

**Brookwood Nursing Center, Inc.
Decatur, Tennessee**

**Cost Report for the Period
January 1 Through December 31, 2003,
and Resident Accounts for the Period
January 1, 2003, Through August 31, 2004**

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

State Capitol
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John G. Morgan
Comptroller

June 23, 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 Brookewood Nursing Center, Inc., Decatur, Tennessee, for the period January 1, 2003, through December 31, 2003, and resident accounts for the period January 1, 2003, through August 31, 2004.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/pn
05/024

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

TennCare Report
Brookewood Nursing Center, Inc.
Decatur, Tennessee
Cost Report For the Period
January 1 Through December 31, 2003,
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January 1, 2003, Through August 31, 2004

FINDINGS RECOMMENDING MONETARY REFUNDS

Deficiency in Accounting for Resident Accounts

Brookewood Nursing Center has inappropriately charged Medicaid residents' trust fund accounts for haircuts, which are Medicaid covered services. As a result of this discrepancy, the facility should reimburse Medicaid residents a total of \$4,714.

Nonallowable Expenses Included on the Cost Report

The facility reported \$11,437 of unsupported expenses on its Medicaid cost report. As a result of this adjustment as well as the adjustment for incorrect accumulation of gross charges noted in finding 4, the facility was overpaid \$30,767 from July 1, 2004, through May 31, 2005.

Need to Comply with Medicaid Rules by Not Seeking Reimbursement at a Rate Exceeding the Actual Charges to Medicaid Residents

Brookewood Nursing Center was reimbursed at a rate exceeding the actual charges to Medicaid residents. As a result, the facility was overpaid \$35,795 computed from January 1, 2003, through November 30, 2004.

Incorrect Accumulation of Charges

Brookewood Nursing Center incorrectly accumulated gross charges for the year ended December 31, 2003. Both Medicaid and total charges were understated. The adjustment to charges is incorporated with the reduction of the facility's Medicaid reimbursable rate in finding 2.

Brookewood Nursing Center, Inc.
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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.

Brookewood Nursing Center, Inc., Decatur, Tennessee, provides both NF-1 and NF-2 services. The facility is owned by Robert W. Hagan and operated by Sterling Healthcare, Inc. The officers/members of the board of directors are as follows:

Robert W. Hagan, President
Karen Hagan, Vice President
Mary Lu Flory, Secretary/Treasurer

During the examination period, the facility maintained a total of 88 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 32,120 available bed days, the facility reported 22,219 for Medicaid NF-1 residents and 713 for Medicaid NF-2 residents for the year ended December 31, 2003. Also, the facility reported total operating expenses of \$2,768,576 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 (744-0487)</u>	<u>Level II NF (044-5278)</u>
January 1 through June 30, 2003	\$88.45	\$162.12
July 1, 2003, through June 30, 2004	\$93.36	\$141.89

PRIOR EXAMINATION FINDINGS

This is the first examination of Brookewood Nursing Center, Inc. under its 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
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Independent Accountant's Report

September 24, 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 September 24, 2004, that Brookewood Nursing Center, Inc. complied with the following requirements during the cost report period January 1, 2003, through December 31, 2003, and to the facility's resident accounts for the period January 1, 2003, through August 31, 2004.

- 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 Brookewood Nursing Center, 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 Brookewood Nursing Center, Inc.'s compliance with specified requirements.

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

1. Deficiency in accounting for resident accounts
2. Nonallowable expenses included on the cost report
3. Need to comply with Medicaid rules by not seeking reimbursement at a rate exceeding the actual charges to Medicaid residents
4. Incorrect accumulation of charges

In our opinion, except for the instances of material noncompliance described above, management's assertions that Brookewood Nursing Center, Inc. complied with the aforementioned requirements for the cost reporting period January 1, 2003, to December 31, 2003, and for resident accounts for the period January 1, 2003, to August 31, 2004, 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. Deficiency in Accounting for Resident Accounts

Finding

Brookewood Nursing Center, Inc. has inappropriately charged Medicaid residents' trust fund accounts for Medicaid covered services. From January 1, 2003, through August 31, 2004, the facility inappropriately charged 66 residents \$4,714 for basic haircuts.

Chapter 1200-8-6-.06(4)(q) of the *Rules of Tennessee Department of Finance and Administration* states, in regard to basic services, "Residents shall have shampoos, haircuts and shaves as needed, or desired."

As a result of the inappropriate charges, the trust fund account for Medicaid residents has been incorrectly charged for Medicaid covered services a total of \$4,714.

Recommendation

Brookewood Nursing Center, Inc. should not charge Medicaid residents for covered services. The facility should reimburse Medicaid residents a total of \$4,714. In the future, the facility should provide covered services to all Medicaid residents without charge.

Management's Comment

We have addressed and refunded the appropriate amounts to the residents for their respective haircuts.

2. Nonallowable Expenses Included on the Cost Report

Finding

Brookewood Nursing Center, Inc. included \$11,436.58 of unsupported expenses on the "Medicaid Nursing Facility Level 1 Cost Report" for the year ended December 31, 2003.

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."

As a result of the adjustment to allowable expenses above and the adjustments for incorrect accumulation of gross charges noted in finding 4, 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, 2004, to the Present	\$94.69	\$93.18	(\$1.51)

Overpayments made to the facility as a result of the above adjustments total \$30,766.77, computed from July 1, 2004, through May 31, 2005.

Recommendation

Brookewood Nursing Center, Inc. should include only allowable expenses on the "Medicaid Nursing Facility Level 1 Cost Report." All reported expenses should be adequately supported, related to resident care, and in compliance with other applicable regulations.

The facility should refund \$30,766.77, representing overpayments by the Medicaid Program, to the State of Tennessee as a result of the rate reduction computed from July 1, 2004, through May 31, 2005.

Management's Comment

Management concurs.

3. Need to Comply with Medicaid Rules by Not Seeking Reimbursement at a Rate Exceeding the Actual Charges to Medicaid Residents

Finding

Brookewood Nursing Center, Inc.'s reimbursement rate exceeded actual charges billed to Medicaid NF-2 residents.

Chapter 1200-13-1-.06(3)(a) of the *Rules of Tennessee Department of Finance and Administration* states, "A Level II Nursing Facility will be reimbursed on the lowest of . . . allowable costs [or] allowable charges. . . ."

The facility's reimbursement for the fiscal year ended December 31, 2003, exceeded allowable charges to Medicaid NF-2 residents by \$34,961.01. The reimbursement for the period January 1 through November 30, 2004, exceeded allowable charges to Medicaid NF-2 residents

by \$833.59. These amounts represent reimbursement in excess of the actual allowable NF-2 charges.

Recommendation

In order to properly receive reimbursement on a cost basis at the computed per diem rate, Brookewood Nursing Center, Inc. must also meet the allowable charge criteria. The facility may revise their routine charge structure in order to qualify for cost-based reimbursement provided the charge structure is applied consistently to both Medicaid and non-Medicaid residents. The facility should refund \$35,794.60 to the State of Tennessee for the total reimbursement received in excess of the actual allowable NF-2 charges.

Management's Comment

Management concurs.

4. Incorrect Accumulation of Charges

Finding

Brookewood Nursing Center, Inc. incorrectly accumulated gross charges on the "Medicaid Nursing Facility Level I Cost Report" for the year ended December 31, 2003. The facility understated Medicaid NF-1 revenue by \$7,185.00; Medicaid NF-2 revenue by \$1,680.00; NF-2 Medicare revenue by \$33,125.00; Private NF-1 revenue by \$2,895.00; and Other NF-1 revenue by \$210.00. Total patient revenue was understated by \$45,095.00.

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."

Chapter 1200-13-6-.10 of the *Rules* states,

Gross charges to the patients' accounts must match the charges to the patient log. . . .
Each facility must maintain daily census records and an adequate patient log. . . .
This log, however, must be sufficient to provide the following information on an individual basis and to accumulate monthly and yearly totals for Medicaid NF-1 patients and for all other patients.

The effect of the adjustments for the incorrect accumulation of gross charges to the facility's Medicaid reimbursable rate is incorporated in finding 2.

Recommendation

Brookewood Nursing Center, Inc. should correctly account for charges on the “Medicaid Nursing Facility Level 1 Cost Report.” Adequate charge logs must be maintained to accumulate monthly and yearly totals.

Management’s Comment

Management concurs.

SUMMARY OF MONETARY FINDINGS AND RECOMMENDATIONS

Source of Overpayments

Deficiency in accounting for resident accounts (see finding 1)	\$ 4,714.00
Rate reduction (see findings 2 and 4)	\$30,766.77
Improper charging of Medicaid skilled residents (see finding 3)	<u>\$35,794.60</u>
Total	<u>\$71,275.37</u>

Disposition of Overpayments

Due to the State of Tennessee	\$66,561.37
Due to Medicaid residents or their authorized representatives	<u>\$ 4,714.00</u>
Total	<u>\$71,275.37</u>