

**NHC Healthcare - McMinnville
McMinnville, Tennessee**

**Cost Report and Patient Accounts
for the Period
January 1 through December 31, 1998**

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
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John G. Morgan
Comptroller

July 31, 2000

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Mr. John Tighe, Director
Bureau of TennCare
729 Church Street, Fifth Floor
Nashville, Tennessee 37247

Ladies and Gentlemen:

Pursuant to Section 71-5-130, *Tennessee Code Annotated*, and a cooperative agreement between the Comptroller of the Treasury and the Department of Health, the Division of State Audit performs examinations of nursing facilities participating in the Tennessee Medical Assistance Program under Title XIX of the Social Security Act (Medicaid).

Submitted herewith is the report of the examination of the Medicaid cost report and patient accounts of NHC Healthcare - McMinnville, McMinnville, Tennessee, for the period January 1 through December 31, 1998.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/pn
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State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

TennCare Report
NHC Healthcare - McMinnville
McMinnville, Tennessee
For the Year Ended December 31, 1998

PROCEDURAL FINDINGS RECOMMENDING COMPLIANCE WITH TENNCARE RULES

Patient Trust Funds Not in Interest-Bearing Accounts

Patient funds held in trust are being transferred to the provider's account receivable upon discharge of the patient, to be applied to the patient's bill. When this transaction results in a net credit balance on the facility's receivable ledger, the patient is denied the benefit of accrued interest on his or her funds from the date of the transfer to the time a refund from the provider to the patient is made.

Nonallowable Extra Charges to Medicaid/TennCare Residents

Medicaid patients at NHC Healthcare - McMinnville have been prematurely charged for legend and non-legend drugs without a denial of a medical necessity justification from TennCare.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report, which contains all findings, recommendations, and management comments, please contact

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for the Period
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**NHC Healthcare - McMinnville
McMinnville, Tennessee
Cost Report and Patient Accounts
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INTRODUCTION

PURPOSE AND AUTHORITY OF THE EXAMINATION

The terms of contract between the Tennessee Department of Health and the Tennessee Comptroller's office authorize the Comptroller to perform examinations of nursing facilities that participate in the Tennessee Medicaid Nursing Facility Program.

Under their agreements with the state and as stated on cost reports submitted to the state, participating nursing facilities have asserted that they are in compliance with the applicable state and federal regulations covering services provided to Medicaid-eligible recipients. The purpose of our examination is to render an opinion on the nursing facilities' assertions that they are in compliance with such requirements.

BACKGROUND

To receive services under the Medicaid Nursing Facility Program, a recipient must meet Medicaid eligibility requirements under one of the coverage groups included in the *State Plan for Medical Assistance*. The need for nursing care is not in itself sufficient to establish eligibility. Additionally, a physician must certify that recipients need nursing facility care before they can be admitted to a facility. Once a recipient is admitted, a physician must certify periodically that continued nursing care is required. The number of days of coverage available to recipients in a nursing facility is not limited.

The Medicaid Nursing Facility Program provides for nursing services on two levels of care. Level I Nursing Facility (NF-1) services are provided to recipients who do not require an intensive degree of care. Level II Nursing Facility (NF-2) services, which must be under the direct supervision of licensed nursing personnel and under the general direction of a physician, represent a higher degree of care.

NHC Healthcare - McMinnville, McMinnville, Tennessee, provides both NF-1 and NF-2 services. The facility is a wholly owned subsidiary of National HealthCorp Limited Partnership. The officers/members of the board of directors are as follows:

W. Andrew Adams, President and Chairman
Robert G. Adams, Senior Vice-President
Richard F. LaRoche, Jr., Senior Vice-President and Secretary
Charlotte A. Swafford, Treasurer

During the examination period, the facility maintained a total of 150 licensed nursing facility beds. The Division of Quality Assurance of the Department of Health licensed the facility for these beds. Eligible recipients receive services through an agreement with the Department of Health. Of the 54,750 available bed days, 28,956 were for Medicaid NF-1 patients and 4,794 were for Medicaid NF-2 patients for the year ended December 31, 1998. Also, the facility reported total operating expenses of \$5,092,980 for the period.

The Division of Quality Assurance inspected the quality of the facility's physical plant, professional staff, and patient services. The nursing facility met the required standards.

The following Medicaid reimbursable rates were in effect for the period covered by this examination:

<u>Period</u>	<u>Level I NF (744-0132)</u>	<u>Level II NF (044-5076)</u>
January 1 through June 30, 1998	\$88.60	\$148.88
July 1 through December 31, 1998	\$90.54	\$146.87

PRIOR EXAMINATION FINDINGS

The prior report of McMinnville Health Care Center, for the period January 1 through December 31, 1992, contained the following findings:

1. Nonallowable expenses included on the cost report
2. Nonallowable extra charges to Medicaid patients

Finding 1 has been satisfactorily remedied. Finding 2 is repeated in this report.

SCOPE OF THE EXAMINATION

Our examination covers certain financial-related requirements of the Medicaid Nursing Facility Program. The requirements covered are referred to under management's assertions specified later in the Independent Accountants' report. Our examination does not cover quality of care, clinical, or medical provisions.



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
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DIVISION OF STATE AUDIT

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Independent Accountant's Report

December 17, 1999

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Mr. John Tighe, Director
Bureau of TennCare
729 Church Street, Fifth Floor
Nashville, Tennessee 37247

Ladies and Gentlemen:

We have examined management's assertions, included in its representation letter dated December 17, 1999, that NHC Healthcare - McMinnville complied with the following requirements during the cost report period January 1 through December 31, 1998, and to the facility's patient accounts for the period January 1 through December 31, 1998.

- Income and expenses reported on the Medicaid Cost Report are reasonable, allowable, and in accordance with state and federal rules, regulations, and reimbursement principles.
- Patient days reported on the Medicaid Cost Report have been counted in accordance with state regulations. Medicaid patient days billed to the state for periods when residents were hospitalized or on therapeutic leave are in accordance with the 15-day hospital stay rule, the 85 percent occupancy rule, and the 18-day therapeutic leave day rule.

- Charges to patients and charges to patients' personal funds are in accordance with state and federal regulations.

As discussed in management's representation letter, management is responsible for ensuring compliance with those requirements. Our responsibility is to express an opinion on management's assertions about the facility's compliance based on our examination.

Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants, and accordingly, included examining on a test basis, evidence about NHC Healthcare - McMinnville's compliance with those requirements and performing such other procedures as we considered necessary under the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on NHC Healthcare - McMinnville's compliance with specified requirements.

Our examination disclosed the following material noncompliance applicable to state and federal regulations.

- The facility charges Medicaid NF1 residents for covered legend and non-legend drugs.
- Patient funds held in trust were not always maintained in an interest-bearing account.

In our opinion, except for the material noncompliance described above, management's assertions that NHC Healthcare - McMinnville complied with the aforementioned requirements for the cost reporting period January 1 to December 31, 1998, and for patient accounts for the period January to December 31, 1998, are fairly stated in all material respects.

This report is intended solely for the use of the Tennessee General Assembly and the Tennessee Department of Health. However, this report is a matter of public record and its distribution is not limited.

Sincerely,



Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/pn

FINDINGS AND RECOMMENDATIONS

1. Patient trust funds not in interest-bearing account

Finding

Funds held in the patient's trust fund are being transferred to the provider's account receivable upon discharge. When this transaction results in a credit balance, the patient is denied the benefit of accrued interest on his or her funds from the date of the transfer to the time a refund from the provider to the patient is made. In one such transaction, the transfer resulted in a \$1,959.32 credit balance on the books of the provider and was not refunded to the patient for four months. During that period, the patient was deprived of interest on his funds held by the provider.

Section 68-11-906 of *Tennessee Code Annotated* states:

- (a) Each nursing home shall deposit any funds in excess of one hundred dollars (\$100) received from, or on behalf of, a resident in an interest-bearing account, insured by an agency of the federal government.
- (b) The account shall be maintained in a manner clearly indicating that the facility has only a fiduciary interest in the funds.

Recommendation

NHC Healthcare - McMinnville should maintain trust funds of discharged patients in an interest-bearing trust fund account until refunded to the patients, their estate, or their authorized representative.

Management's Comment

Management concurs. All patient funds will be maintained in the patient trust fund, which is an interest-bearing account, until the time it is to be refunded. The refund check will be written directly to the appropriate recipient from the patient trust fund.

2. Nonallowable extra charges to Medicaid/TennCare residents

Finding

Some Medicaid residents at NHC Healthcare - McMinnville have been charged for legend and non-legend drugs.

Medicaid Bulletin 94-1 and Chapter 1200-13-12-.11 of the *Rules of Tennessee Department of Health* govern the process for pharmacy services in nursing homes. Through a designated pharmacy, a nursing facility must provide medically necessary drugs prescribed by the physician.

If a prescribed drug is not on the formulary of the recipients' TennCare Managed Care Organization (MCO), a medical necessity justification should be submitted to the MCO for approval. It should be demonstrated that a comparable drug on the formulary is contraindicated or has been already tried. If the MCO denies the medical necessity request, then the recipient has the right to appeal that decision. A similar process is followed for drugs that require prior approval.

At NHC Healthcare - McMinnville, the above process is not being followed to its conclusion; thus, some residents are being prematurely charged for drugs.

In addition to prescription drugs, some over-the-counter items such as aspirin have been charged to residents. Such items should be considered part of routine care and not part of additional charges.

Recommendation

NHC Healthcare - McMinnville should not charge Medicaid residents for items that are included in routine services. Also, the facility should review its policies for providing pharmacy services to Medicaid residents. Medicaid residents should not be charged for drugs until the provisions of the rules governing drug coverage have been followed and concluded.

Management's Comment

Management concurs in part. We have followed most of the prescribed TennCare policy, with the exception of the appeal process. Our policy will now include informing residents/family members of their right to appeal to TennCare or the MCO. The facility will assist in providing any information deemed necessary. The option of requesting an expedited appeal will also be mentioned. It is our policy that Medicaid recipients not be billed for non-legend, or "over-the-counter" drugs.