,685	40 (6)	-	44,725
Special Services	95	-	-	95
Medical Supplies & Oxygen	127,970	-	5,832 (7) 1,581 (8)	120,557
Taxes and Insurance	105,511	29,079 (5) 154 (6)	-	134,744
Legal Fees	2,991	29 (6)	-	3,020

**BLUE RIDGE NURSING CENTER**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 2003  
AC# 3-BHC-J3

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments		Adjusted <u>Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Cost of Capital	166,199	123 (4)	464 (1) 2,243 (2) 5,694 (3) 945 (6)	156,976
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Subtotal	2,814,723	32,314	17,465	2,829,572
Ancillary	79,176	5,832 (7)	-	85,008
Nonallowable	79,486	2,243 (2) 5,694 (3) 1,581 (8)	123 (4) 29,779 (5) 761 (6)	58,341
CNA Training& Testing	<u>22,857</u>	<u>-</u>	<u>-</u>	<u>22,857</u>
Total Operating Expenses	<u>\$2,996,242</u>	<u>\$47,664</u>	<u>\$48,128</u>	<u>\$2,995,778</u>
Total Patient Days	<u>23,625</u>	<u>-</u>	<u>-</u>	<u>23,625</u>
Total Beds	<u>66</u>			

**BLUE RIDGE NURSING CENTER**  
Adjustment Report  
Cost Report Period Ended September 30, 2003  
AC# 3-BHC-J3

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$11,436	
	Other Equity	3,371	
	Fixed Assets		\$14,343
	Cost of Capital		464
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	2,243	
	Cost of Capital		2,243
	To remove reorganization costs HIM-15-1, Section 2134.10 State Plan, Attachment 4.19D		
3	Nonallowable	5,694	
	Cost of Capital		5,694
	To properly state loan cost amortization HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
4	Cost of Capital	123	
	Nonallowable		123
	To adjust capital return State Plan, Attachment 4.19D		
5	Administration & Medical Records	700	
	Taxes and Insurance	29,079	
	Nonallowable		29,779
	To adjust general insurance expense HIM-15-1, Section 2162 State Plan, Attachment 4.19D		

**BLUE RIDGE NURSING CENTER**  
Adjustment Report  
Cost Report Period Ended September 30, 2003  
AC# 3-BHC-J3

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Administration & Medical Records	2,117	
	Dietary	9	
	Laundry	1	
	Housekeeping	31	
	Maintenance	31	
	Legal	29	
	Utilities	40	
	Taxes and Insurance	154	
	General Services		706
	Nonallowable		761
	Cost of Capital		945
	To adjust home office allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
7	Ancillary	5,832	
	Medical Supplies & Oxygen		5,832
	To reclassify expenses to the		
	proper cost center		
	DH&HS Crosswalk		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
8	Nonallowable	1,581	
	Medical Supplies & Oxygen		1,581
	To remove special (ancillary)		
	services cost reimbursed by Medicare		
	State Plan, Attachment 4.19D		
		\$62,471	\$62,471
	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.

**BLUE RIDGE NURSING CENTER**  
 Cost of Capital Reimbursement Analysis  
 For the Cost Report Period Ended September 30, 2003  
 AC# 3-BHC-J3

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.63785</u>
Deemed Asset Value (Per Bed)	41,198
Number of Beds	<u>66</u>
Deemed Asset Value	2,719,068
Improvements Since 1981	341,275
Accumulated Depreciation at 9/30/03	<u>(565,110)</u>
Deemed Depreciated Value	2,495,233
Market Rate of Return	<u>.0531</u>
Total Annual Return	132,497
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	132,497
Depreciation Expense	24,479
Amortization Expense	-
Capital Related Income Offsets	-
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	156,976
Total Patient Days (Actual)	<u>23,625</u>
Cost of Capital Per Diem	<u>\$ 6.64</u>

**BLUE RIDGE NURSING CENTER**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 2003  
AC# 3-BHC-J3

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$4.16
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$8.15</u>
Reimbursable Cost of Capital Per Diem	\$6.64
Cost of Capital Per Diem	<u>6.64</u>
Cost of Capital Per Diem Limitation	<u>\$ -</u>

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