

**Chester County Nursing Home
Henderson, Tennessee**

**Cost Report and Resident Accounts
For the Period
January 1 Through December 31, 2003**

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
State Capitol
Nashville, Tennessee 37243-0260
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John G. Morgan
Comptroller

February 24, 2005

The Honorable Phil Bredesen, Governor

and

Members of the General Assembly

State Capitol

Nashville, Tennessee 37243

and

J. D. Hickey, M.D., Deputy Commissioner

Bureau of TennCare

Department of Finance and Administration

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 Chester County Nursing Home, Henderson, Tennessee, for the period January 1 through December 31, 2003, and resident accounts for the period January 1 through December 31, 2003.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/pn
04/096

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

TennCare Report

Chester County Nursing Home

Henderson, Tennessee

Cost Report and Resident Accounts

For the Period

January 1 Through December 31, 2003

FINDING RECOMMENDING MONETARY REFUNDS

Nonallowable Expenses Included on the Cost Report

The facility included \$19,571 of nonallowable expenses on the "Intermediate Care Statement of Reimbursable Costs" for the year ended December 31, 2003. The adjustments to allowable expenses consist of \$941 of expenses not related to patient care, \$2,186 of excess compensation for owners' relatives, and \$16,443 of excess depreciation expense. As a result of these adjustments, the facility was overpaid \$12,423, computed from July 1 through December 31, 2004.

FINDINGS NOT RECOMMENDING MONETARY REFUNDS

Patient Trust Funds Not in Interest-Bearing Account

Patient funds held in trust are over the \$100 cash limit. If any amounts over \$100 are not refunded, they should be placed in an interest-bearing account so residents are able to earn interest.

Inadequate Surety Bond

The facility's surety bond was inadequate to insure funds held in trust for its patients.

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**Chester County Nursing Home
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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.

Chester County Nursing Home, Henderson, Tennessee, provides both NF-1 and NF-2 services. The facility is managed by Chester County Healthcare, Inc. The following are partners in Chester County Healthcare, Inc.:

<u>NAME</u>	<u>OWNERSHIP</u>	<u>POSITION</u>
Dee Etta Shires	50%	President
Mahlia J. Russell	50%	Secretary

During the examination period, the facility maintained a total of 132 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 48,180 available bed days, the facility reported that 34,994 were for Medicaid NF-1 residents and 3,504 were for Medicaid NF-2 residents for the year ended December 31, 2003. Also, the facility reported total operating expenses of \$4,890,532 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 (744-0034)</u>	<u>Level II NF (044-5471)</u>
January 1 to June 30, 2003	\$90.91	---
April 1 to June 30, 2003	---	\$156.12
July 1 to June 30, 2004	\$97.38	\$156.10

PRIOR EXAMINATION FINDINGS

This facility has not been examined within the past five years.

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
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Independent Accountant's Report

May 13, 2004

The Honorable Phil Bredesen, Governor
and

Members of the General Assembly
State Capitol

Nashville, Tennessee 37243

and

Mr. Manny Martins, Deputy Commissioner
Bureau of TennCare

Department of Finance and Administration
729 Church Street, Fifth Floor
Nashville, Tennessee 37247

Ladies and Gentlemen:

We have examined management's assertions, included in its representation letter dated May 13, 2004, that Chester County Nursing Home complied with the following requirements during the cost report period January 1 through December 31, 2003, and to the facility's resident accounts for the period January 1 through December 31, 2003.

- 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 Chester County Nursing Home'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 Chester County Nursing Home's compliance with specified requirements.

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

- Nonallowable expenses included on the cost report
- Patient trust funds not in an interest-bearing account
- Inadequate surety bond

In our opinion, except for the instances of material noncompliance described above, management's assertions that Chester County Nursing Home complied with the aforementioned requirements for the cost reporting period January 1 through December 31, 2003, and for resident accounts for the period January 1 through December 31, 2003, 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

FINDINGS AND RECOMMENDATIONS

1. NONALLOWABLE EXPENSES INCLUDED ON THE COST REPORT

Finding

Chester County Nursing Home included \$19,570.94 of nonallowable expenses on the "Medicaid Nursing Facility Level 1 Cost Report" for the year ended December 31, 2003. The adjustment to allowable expenses consists of \$2,186.31 of excess compensation for owners' relatives, \$941.18 of expenses not related to patient care, and \$16,443.45 in improper accelerated depreciation expense.

Chapter 1200-13-6-.09(1) of the *Rules of Tennessee Department of Finance and Administration* states, "Adequate financial records, statistical data, and source documents must be maintained for proper determination of costs under the program." The rule also specifies that unnecessary costs and costs not related to patient care are to be deducted from allowable expenses.

Chapter 1200-13-6-.10(1)(a) of the *Rules* states, "Only the straight line method of computing depreciation is permitted."

Chapter 1200-13-6-.11 of the *Rules* sets the rates for allowable compensation ranges for owners and/or their relatives employed in an individual nursing facility.

As a result of the above adjustments, the facility's Medicaid reimbursable was decreased as follows:

<u>Period</u>	<u>Original Rate</u>	<u>Adjusted Rate</u>	<u>Difference</u>
July 1, 2004, to the present	\$104.04	\$103.33	(\$.71)

Overpayments made by the Medicaid Program to the facility as a result of the above adjustments total \$12,422.87 computed from July 1 through December 31, 2004.

Recommendation

Chester County Nursing Home should include only allowable expenses on the "Medicaid Nursing Facility Level 1 Cost Report." All reported expenses should be related to patient care. Business and personal expenses should be clearly separated, and personal expenses must be excluded from allowable costs.

Only the straight line method is allowable for computing depreciation. The rates for allowable compensation for owners and/or their relatives should be followed.

The TennCare Bureau should take the necessary steps to recover the \$12,422.87 due to the State of Tennessee, which represents overpayments by the Medicaid Program as a result of the rate adjustment computed from July 1 through December 31, 2004.

Management's Comment

Management agrees with the audit finding.

All relatives of owners, job descriptions and their salaries will be fully disclosed on future cost reports. Cellular phone expenses will be reported according to the percent calculated on the Verizon Wireless Expenses allocation sheet of 63% allowable. The depreciation schedule has been corrected according to the 12-month schedule provided by the State Auditors. Only the straight line method will be used for depreciation.

2. PATIENT TRUST FUNDS NOT IN INTEREST-BEARING ACCOUNT

Finding

Funds held in the patient's petty cash trust fund are accumulating more than the allowed limit. Nine patients have more than \$100 in their envelope account. These accounts should be in an interest-bearing account until they are refunded or used by the patient.

Section 68-11-906, *Tennessee Code Annotated*, states that "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. . . . The nursing home may keep up to one hundred dollars (\$100) of a resident's money in a non-interest bearing account or petty cash fund readily available for the resident's current expenditures."

Recommendation

Chester County Nursing Home should maintain trust funds over the \$100 cash limit in an interest-bearing account until needed for residents' personal expenditures, and then transfer money into the petty cash envelope.

Management's Comment

Management agrees with the audit finding.

Chester County Healthcare, Inc. has established a new policy for handling patients' funds. An interest bearing account has been opened at Chester County Bank, FDIC insured, to deposit all

residents' funds. A petty cash fund is maintained at the facility to keep funds readily available for the residents' current expenditures.

3. INADEQUATE SURETY BOND

Finding

Chester County Nursing Home has failed to maintain a surety bond as required by law. As of May 13, 2004, the surety bond was not sufficient to insure the patient trust fund balance of \$2,954.

Section 68-11-906, *Tennessee Code Annotated*, states that "the nursing home shall maintain a surety bond on all funds held in trust for the facility residents and shall make an annual audited accounting of such funds, available to their residents and for public inspection."

Recommendation

Chester County Nursing Home should establish adequate procedures to ensure compliance with applicable laws and regulations for the protection of patient trust funds. The facility should increase the surety bond as necessary to provide coverage for all money held in trust as the balance of the patient trust fund increases.

Management's Comment

Management agrees with the audit finding.

Chester County Healthcare, Inc. has increased the surety bond to cover all funds held in trust of residents of Chester County Nursing Home and the bond will continue to be increased as the need arises according to our new policy.

SUMMARY OF MONETARY FINDINGS AND RECOMMENDATIONS

Source of Overpayments

Rate reduction (see finding 1)	<u>\$12,422.87</u>
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Disposition of Overpayments

Due to the State of Tennessee	<u>\$12,422.87</u>
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