

**Franklin Manor, Inc.
Franklin, Tennessee**

**Cost Report for the Period
January 1 Through December 31, 1999,
and Resident Accounts for the Period
January 1, 1999, Through July 20, 2000**

Arthur A. Hayes, Jr., CPA, JD, CFE
Director

Ronald M. Paolini, CPA
Assistant Director

Gregg S. Hawkins, CPA
Audit Manager

Steve Phillips, CPA, CFE
In-Charge Auditor

Tammy Thompson
Auditor

Amy Brack
Editor

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 741-3697

TennCare/Medicaid audits are available on-line at www.comptroller.state.tn.us/sa/reports/index.html.
For more information about the Comptroller of the Treasury, please visit our Web site at
www.comptroller.state.tn.us.



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
State Capitol
Nashville, Tennessee 37243-0260
(615) 741-2501

John G. Morgan
Comptroller

October 9, 2001

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Mr. Mark Reynolds, 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 Finance and Administration, 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 of Franklin Manor, Inc., Franklin, Tennessee, for the period January 1 through December 31, 1999, and patient accounts for the period January 1, 1999, through July 20, 2000.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/pn
01/012

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

TennCare Report
Franklin Manor, Inc.
Franklin, Tennessee
Cost Report for the Period
January 1 Through December 31, 1999,
and Resident Accounts for the Period
January 1, 1999, Through July 20, 2000

FINDINGS RECOMMENDING MONETARY REFUNDS

Deficiencies in Accumulation of Hospital Leave Days

Franklin Manor, Inc., did not adequately support hospital leave day accumulations and ignored the 85% occupancy rule. As a result, the facility overstated both Medicaid NF-1 and total days on the cost report and overcharged the Medicaid program \$1,490 (page 5).

Need to Properly Manage Unrefunded Credit Balances

Franklin Manor, Inc., has retained credit balances in the trust accounts of six former patients and has not retained evidence of efforts to refund the balances. The former patients or their authorized representatives are due \$853 (page 6).

Nonallowable Expenses Included on the Cost Report

Franklin Manor, Inc., included \$3,388 of nonallowable expenses on the Medicaid cost report. As a result of this adjustment combined with the adjustment to patient days, the facility was overpaid \$2,433 computed from July 1, 2000, through September 30, 2001 (page 7).

"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

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 741-3697

TennCare/Medicaid audits are available on-line at
www.comptroller.state.tn.us/sa/reports/index.html.
For more information about the Comptroller of the Treasury, please visit our Web site at
www.comptroller.state.tn.us.

Franklin Manor, Inc.
Franklin, Tennessee
Cost Report for the Period
January 1 Through December 31, 1999,
and Resident Accounts for the Period
January 1, 1999, Through July 20, 2000

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
Purpose and Authority of the Examination	1
Background	1
Prior Examination Findings	2
Scope of the Examination	2
INDEPENDENT ACCOUNTANT'S REPORT	3
FINDINGS AND RECOMMENDATIONS	5
1) Deficiencies in accumulation of hospital leave days	5
2) Need to properly manage unrefunded credit balances	6
3) Nonallowable expenses included on the cost report	7
Summary of Monetary Findings and Recommendations	9

Franklin Manor, Inc.
Franklin, Tennessee
Cost Report for the Period
January 1 Through December 31, 1999,
and Resident Accounts for the Period
January 1, 1999, Through July 20, 2000

INTRODUCTION

PURPOSE AND AUTHORITY OF THE EXAMINATION

The terms of contract between the Tennessee Department of Finance and Administration 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.

Franklin Manor, Inc., Franklin, Tennessee, provides only NF-1 services. The facility is managed by National Healthcare Corporation. The directors of Franklin Manor, Inc., are

James M. Smith
Jerry Ivey
Mary E. Ivey
Preston Shaw

During the examination period, the facility maintained a total of 47 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 17,155 available bed days, 11,977 were for Medicaid NF-1 patients for the year ended December 31, 1999. Also, the facility reported total operating expenses of \$1,437,972 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 (744-0518)</u>
January 1 through June 30, 1999	\$90.54
July 1 through December 31, 1999	\$91.65

PRIOR EXAMINATION FINDINGS

This is the facility's first examination under the current ownership.

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 Accountant's report. Our examination does not cover quality of care, clinical, or medical provisions.



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 741-3697
FAX (615) 532-2765**

Independent Accountant's Report

July 21, 2000

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Mr. Mark Reynolds, 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 July 21, 2000, that Franklin Manor, Inc., complied with the following requirements during the cost report period January 1 through December 31, 1999, and to the facility's patient accounts for the period January 1, 1999, through July 20, 2000.

- 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% occupancy rule, and the 60-day therapeutic leave day rule.
- Charges to patients and charges to patients' personal funds are in accordance with state and federal regulations except as noted in the findings.

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 Franklin Manor, Inc.'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 Franklin Manor, Inc.'s compliance with specified requirements.

Our examination disclosed the following instances of material noncompliance applicable to state and federal regulations:

- The facility did not adequately maintain hospital leave days on the census and did not adhere to the 85% occupancy rule
- The facility did not refund credit balances in the trust fund to discharged or deceased patients or their authorized representatives
- The facility included nonallowable expenses on the cost report

In our opinion, except for the instances of material noncompliance described above, management's assertions that Franklin Manor, Inc., complied with the aforementioned requirements for the cost reporting period January 1 to December 31, 1999, and for patient accounts for the period January 1, 1999, to July 20, 2000, 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 Finance and Administration. 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. Deficiencies in accumulation of hospital leave days

Finding

Franklin Manor, Inc., failed to maintain adequate support for hospital leave accumulations and improperly accumulated hospital leave days. Although the facility maintained monthly summaries that adequately supported total days, the facility discarded many of the detailed reports that identified patients on hospital leave status. The facility improperly accumulated and charged for hospital leave days when the facility was below 85% occupancy.

Chapter 1200-13-1-.06 of the *Rules of the Tennessee Department of Finance and Administration* allows Level I nursing facilities to be reimbursed up to 15 days for a recipient's bed during his or her hospitalization, provided the following conditions are met:

- (ii) The resident intends to return to the facility and . . .
- (iii) At least 85% of all other beds at the nursing facility are occupied at the time of the hospital admission

Paragraph 325 of the *ICF Manual* also requires facilities to “maintain a system to track occupancy in order to avoid violation of this regulation.”

As a result of the inaccurate accumulation and reporting of hospital leave days, both the NF-1 Medicaid days and the total days were overstated by 20. The facility was overpaid \$1,490.03 for noncovered hospital leave days.

The effect of the adjustment to NF1 Medicaid days and total days on the facility's Medicaid reimbursable rate is incorporated in finding 3.

Recommendation

Franklin Manor, Inc., should establish adequate procedures to ensure compliance with applicable laws and regulations relative to hospital leave days. The facility should maintain adequate documentation in the patient day census reports to identify patients who are on leave on any given day. The facility should refund \$1,490.03 to the State of Tennessee for overpayment of noncovered hospital leave days.

Management's Comment

Management concurs. From September through December 1999, the facility did not realize that occupancy had fallen below 85%.

2. Need to properly manage unrefunded credit balances

Finding

Franklin Manor, Inc., has not established a system to ensure that credit balances on the accounts of deceased or discharged residents are properly managed. Management did not maintain evidence that former residents or their authorized representatives were notified of money due them.

Chapter 66-29-112 of *Tennessee Code Annotated* states:

All property . . . that is held or owing in the ordinary course of the holder's business and has remained unclaimed by the owner for more than five (5) years after it became payable or distributable is presumed abandoned. . . . Property . . . shall also be presumed abandoned if the owner thereof is known to the holder to have died and left no one to take the property by will and no one to take the property by intestate succession.

Chapter 66-29-113 of the *Code* requires anyone holding funds or property presumed abandoned to file a report of that property with the State Treasurer.

Chapter 1700-2-1-.19 of the *Rules of Tennessee Department of Treasury* states, "Before filing the annual report of property presumed abandoned, the holder shall exercise due diligence to ascertain the whereabouts of the owner to prevent abandonment from being presumed."

Unrefunded credit balances of \$852.83 remain on the trust fund accounts of six former residents of Franklin Manor, Inc.

Recommendation

Franklin Manor, Inc., should maintain evidence that former residents or their authorized representatives are notified of money due them. The facility should maintain a record of balances with the resident's name and social security number, the dates of last account activity and last owner contact, and the amount due the former resident.

Return of a first-class mailing sent to the owner's last known address would satisfy the requirement that an attempt to contact the owner had been made, provided the mailing was not returned "undeliverable." If the proper owners cannot be located within five years from the date of last account activity, a report of the abandoned property must be filed with Tennessee Department of Treasury, Division of Unclaimed Property. Such a report is to be made before May 1 of each year and is to include all property deemed abandoned as of the previous December 31. Remittance of the abandoned property is due with the filing of the report. Funds transferred to the Tennessee Department of the

Treasury must include any accrued interest. Proper claims against the funds will be honored by the Tennessee Department of Treasury.

Refunds totaling \$852.83 should be made to the former residents or their authorized representatives. The facility should notify the State Treasurer of unclaimed balances older than five years and remit such funds with its “Annual Report of Unclaimed Property” to the State of Tennessee.

Management’s Comment

Management concurs and has acted on this finding. The facility has remitted \$845.07 to the Department of Treasury, Unclaimed Property Division for balances remaining on four former residents’ accounts. Support for the remaining \$7.76 on two former residents’ accounts cannot be located at this time.

3. Nonallowable expenses included on the cost report

Finding

Franklin Manor, Inc., included \$3,387.95 of nonallowable expenses on the “Medicaid Nursing Facility Level 1 Cost Report” for the year ended December 31, 1999. The nonallowable expenses consisted of \$199.00 in costs unrelated to patient care and \$3,188.95 in excess costs spent on the care of a former patient temporarily residing in another facility.

Chapter 1200-13-6-.09 of the *Rules of Tennessee Department of Finance and Administration* states that “the following are . . . expenses not considered a part of the cost of providing routine service, and should be deducted . . . costs which are not necessary or related to patient care.”

As a result of the above adjustment and the adjustment to patient days (see finding 1), the facility’s Medicaid reimbursable rate was decreased as follows:

<u>Period</u>	<u>Original Rate</u>	<u>Adjusted Rate</u>	<u>Difference</u>
July 1, 2000, through June 30, 2001	\$99.43	\$99.24	(\$ 0.19)
July 1, 2001 to the present	107.00	107.00	—

Overpayments made to the facility as a result of the above adjustment total \$2,432.57 computed from July 1, 2000, through September 30, 2001.

Recommendation

Franklin Manor, Inc., should include only allowable expenses on the “Medicaid Nursing Facility Level 1 Cost Report.” All reported expenses should be related to patient care.

The TennCare Bureau should take necessary steps to recover the \$2,432.57 due to the State of Tennessee, which represents overpayments by the Medicaid Program as a result of the rate reduction computed from July 1, 2000, through September 30, 2001.

Management’s Comment

Management concurs.

SUMMARY OF MONETARY FINDINGS AND RECOMMENDATIONS

Source of Overpayments

Noncovered hospital leave days (finding 1)	\$ 1,490.03
Unrefunded credit balances in resident trust fund (finding 2)	852.83
Nonallowable expenses included in cost report (finding 3)	<u>2,432.57</u>
Total	<u>\$ 4,775.43</u>

Disposition of Overpayments

Due to the State of Tennessee	\$ 3,922.60
Due to patients or their authorized representatives	<u>852.83</u>
Total	<u>\$ 4,775.43</u>