

**Salem Villages of Tennessee  
Springfield, 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

June 16, 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 Salem Villages of Tennessee, Springfield, Tennessee, for the period January 1, 2003, through December 31, 2003, and resident accounts for the period January 1, 2003, through December 31, 2003.

Sincerely,

John G. Morgan  
Comptroller of the Treasury

JGM/pn  
05/027

State of Tennessee

# **A u d i t   H i g h l i g h t s**

Comptroller of the Treasury

Division of State Audit

TennCare Report  
**Salem Villages of Tennessee**  
Springfield, Tennessee  
Cost Report and Resident Accounts  
For the Period  
January 1 Through December 31, 2003

## **FINDING RECOMMENDING MONETARY REFUNDS**

### **Need to Observe Medicaid Hospital Leave Limitation**

The facility improperly billed and collected for four days after one resident exceeded the 15-day limitation for bed hold days during hospitalization. As a result of this deficiency, the facility should refund \$1,045 to the State of Tennessee.

## **FINDING NOT RECOMMENDING MONETARY REFUNDS**

### **Failure to Maintain a Surety Bond on Resident Funds**

The facility did not maintain a surety bond to insure funds held in trust for its residents.

**Salem Villages of Tennessee  
Springfield, Tennessee  
Cost Report and Resident Accounts  
For the Period  
January 1 Through December 31, 2003**

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**Salem Villages of Tennessee  
Springfield, Tennessee  
Cost Report and Resident Accounts  
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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.

An Intermediate Care Facility for the Mentally Retarded (ICF/MR) is a facility approved for Medicaid reimbursement and is required to provide routine nursing services, including supplies, that comply with current federal standards and certification. Medicaid pays for covered services through an all-inclusive per diem rate, less any available patient resources.

Salem Villages of Tennessee, Springfield, Tennessee, provides ICF/MR services. The facility is owned and operated by Salem Villages, Inc. The officers/members of the board of directors are as follows:

Perry C. Craven  
Lawrence U. McGee

E. F. Dehnert  
Brett L. Waters

During the examination period, the facility maintained a total of 24 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 8,760 available bed days, the facility reported that 8,374 were for Medicaid ICF/MR residents for the year ended December 31, 2003. Also, the facility reported total operating expenses of \$2,511,036 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>ICF/MR (744-7086)</u>	<u>ICF/MR (744-7087)</u>	<u>ICF/MR (744-7088)</u>
January 1 to March 31, 2003	\$306.55	\$289.56	\$277.65
April 1 to December 31, 2003	\$258.98	\$283.04	\$298.11

**PRIOR EXAMINATION FINDINGS**

The 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  
COMPTROLLER OF THE TREASURY  
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**Independent Accountant's Report**

**October 29, 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 October 29, 2004, that Salem Villages of Tennessee 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 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 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 Salem Villages of Tennessee'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 Salem Villages of Tennessee's compliance with specified requirements.

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

1. Need to observe Medicaid hospital leave limitation
2. Failure to maintain a surety bond on resident funds

In our opinion, except for the instances of material noncompliance described above, management's assertions that Salem Villages of Tennessee 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 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,



Arthur A. Hayes, Jr., CPA  
Director

AAH/pn

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## FINDINGS AND RECOMMENDATIONS

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### 1. Need to Observe Medicaid Hospital Leave Limitation

#### Finding

Salem Villages of Tennessee failed to observe the 15 consecutive day Medicaid hospital leave limitation during the hospitalization of one resident. The facility billed and collected for four days after a resident exceeded the 15-day limitation for bed hold days during hospitalization. The facility was overpaid a total of \$1,044.76 for those four days.

Chapter 1200-13-1.06(4)(b) of the *Rules of the Tennessee Department of Finance and Administration* allows Level 1 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 . . .]
- (iv) At least 85% of all other beds at the nursing facility are occupied at the time of the hospital admission.

As a result of the improper billing for four hospital leave days, the facility was overpaid \$1,044.76 by the State of Tennessee.

#### Recommendation

Salem Villages of Tennessee should establish adequate procedures to ensure compliance with applicable regulations relative to hospital leave days. The facility should refund \$1,044.76 to the State of Tennessee for overpayment of noncovered hospital leave days.

#### Management's Comment

We concur with this finding and will strive to monitor the amount of hospital leave of clients in future periods.

## **2. Failure to Maintain a Surety Bond on Resident Funds**

### **Finding**

Salem Villages of Tennessee has failed to maintain a surety bond as required by law to protect resident funds. The facility did not have a surety bond to insure the resident trust fund balance of \$15,590.95.

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**

Salem Villages of Tennessee should establish adequate procedures to ensure compliance with applicable laws and regulations for the protection of resident trust funds. The facility should obtain a surety bond to provide coverage for all money held in trust for the residents of the facility.

### **Management’s Comment**

We both concur and disagree with this finding. Yes, we did not have a per se “surety bond” in place for the amount of the client funds held in trust for the clients. However, a crime policy of insurance is maintained that covers any disappearance of theft of client funds. In our opinion, our insurance policy that protects against crime meets the intent of the regulation which requires the maintenance of a surety bond for the protection of client funds held in trust.

### **Rebuttal**

*Tennessee Code Annotated* does not lend itself to the acceptance of any other type of insurance policy, but strictly requires that the nursing home maintain a surety bond for all funds held in trust for the facility residents.

## **SUMMARY OF MONETARY FINDINGS AND RECOMMENDATIONS**

### **Source of Overpayments**

Need to observe hospital leave limitation (see finding 1)	<u>\$1,044.76</u>
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### **Disposition of Overpayments**

Due to the State of Tennessee	<u>\$1,044.76</u>
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