

# 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-J4 – Blue Ridge Living Center, LLC

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, 2003 through September 30, 2004. That report was used to set the rate covering the contract period beginning October 1, 2005.

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.

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 LIVING CENTER, LLC**

**EASLEY, SOUTH CAROLINA**

**CONTRACT PERIOD  
BEGINNING OCTOBER 1, 2005  
AC# 3-BHC-J4**

**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

July 31, 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 Living Center, LLC, for the contract period beginning October 1, 2005, and for the twelve month cost report period ended September 30, 2004, as set forth in the accompanying schedules. The management of Blue Ridge Living Center, LLC 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 Living Center, LLC, 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 Living Center, LLC 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  
July 31, 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 LIVING CENTER, LLC**  
Computation of Rate Change  
For the Contract Period  
Beginning October 1, 2005  
AC# 3-BHC-J4

	10/01/05- <u>09/30/06</u>
Interim Reimbursement Rate (1)	\$134.96
Adjusted Reimbursement Rate	<u>130.88</u>
Decrease in Reimbursement Rate	\$ <u><u>4.08</u></u>

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

**BLUE RIDGE LIVING CENTER, LLC**  
 Computation of Adjusted Reimbursement Rate  
 For the Contract Period October 1, 2005 Through September 30, 2006  
 AC# 3-BHC-J4

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 63.30	\$ 79.84	
Dietary		13.36	13.22	
Laundry/Housekeeping/Maintenance		<u>13.96</u>	<u>11.64</u>	
Subtotal	<u>\$7.33</u>	90.62	104.70	\$ 90.62
Administration & Medical Records	<u>\$2.15</u>	<u>14.16</u>	<u>16.31</u>	<u>14.16</u>
Subtotal		104.78	<u>\$121.01</u>	104.78
<u>Costs Not Subject to Standards:</u>				
Utilities		1.93		1.93
Special Services		.01		.01
Medical Supplies & Oxygen		5.07		5.07
Taxes and Insurance		5.14		5.14
Legal Fees		<u>.07</u>		<u>.07</u>
<b>TOTAL</b>		<u>\$117.00</u>		117.00
Inflation Factor (4.70%)				5.50
Cost of Capital				6.63
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				2.15
Cost Incentive				7.33
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(7.73)</u>
<b>ADJUSTED REIMBURSEMENT RATE</b>				<u>\$130.88</u>

**BLUE RIDGE LIVING CENTER, LLC**  
 Summary of Costs and Total Patient Days  
 For the Cost Report Period Ended September 30, 2004  
 AC# 3-BHC-J4

<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	\$1,519,951	\$ -	\$ 4,800 (5) 5,162 (8) 820 (9) 16,737 (12)	\$1,492,432
Dietary	317,250	-	2 (9) 2,255 (12)	314,993
Laundry	108,003	-	1 (9)	108,002
Housekeeping	125,484	3 (8)	1 (9)	125,486
Maintenance	96,252	40 (8)	2 (9) 633 (12)	95,657
Administration & Medical Records	331,467	650 (6) 5,520 (8)	2,016 (9) 1,820 (12)	333,801
Utilities	45,438	87 (8)	2 (9)	45,523
Special Services	177	14 (8)	-	191
Medical Supplies & Oxygen	141,559	-	9,486 (7) 9,481 (10) 3,091 (11) 69 (12)	119,432
Taxes and Insurance	155,602	4 (8)	31,585 (6) 2,916 (9)	121,105
Legal Fees	1,900	3 (8)	315 (9)	1,588

**BLUE RIDGE LIVING CENTER, LLC**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 2004  
AC# 3-BHC-J4

<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	163,944	149 (4) 21 (8)	582 (1) 374 (2) 5,694 (3) <u>1,105 (9)</u>	156,359
	_____	_____	_____	_____
Subtotal	3,007,027	6,491	98,949	2,914,569
Ancillary	80,807	9,481 (10)	-	90,288
Nonallowable	88,299	374 (2) 5,694 (3) 4,800 (5) 30,935 (6) 9,486 (7) 7,180 (9) 3,091 (11) 21,514 (12)	149 (4) 530 (8)	170,694
CNA Training & Testing	<u>25,643</u>	_____	_____	<u>25,643</u>
Total Operating Expenses	<u>\$3,201,776</u>	<u>\$99,046</u>	<u>\$99,628</u>	<u>\$3,201,194</u>
Total Patient Days	<u>23,578</u>	<u>-</u>	<u>-</u>	<u>23,578</u>
Total Beds	<u>66</u>			

**BLUE RIDGE LIVING CENTER, LLC**  
Adjustment Report  
Cost Report Period Ended September 30, 2004  
AC# 3-BHC-J4

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$ 3,791	
	Other Equity	2,935	
	Fixed Assets		\$ 6,144
	Cost of Capital		582
	To adjust fixed assets and related depreciation to allowable HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	374	
	Cost of Capital		374
	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 State Plan, Attachment 4.19D		
4	Cost of Capital	149	
	Nonallowable		149
	To adjust capital return to allowable State Plan, Attachment 4.19D		
5	Nonallowable	4,800	
	General Services		4,800
	To reclassify expenses to the proper cost center HIM-15-1, Section 2300 State Plan, Attachment 4.19D		
6	Administration & Medical Records	650	
	Nonallowable	30,935	
	Taxes and Insurance		31,585
	To adjust general insurance expense HIM-15-1, Section 2162 State Plan, Attachment 4.19D		

**BLUE RIDGE LIVING CENTER, LLC**  
Adjustment Report  
Cost Report Period Ended September 30, 2004  
AC# 3-BHC-J4

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
7	Nonallowable Medical Supplies & Oxygen	9,486	9,486
	To reclassify expenses to the proper cost center HIM-15-1, Section 2300 State Plan, Attachment 4.19D		
8	Housekeeping	3	
	Maintenance	40	
	Administration & Medical Records	5,520	
	Legal	3	
	Utilities	87	
	Taxes and Insurance	4	
	Special Services	14	
	Cost of Capital	21	
	General Services		5,162
	Nonallowable		530
	To adjust related party cost allocation to allowable HIM-15-1, Sections 1000 and 2304 State Plan, Attachment 4.19D		
9	Nonallowable	7,180	
	General Services		820
	Dietary		2
	Laundry		1
	Housekeeping		1
	Maintenance		2
	Administration & Medical Records		2,016
	Legal		315
	Utilities		2
	Taxes and Insurance		2,916
	Cost of Capital		1,105
	To adjust home office allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

**BLUE RIDGE LIVING CENTER, LLC**  
Adjustment Report  
Cost Report Period Ended September 30, 2004  
AC# 3-BHC-J4

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
10	Ancillary Medical Supplies & Oxygen	9,481	9,481
	To reclassify expenses to the proper cost center DH&HS Crosswalk State Plan, Attachment 4.19D		
11	Nonallowable Medical Supplies & Oxygen	3,091	3,091
	To remove special (ancillary) services cost reimbursed by Medicare State Plan, Attachment 4.19D		
12	Nonallowable General Services Dietary Maintenance Administration & Medical Records Medical Supplies & Oxygen	21,514	16,737 2,255 633 1,820 69
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
	<b>TOTAL ADJUSTMENTS</b>	<b><u>\$105,772</u></b>	<b><u>\$105,772</u></b>

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 LIVING CENTER, LLC**  
 Cost of Capital Reimbursement Analysis  
 For the Cost Report Period Ended September 30, 2004  
 AC# 3-BHC-J4

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.71494</u>
Deemed Asset Value (Per Bed)	42,402
Number of Beds	<u>66</u>
Deemed Asset Value	2,798,532
Improvements Since 1981	347,238
Accumulated Depreciation at 9/30/04	<u>(588,646)</u>
Deemed Depreciated Value	2,557,124
Market Rate of Return	<u>.0516</u>
Total Annual Return	131,948
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	131,948
Depreciation Expense	24,411
Amortization Expense	-
Capital Related Income Offsets	-
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	156,359
Total Patient Days (Actual)	<u>23,578</u>
Cost of Capital Per Diem	<u>\$ 6.63</u>

**BLUE RIDGE LIVING CENTER, LLC**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 2004  
AC# 3-BHC-J4

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	\$6.63
Cost of Capital Per Diem	<u>6.63</u>
Cost of Capital Per Diem Limitation	<u>\$ -</u>

2 copies of this document were published at an estimated printing cost of \$1.40 each, and a total printing cost of \$2.81. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.