

*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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June 14, 2011

Mr. John Twitty, Controller  
HMR Advantage Health Systems, Inc.  
101 Grace Drive  
Easley, South Carolina 29640

Re: AC# 3-BHC-J6 – 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, 2005 through September 30, 2006. That report was used to set the rate covering the contract period beginning October 1, 2007.

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 black ink, appearing to read "Richard H. Gilbert, Jr.", written in a cursive style.

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

RHGjr/cwc

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, 2007  
AC# 3-BHC-J6**

**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, 2007	A	3
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIOD OCTOBER 1, 2007 THROUGH SEPTEMBER 30, 2008	B	4
SUMMARY OF COSTS AND TOTAL PATIENT DAYS FOR THE COST REPORT PERIOD ENDED SEPTEMBER 30, 2006	C	5
ADJUSTMENT REPORT	1	7
COST OF CAPITAL REIMBURSEMENT ANALYSIS	2	10

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### INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

August 30, 2010

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, 2007, and for the twelve month cost report period ended September 30, 2006, 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, 2006, 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 30, 2010

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, 2007  
AC# 3-BHC-J6

	<u>10/01/07-</u> <u>09/30/08</u>
Interim Reimbursement Rate (1)	\$145.10
Adjusted Reimbursement Rate	<u>141.30</u>
Decrease in Reimbursement Rate	\$ <u><u>3.80</u></u>

- (1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated June 8, 2009.

**BLUE RIDGE LIVING CENTER, LLC**  
 Computation of Adjusted Reimbursement Rate  
 For the Contract Period October 1, 2007 Through September 30, 2008  
 AC# 3-BHC-J6

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 68.67	\$ 83.18	
Dietary		14.23	13.90	
Laundry/Housekeeping/Maintenance		<u>15.79</u>	<u>13.36</u>	
Subtotal	<u>\$7.73</u>	98.69	110.44	\$ 98.69
Administration & Medical Records	<u>\$2.20</u>	<u>14.87</u>	<u>17.07</u>	<u>14.87</u>
Subtotal		113.56	<u>\$127.51</u>	113.56
<u>Costs Not Subject to Standards:</u>				
Utilities		2.38		2.38
Special Services		.03		.03
Medical Supplies & Oxygen		6.62		6.62
Taxes and Insurance		3.52		3.52
Legal Fees		<u>.07</u>		<u>.07</u>
<b>TOTAL</b>		<u>\$126.18</u>		126.18
Inflation Factor (4.60%)				5.80
Cost of Capital				6.86
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				2.20
Cost Incentive				7.73
Effect of \$1.75 Cap on Cost/Profit Incentives				(8.18)
Transportation Escort Add-On				<u>.71</u>
<b>ADJUSTED REIMBURSEMENT RATE</b>				<u>\$141.30</u>

**BLUE RIDGE LIVING CENTER, LLC**  
 Summary of Costs and Total Patient Days  
 For the Cost Report Period Ended September 30, 2006  
 AC# 3-BHC-J6

<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	\$1,664,338	\$ -	\$ 4,800 (4) 3,327 (5) 1,107 (8) 33,411 (9) 591 (9) 13,483 (10) 721 (10) 735 (12)	\$1,606,163
Dietary	332,734	-	12 (12)	332,722
Laundry	116,202	-	1 (12)	116,201
Housekeeping	134,182	-	18 (12)	134,164
Maintenance	124,319	-	4,883 (1) 420 (10) 122 (12)	118,894
Administration & Medical Records	335,577	21,631 (9) 1,641 (10)	3,426 (2) 76 (10) 7,451 (12) 3 (12)	347,893
Utilities	57,528	-	1,831 (6) 25 (12)	55,672
Special Services	840	-	59 (5)	781
Medical Supplies & Oxygen	177,386	-	21,570 (5) 784 (8) 154 (10)	154,878

**BLUE RIDGE LIVING CENTER, LLC**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 2006  
AC# 3-BHC-J6

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	<u>Debit</u>	Adjustments <u>Credit</u>	<u>Adjusted Totals</u>
Taxes and Insurance	87,126	-	4,779 (7) 39 (12)	82,308
Legal Fees	1,723	-	58 (12)	1,665
Cost of Capital	164,711	1,615 (1) 331 (11) <u>646 (12)</u>	3,780 (2) 3,052 (3)	160,471
Subtotal	3,196,666	25,864	110,718	3,111,812
Ancillary	120,643	1,891 (8)	-	122,534
Nonallowable	457,846	7,206 (2) 3,052 (3) 4,800 (4) 24,956 (5) 4,779 (7) 12,371 (9) 13,213 (10) 7,818 (12)	331 (11)	535,710
CNA Training and Testing	<u>20,213</u>	<u>-</u>	<u>-</u>	<u>20,213</u>
Total Operating Expenses	<u>\$3,795,368</u>	<u>\$105,950</u>	<u>\$111,049</u>	<u>\$3,790,269</u>
Total Patient Days	<u>23,389</u>	<u>-</u>	<u>-</u>	<u>23,389</u>
Total Beds	<u>66</u>			

**BLUE RIDGE LIVING CENTER, LLC**  
Adjustment Report  
Cost Report Period Ended September 30, 2006  
AC# 3-BHC-J6

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$10,993	
	Other Equity	1,735	
	Cost of Capital	1,615	
	Fixed Assets		\$ 9,460
	Maintenance		4,883
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	7,206	
	Administration		3,426
	Cost of Capital		3,780
	To remove reorganization costs HIM-15-1, Section 2134.10 State Plan, Attachment 4.19D		
3	Nonallowable	3,052	
	Cost of Capital		3,052
	To remove loan cost amortization State Plan, Attachment 4.19D		
4	Nonallowable	4,800	
	Nursing		4,800
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		
5	Nonallowable	24,956	
	Nursing		3,327
	Medical Supplies		21,570
	Special Services		59
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		

**BLUE RIDGE LIVING CENTER, LLC**  
Adjustment Report  
Cost Report Period Ended September 30, 2006  
AC# 3-BHC-J6

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Retained Earnings Utilities	1,831	1,831
	To properly charge expense applicable to the prior period HIM-15-1, Section 2302.1		
7	Nonallowable Taxes and Insurance	4,779	4,779
	To adjust liability insurance expense HIM-15-1, Section 2162.2 State Plan, Attachment 4.19D		
8	Ancillary Nursing Medical Supplies	1,891	1,107 784
	To reclassify expense to the proper cost center State Plan, Attachment 4.19D DH&HS Expense Crosswalk		
9	Administration Nonallowable Nursing Restorative	21,631 12,371	33,411 591
	To reclassify expense to the proper cost center HIM-15-1, Section 2102.3 DH&HS Expense Crosswalk		
10	Administration Nonallowable Nursing Restorative Maintenance Medical Records Medical Supplies	1,641 13,213	13,483 721 420 76 154
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

**BLUE RIDGE LIVING CENTER, LLC**  
Adjustment Report  
Cost Report Period Ended September 30, 2006  
AC# 3-BHC-J6

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
11	Cost of Capital Nonallowable	331	331
	To adjust capital return State Plan, Attachment 4.19D		
12	Cost of Capital Nonallowable	646	
	Nursing		735
	Dietary		12
	Laundry		1
	Housekeeping		18
	Maintenance		122
	Administration		7,451
	Medical Records		3
	Legal		58
	Utilities		25
	Taxes and Insurance		39
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
	TOTAL ADJUSTMENTS	\$120,509	\$120,509

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, 2006  
 AC# 3-BHC-J6

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.85382</u>
Deemed Asset Value (Per Bed)	44,571
Number of Beds	<u>66</u>
Deemed Asset Value	2,941,686
Improvements Since 1981	379,347
Accumulated Depreciation at 9/30/06	<u>(641,101)</u>
Deemed Depreciated Value	2,679,932
Market Rate of Return	<u>.0489</u>
Total Annual Return	131,049
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	131,049
Depreciation Expense	29,450
Amortization Expense	-
Capital Related Income Offsets	(28)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	160,471
Total Patient Days (Actual)	<u>23,389</u>
Cost of Capital Per Diem	\$ <u><u>6.86</u></u>

**BLUE RIDGE LIVING CENTER, LLC**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 2006  
AC# 3-BHC-J6

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><u>\$8.15</u></u>
Reimbursable Cost of Capital Per Diem	\$6.86
Cost of Capital Per Diem	<u>6.86</u>
Cost of Capital Per Diem Limitation	<u><u>\$ -</u></u>

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