

**Hillcrest Healthcare, LLC  
Ashland City, Tennessee**

**Cost Report for the Period  
January 1 Through December 31, 1999,  
and Resident Accounts for the Period  
September 1, 1998, Through September 28, 2000**

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

**Ronald M. Paolini, CPA**  
Assistant Director

**Gregg S. Hawkins, CPA**  
Audit Manager

**Robert A. McCloud, 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) 401-7897

TennCare/Medicaid audits are available on-line at [www.comptroller.state.tn.us/sa/reports/index.html](http://www.comptroller.state.tn.us/sa/reports/index.html).  
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STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**

State Capitol  
Nashville, Tennessee 37243-0260  
(615) 741-2501

John G. Morgan  
Comptroller

June 18, 2002

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 Hillcrest Healthcare, LLC, Ashland City, Tennessee, for the period January 1 through December 31, 1999, and resident accounts for the period September 1, 1998, through September 28, 2000.

Sincerely,

John G. Morgan  
Comptroller of the Treasury

JGM/pn  
01/025

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

TennCare Report  
**Hillcrest Healthcare, LLC**  
Ashland City, Tennessee  
Cost Report for the Year Ended December 31, 1999,  
and Resident Accounts for the Period  
September 1, 1998, Through September 28, 2000

## FINDINGS RECOMMENDING MONETARY REFUNDS

### **Inaccurate Accumulation of Resident Days and Revenue**

The facility inaccurately accumulated resident days and revenue on the cost report. Also, the facility improperly billed the state \$17,275.07 for 248 hospital leave days while below 85% occupancy. This amount should be refunded to the State of Tennessee. These adjustments reduced the facility's Medicaid reimbursable rate, resulting in overpayments of \$44,026.32.

This amount should also be refunded to the State of Tennessee (page 5).

### **Deficiencies in Accounting for Resident Trust Funds**

The facility failed to perform adequate bank reconciliations. Also, \$224.02 is due the trust fund for several unposted interest income and service charge transactions (page 6).

## FINDINGS NOT RECOMMENDING MONETARY REFUNDS

### **Deficiencies in Resident Financial Records**

The facility failed to adequately maintain resident accounts receivable records during the period ended December 31, 1999, resulting in numerous unexplained variances. Resident accounts receivable records for

periods subsequent to December 31, 1999, were not made available by management, rendering the accounts unauditible. Also, the Medicaid NF-2 reimbursement rate exceeded the standard rate charged to private-pay residents (page 7).

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"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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**Hillcrest Healthcare, LLC  
Ashland City, Tennessee  
Cost Report for the Period  
January 1 Through December 31, 1999,  
and Resident Accounts for the Period  
September 1, 1998, Through September 28, 2000**

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**INTRODUCTION**

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**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.

Hillcrest Healthcare, LLC, Ashland City, Tennessee, provides both NF-1 and NF-2 services. The facility is owned and operated by Ashland Healthcare, Inc., and leased by Hillcrest Healthcare, LLC. The chief manager of Hillcrest Healthcare, LLC, and president of the management company, Healthmark Services, Inc., is James D. Hightower.

During the examination period, the facility maintained a total of 99 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 36,135 available bed days, 30,295 were for Medicaid NF-1 residents and 5,840 were for Medicaid NF-2 residents for the year ended December 31, 1999. Also, the facility reported total operating expenses of \$3,486,487 for the period.

The Division of Quality Assurance inspected the quality of the facility's physical plant, professional staff, and resident 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 (744-0577)</u>	<u>Level II NF (044-5316)</u>
January 1 through June 30, 1999	\$90.54	\$146.87
July 1 through December 31, 1999	\$96.11	\$156.55

**PRIOR EXAMINATION FINDINGS**

This is the first examination report for this facility.

**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) 401-7897  
FAX (615) 532-2765**

**Independent Accountant's Report**

**October 12, 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 October 12, 2000, that Hillcrest Healthcare, LLC, complied with the following requirements during the cost report period January 1 through December 31, 1999, and to the facility's resident accounts for the period September 1, 1998, through September 28, 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.
- Resident days reported on the Medicaid Cost Report have been counted in accordance with state regulations. Medicaid resident 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 residents and charges to residents' 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 the compliance of Hillcrest Healthcare, LLC, 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 the compliance of Hillcrest Healthcare, LLC, with specified requirements.

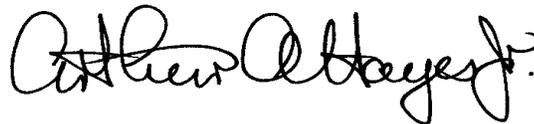
Our examination disclosed the following instances of material noncompliance applicable to state and federal regulations:

- Inaccurate accumulation of resident days and improper billing for noncovered hospital leave days
- Failure to take adequate measures to safeguard resident trust funds
- Failure to adequately maintain resident accounts receivable records

In our opinion, except for the instances of material noncompliance described above, management's assertions that Hillcrest Healthcare, LLC, complied with the aforementioned requirements for the cost reporting period January 1 to December 31, 1999, and for resident accounts for the period September 1, 1998, to September 28, 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,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." with a stylized, cursive script.

Arthur A. Hayes, Jr., CPA,  
Director

AAH/pn

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## FINDINGS AND RECOMMENDATIONS

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### 1. Inaccurate accumulation of resident days and revenue

#### Finding

Hillcrest Healthcare, LLC, inaccurately accumulated resident days and improperly reported revenue on the “Nursing Facility Level I Cost Report.” Additionally, the facility improperly billed the Medicaid Program for 248 hospital leave days when the facility was under 85% occupancy.

Chapter 1200-13-6-.13-.15 of the *Rules of Tennessee Department of Finance and Administration* stipulates that “data must be based on and traceable to the provider’s financial and statistical records and must be adequate, accurate, and in sufficient detail to support payment made for services rendered to beneficiaries.”

As a result of the inaccurate resident days and charges, total days were overstated by one; Medicaid NF-1 days were understated by 362; private-pay days were overstated by 608; and Medicaid NF-2 days were understated by 245. Also, total patient revenue was overstated by \$36,496; Medicaid NF-1 revenue was overstated by \$36,530; private-pay revenue was understated by \$28,314; and Medicaid NF-2 revenue was overstated by \$28,280.

As a result of the improper accumulation of hospital leave days, the Medicaid Program was improperly billed for 248 days. The facility was overpaid \$17,275.07 for these noncovered hospital leave days.

As a result of the above adjustments to resident days and charges, the facility’s reimbursable rate was decreased as follows:

<u>Period</u>	<u>NF-1 Original Rate</u>	<u>Adjusted Rate</u>	<u>Difference</u>
July 1, 2000, through June 30, 2001	\$101.01	\$ 98.95	(\$2.06)

Based on this rate reduction, overpayments made to the facility from July 1, 2000, through June 30, 2001, total \$44,026.32.

## **Recommendation**

Hillcrest Healthcare, LLC, should maintain an accurate census report and a system to account for revenue that is adequate and accurate to provide the statistical data necessary for proper completion of the "Nursing Facility Level I Cost Report." Patient days should not be accumulated and billed to the Medicaid Program when the facility is operating under 85% occupancy. The TennCare Bureau should take necessary steps to recover the \$61,301.39 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 June 30, 2001.

## **Management's Comment**

Management concurs in part. Hillcrest Healthcare, LLC, accurately accumulated patient days and properly reported charges. Census record days were improperly reported on the cost report, but revenue was accurately reported. Medicaid NF-1 days were understated by 392; private NF-1 days were understated by 83; Medicaid NF-2 days were understated by 696; and private NF-2 days were overstated by 1,206.

Management concurs with the improper accumulation of noncovered hospital leave days. The bookkeeper has been trained on not accumulating and billing these bed hold days while the facility is operating below 85% occupancy.

## **Rebuttal**

Medicaid paid claims files substantiate the adjustments to patient days as outlined in this finding. Furthermore, revenue must be adjusted in order to properly associate the charges with the corresponding patient day.

## **2. Deficiencies in accounting for resident trust funds**

### **Finding**

Hillcrest Healthcare, LLC, failed to take adequate measures to safeguard resident trust funds as required by federal law. The following deficiencies were noted:

1. The resident trust fund ledger was not reconciled to a complete list of residents through September 28, 2000, and no assurance could be placed on the accuracy of the trust fund's balance.
2. A total of \$224.02 is due to the trust fund for several unposted interest income and service charge transactions.

Paragraph 22,163 of the *Medicare and Medicaid Guide* requires the facility to “establish and maintain a system that assures a full and complete and separate accounting of each resident’s personal funds entrusted to the facility on the resident’s behalf.” In addition, *Tennessee Code Annotated* provides for penalties in cases where the exploitation of funds paid by a government agency to an adult or to a caretaker for the adult’s use is shown to be willful.

### **Recommendation**

Hillcrest Healthcare, LLC, should establish adequate procedures to ensure compliance with applicable laws and regulations relative to protection of resident trust funds. The facility should immediately reimburse the \$224.02 to the fund. The ledger cards should be reconciled to a control account and the bank statement. The reconciliation should be performed along with the monthly bank statement cycle.

### **Management’s Comment**

Management concurs. The resident trust fund is reconciled monthly by the facility’s bookkeeper and audited monthly by the corporate comptroller for accuracy. Since the State audit, the resident trust fund has been placed onto a computerized software program to ensure accuracy. As of the date of our response, the trust fund was short \$118.99, which has been deposited into the resident trust account. The accounts are balanced and reconciled monthly from the date of the State audit forward. Bank service charges are invoiced and the amount is deposited into the resident trust account monthly.

### **3. Deficiencies in resident financial records**

#### **Finding**

Hillcrest Healthcare, LLC, failed to adequately maintain residents’ accounts receivable records. Additionally, residents’ accounts receivable records for periods subsequent to December 31, 1999, were not made available by management, rendering them unauditible. Also, the Medicaid reimbursable rate for NF-2 residents exceeded the standard rate charged to private-pay residents.

Chapter 1200-13-6-.10 of the *Rules of Tennessee Department of Finance and Administration* states, “Each facility must maintain daily census records and an adequate patient log. The log must be sufficient to provide the following:

- (1) days of service,
- (2) charges for items and services covered by the Medicaid NF-1 Program,
- (3) charges for items and services not covered by the Medicaid NF-1 Program,

- (4) patient income applicable to the cost of covered items and services received by Medicaid NF-1 patients,
- (5) amounts collected and receivable from the Medicaid NF-1 Program, and
- (6) amounts collected and receivable from all other sources.”

Chapter 1200-13-6-.15 of the *Rules of Tennessee Department of Finance and Administration* states that “data must be available for and capable of verification by the Comptroller of the Treasury or his agents.”

As a result of these deficiencies, most resident accounts tested (8 of 12) had undocumented variances. Current accounts receivable balances could not be reasonably verified.

### **Recommendation**

Hillcrest Healthcare, LLC, should maintain adequate and accurate resident accounts receivable logs. The logs should be properly supported and capable of verification by the Comptroller of the Treasury or his agents. Also, the facility’s NF-2 private-pay charge rate should be increased to equal or exceed the Medicaid NF-2 reimbursable rate.

### **Management’s Comment**

Management concurs in part. Resident accounts receivable are maintained by the corporate office. Records were in the process of being moved at the time of the audit; every effort was made to unpack and deliver records in a timely fashion. Corporate officers made several trips to the facility with requested information that contained the required information. There is disagreement as to the posting of charges by posted bed rate with an allowed contractual adjustment to reimbursement rate. This contractual allowance accounts for the private pay residents occupying a Level II bed while being a Level I resident. Records show a revenue based off the posted bed rate followed by a contractual adjustment to the appropriate private reimbursement rate. Any Level II private pay resident would have been charged at a rate higher than the Level II Medicaid rate, but in 1999 all private pay residents were Level I residents.

### **Rebuttal**

In order for the costs to be equitably allocated to Medicaid NF-1 and the other various payor classes, it is critical that the charge for the payor class follow the level of care (i.e., NF-1 or NF-2), not just the bed type.

**SUMMARY OF MONETARY FINDINGS AND RECOMMENDATIONS**

**Source of Overpayments**

Rate reduction (see finding 1)	\$44,026.32
Improper billing for noncovered hospital leave days (see finding 1)	\$17,275.07
Unposted trust fund transactions (see finding 2)	<u>\$ 224.02</u>
Total	<u>\$61,525.41</u>

**Disposition of Overpayments**

Due to the State of Tennessee	\$61,301.39
Due to residents or their authorized representatives	<u>\$ 224.02</u>
Total	<u>\$61,525.41</u>