

**Tennessee State Veterans' Home – Humboldt
Humboldt, Tennessee**

**Cost Report and Resident Accounts
For the Period
July 1, 2002, Through June 30, 2003**

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

June 21, 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 Tennessee State Veterans' Home – Humboldt, Humboldt, Tennessee, for the period July 1, 2002, through June 30, 2003, and resident accounts for the period July 1, 2002, through June 30, 2003.

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
Tennessee State Veterans' Home – Humboldt
Humboldt, Tennessee
Cost Report and Resident Accounts
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FINDING RECOMMENDING MONETARY REFUNDS

Need to Properly Manage Accounts Receivable and Unrefunded Credit Balances

Tennessee State Veterans' Home – Humboldt has not established a system to manage accounts receivable. The facility did not refund credit balances on the accounts of deceased or discharged residents. Unrefunded credit balances total \$522,514.13. Of this overpayment amount, \$446,155.11 is due the State of Tennessee; \$25,415.58 is due former residents or their responsible representatives; \$20,986.62 is due the United States Government; and \$29,956.82 is due the insurance providers. Also, the facility had created fictitious Medicaid remittance advices to clear credits in the system. Additionally, 3 of 12 resident accounts tested reflected a net overpayment of \$12,389.21 to the State of Tennessee.

FINDINGS NOT RECOMMENDING MONETARY REFUNDS

Nonallowable Expenses Included on the Cost Report

The facility included \$2,546.87 of nonallowable expenses on the "Medicaid Nursing Facility Level 1 Cost Report" for the fiscal year ended June 30, 2003. The adjustment to allowable costs consists of inadequately supported expenses and expenses not related to resident care. Since the facility's computed cost exceeds the maximum reimbursement allowed by the Medicaid Program, no refund was required.

Inaccurate Accumulation of Resident Days and Excessive Charges for Medicaid Residents

Resident days were inaccurately reported by the facility. The facility overreported 1,043 NF-1 Medicaid days and 346 NF-2 Medicaid days. Also, the facility underreported 1,043 NF-1 private days; 384 NF-2 private days; and 38 total days. In addition, the facility improperly charged private residents less for room and board per day than Medicaid NF-1 residents were

charged for comparable services. As a result, total adjustments to NF-1 days were made for \$193,511.55. The adjustments had no effect on the facility's Medicaid reimbursable rate.

Insufficient Surety Bond for the Resident Trust Fund

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

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**Tennessee State Veterans' Home – Humboldt
Humboldt, Tennessee
Cost Report and Resident Accounts
For the Period
July 1, 2002, Through June 30, 2003**

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.

Tennessee State Veterans' Home – Humboldt, Humboldt, Tennessee, provides both NF-1 and NF-2 services. The facility is owned by the State of Tennessee and operated by the Tennessee State Veterans' Homes Board. The officers/members of the board of directors are as follows:

Mickey Locke, Chairman
David Tipton, Vice-Chairman
Rod Wolfe, Executive Director
Commissioner John Keys –
Tennessee Department of Veterans Affairs
Don Mathis

Grover Poteet
Charles A. Ashley
Lee Tomberlain
Sidney Brown
William C. Tallent

During the examination period, the facility maintained a total of 120 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 43,800 available bed days, the facility reported that 14,751 were for Medicaid NF-1 residents and 3,039 were for Medicaid NF-2 residents for the year ended June 30, 2003. Also, the facility reported total operating expenses of \$5,758,199 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 (744-0578)</u>	<u>Level II NF (044-5366)</u>
July 1, 2002, through June 30, 2003	\$114.56	\$162.12

PRIOR EXAMINATION FINDINGS

This is the first examination of Tennessee State Veterans' Home – Humboldt.

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

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Independent Accountant's Report

August 5, 2004

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:

We have examined management's assertions, included in its representation letter dated August 5, 2004, that Tennessee State Veterans' Home – Humboldt complied with the following requirements during the cost report period July 1, 2002, through June 30, 2003, and to the facility's resident accounts for the period July 1, 2002, through June 30, 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 18-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 Tennessee State Veterans' Home – Humboldt'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 Tennessee State Veterans' Home – Humboldt's compliance with specified requirements.

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

- Need to properly manage accounts receivable and unrefunded credit balances
- Nonallowable expenses included on the cost report
- Inaccurate accumulation of resident days and excessive charges for Medicaid residents
- Insufficient surety bond for the resident trust fund

In our opinion, except for the instances of material noncompliance described above, management's assertions that Tennessee State Veterans' Home – Humboldt complied with the aforementioned requirements for the cost reporting period July 1, 2002, to June 30, 2003, and for resident accounts for the period July 1, 2002, to June 30, 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,



Arthur A. Hayes, Jr., CPA
Director

AAH/pn

FINDINGS AND RECOMMENDATIONS

1. Need to Properly Manage Accounts Receivable and Unrefunded Credit Balances

Finding

Tennessee State Veterans' Home – Humboldt has not established a system to manage resident accounts receivable and to ensure that credit balances on the accounts of deceased or discharged residents are properly managed. The credit balances exist on two separate accounting systems, and the facility is currently implementing a third accounting system. Management did not maintain evidence that former residents or their authorized representatives were notified of money due them. The facility erroneously wrote off accounts receivable. Also, the facility failed to refund the portion of the credit balances due the Medicaid Program.

Chapter 1200-13-6-.15 of the *Rules of Tennessee Department of Finance and Administration* states, "The cost reports . . . and all provider records pertaining thereto . . . 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." Section 66-29-113 of *Tennessee Code Annotated* 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."

Three out of 12 residents' accounts tested reflected a net overpayment of \$12,389.21 by the State of Tennessee. These overpayments are a result of unreported Veterans Administration (VA) subsidy payments, and the total amount is due the State of Tennessee.

Accounts receivable unrefunded credit balances of \$522,514.13 remain on the accounts of 177 former residents of Tennessee State Veterans' Home – Humboldt. The facility had not carried balances from an old set of accounts to a new set, leaving some residents with balances on two accounts. Of the total unrefunded credit balances, \$446,155.11 is due the State of Tennessee; \$25,415.58 is due former residents or their authorized representatives; \$20,986.62 is due the United States Government for overpayments to the facility on behalf of the residents; and \$29,956.82 is due the insurance providers.

Also, the facility had written off accounts receivable without authorization. Accounts were written off by creating fictitious Medicaid remittance advices to clear credits in the system.

Recommendation

Tennessee State Veterans' Home – Humboldt should implement systems to make timely and accurate analysis of its accounts receivable. All write-offs should have the proper authorizations of the State of Tennessee. Corrections through fictitious remittance advices should be prohibited. The facility should maintain evidence that former residents or their authorized representatives are notified of money due them. The facility should maintain a record of credit 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 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 the 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 Treasury must include any accrued interest. Proper claims against the funds will be honored by the Tennessee Department of Treasury.

A refund of \$458,544.32 should be made to the State of Tennessee for the amount due the Medicaid Program; \$25,415.58 should be refunded to the former residents or their authorized representatives; \$20,986.62 should be refunded to the United States Government; and \$29,956.82 should be refunded to the insurance providers.

Management's Comment

Management concurs with this finding in part.

Credit balances exist in a number of accounts and in various payor sources. Of the accounts referenced by the auditor, the majority remain on our books as credit balances.

Very little activity is recorded on the accounts with dates of service December 2001 and prior from the BEP system. On the NHC system, reflecting dates of service after December 2001, the Medicare balances referred to in this finding are cleared entirely. The majority, 69%, of the private pay balances still remain on our books and 56% of the Insurance balances. Of the Medicaid balances, 38% of ICF and 11% SNF remain.

The Veterans Health Programs Improvement Act of 2004 was enacted as Public Law 108-422 and states that it clarifies that the per diem payments made by VA for the care of veterans in State veterans homes shall not be used to offset or reduce other payments made to assist veterans.

This law was signed by President Bush on November 30, 2004, and encompasses Assistance to Homeless Veterans, Veterans Long-Term Care Programs, Medical Care, Medical Facilities Management and Administration, Personnel Administration, and Other Matters. Some of the provisions require an effective date.

However, since the law clearly states that it would clarify the intended purpose of the VA per diem, there is no effective date upon which TSVHB would follow new rules. We believe the adjustments submitted to Medicaid were improper and have asked that payment equal to the adjustments processed this fiscal year be returned to the Home.

The Home will take vigilant steps to research and take proper action on credit balances within our accounts receivable. The Board is currently working with an outside firm to outsource this function.

Rebuttal

According to a CMS Program Issuance Transmittal Notice (dated April 18, 2005), which discusses the ramifications of the Veterans Health Program Improvement Act of 2004, the VA subsidy payments to Veterans nursing homes were considered a third-party resource and appropriately offset the Medicaid payment to the homes prior to enactment of this law. The notice also specifies the effective date when these subsidies are no longer considered a third-party resource. That effective date is expressly stated as November 30, 2004.

2. Nonallowable Expenses Included on the Cost Report

Finding

Tennessee State Veterans' Home – Humboldt included \$2,546.87 of nonallowable expenses on the “Medicaid Nursing Facility Level 1 Cost Report” for the year ended June 30, 2003. The nonallowable amount consists of \$1,990.89 of expenses not adequately supported and \$555.98 of expenses not related to resident care.

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.” It also specifies that unnecessary costs and costs unrelated to resident care be deducted from allowable expenses.

The adjustments to allowable expenses had no effect on the facility’s Medicaid reimbursable rate.

Recommendation

Tennessee State Veterans' Home – Humboldt should include only allowable expenses on the “Medicaid Nursing Facility Level 1 Cost Report.” All reported expenses should be adequately supported and related to resident care.

Management's Comment

Management concurs with this finding.

Documentation and support of expenses included on the cost report were not always readily located for the audit team. This is an area of focus at the home with planned training with staff on records management and retention.

3. Inaccurate Accumulation of Resident Days and Excessive Charges for Medicaid Residents

Finding

Tennessee State Veterans' Home – Humboldt inaccurately reported resident days on the “Medicaid Nursing Facility Level 1 Cost Report” for the fiscal year ended June 30, 2003. The facility overreported 1,043 NF-1 Medicaid days and 346 NF-2 Medicaid days. Also, the facility underreported 1,043 NF-1 private days; 384 NF-2 private days; and 38 total days. In addition, the facility improperly charged private residents less per day than Medicaid residents for comparable services. As a result of the improper charges, adjustments to reduce NF-1 Medicaid charges were made totaling \$193,511.55.

Chapter 1200-13-6-.15 of the *Rules of Tennessee Department of Finance and Administration* states:

The cost reports . . . must provide adequate cost and statistical data. This 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.

Chapter 1200-13-1-.05(5)(h) of the *Rules of Tennessee Department of Finance and Administration* stipulates that “Regardless of the reimbursement rate established for an Intermediate Care Facility, no Intermediate Care Facility may charge Medicaid patients an amount greater than the amount per day charged to private paying patients for equivalent accommodations and services.”

The adjustments had no effect on the facility's Medicaid reimbursable rate.

Recommendation

Tennessee State Veterans' Home – Humboldt should maintain an adequate system to report and account for resident days. The report should provide adequate and accurate statistical data necessary for proper completion of the “Medicaid Nursing Facility Level 1 Cost Report.” Also, the facility should maintain a system to account for revenue charged per day to private Nursing Facility Level 1 residents at a rate equal to or greater than the Nursing Facility Level 1 Medicaid rate.

Management's Comment

Management concurs with this finding.

Records maintained by the facility do not support the Medicaid resident days. Adjustments were made to the census days per the systems-generated reports. It could be that the residents were admitted as Medicaid pending and listed as private pay until such time as approval by Medicaid was received. However, records were not maintained by the facility to support this assumption.

As part of the current month end process, the Home compares the manual census report with the census report from the computer system. Both reports are by resident type, or payor source. A reconciliation of the two reports, and an explanation of any variance, is done monthly by the Business Office Manager. Because of the way the Home must track patient days for calculation of the VA subsidy, there is sometimes a variance in the bedhold days.

4. Insufficient Surety Bond for the Resident Trust Fund

Finding

Tennessee State Veterans' Home – Humboldt has failed to maintain an adequate trust fund surety bond to protect resident funds. The amount of the surety bond was not sufficient to cover balances in the fund of \$130,053.10.

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

Recommendation

Tennessee State Veterans' Home – Humboldt should maintain controls to ensure compliance with applicable laws and regulations relative to protection of resident 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 resident trust fund increases.

Management's Comment

Management concurs with this finding.

The Home has corrected this and now carries a surety bond of \$200,000.

SUMMARY OF MONETARY FINDINGS AND RECOMMENDATIONS

Source of Overpayments

Unrefunded credit balances (see finding 1)	<u>\$534,903.34</u>
Total	<u>\$534,903.34</u>

Disposition of Overpayments

Due to the State of Tennessee	\$458,544.32
Due to residents or their authorized representatives	\$25,415.58
Due to the United States Government	\$20,986.62
Due to insurance providers	<u>\$29,956.82</u>
Total	<u>\$534,903.34</u>