

**Palmyra Health Care Center
Palmyra, 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

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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 Palmyra Health Care Center, Palmyra, 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
05/034

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

TennCare Report
Palmyra Health Care Center
Palmyra, Tennessee
Cost Report and Resident Accounts
For the Period
January 1 Through December 31, 2003

FINDINGS RECOMMENDING MONETARY REFUNDS

Nonallowable Expenses Included on the Cost Report

The facility included \$5,974 of nonallowable expenses on the "Medicaid Nursing Facility Level 1 Cost Report" for the fiscal year ended December 31, 2003. As a result of the adjustment as well as the adjustment to resident days (see below), the facility was overpaid \$3,048, computed from June 1, 2004, through June 30, 2005.

Inaccurate Accumulation of Resident Days

The facility inaccurately reported resident days. The facility overreported Medicaid NF-1 days by 218.

Improper Billing of Resident Hospital Leave Days

Palmyra Health Care Center improperly billed the Medicaid Program for 15 hospital leave days when the facility was operating below 85% occupancy. Also, the facility billed for five days that exceed the 15 consecutive Medicaid hospital leave limitation. As a result, the facility should refund \$1,821 to the State of Tennessee.

Deficiency in Accounting for Resident Accounts

The facility has charged Medicaid residents' trust fund accounts for routine barber and beauty services, which are Medicaid covered services. As a result of this discrepancy, the facility should reimburse Medicaid residents a total of \$1,781.

Need to Properly Manage Unrefunded Credit Balances

Palmyra Health Care Center has not established a system to ensure that credit balances on the accounts of deceased or discharged residents are properly managed. The facility should refund \$2,300 to former residents or their responsible representatives and \$667 to the State of Tennessee.

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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.

Palmyra Health Care Center, Palmyra, Tennessee, provides both NF-1 and NF-2, and Intermediate Care Facility/Mental Retardation (ICF/MR) services. The facility is owned and operated by Preston Health Care of Palmyra, LLC. The officers/members of the board of directors are as follows: Preston Health Care Enterprises, Inc. – 1%, Cynthia J. Milenski – 85.7%, and John Simonton – 13.3%. Cynthia J. Milenski owns 100% of Preston Health Care

Enterprises, Inc. In 2005 Preston Health Care Enterprises, Inc. changed its name to Cornerstone Health Services Group, Inc., a sub-chapter S corporation.

During the examination period, the facility maintained a total of 75 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 27,375 available bed days, the facility reported 12,383 for Medicaid NF-1 residents, 2,752 for Medicaid NF-2 residents, and 7,292 for Medicaid ICF/MR residents for the year ended December 31, 2003. Also, the facility reported total operating expenses of \$3,850,586 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 (744-0300)</u>	<u>Level II NF (044-5184)</u>	<u>ICF/MR (744-7034)</u>
January 1 through April 30, 2003	\$107.56	\$162.12	\$190.21
May 1 through June 30, 2003	\$107.56	\$162.12	\$214.47
July 1 through December 31, 2003	\$109.20	\$158.33	\$214.47

PRIOR EXAMINATION FINDINGS

The prior report of Palmyra Health Care Center, for the period July 1, 1996, through June 30, 1997, contained the following findings:

- Nonallowable expenses included on the cost report
- Need to properly manage unrefunded credit balances
- Inaccurate accumulation of inpatient days
- Deficiencies in accounting for the patient trust fund

These findings are repeated in this report.

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

January 12, 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:

We have examined management's assertions, included in its representation letter dated January 12, 2005, that Palmyra Health Care Center 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 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 Palmyra Health Care Center'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 Palmyra Health Care Center's compliance with specified requirements.

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

1. Nonallowable expenses included on the cost report
2. Inaccurate accumulation of resident days
3. Improper billing of resident hospital leave days
4. Deficiency in accounting for resident accounts
5. Need to properly manage unrefunded credit balances

In our opinion, except for the instances of material noncompliance described above, management's assertions that Palmyra Health Care Center complied with the aforementioned requirements for the cost reporting period January 1 to December 31, 2003, and for resident accounts for the period January 1 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,

A handwritten signature in black ink, appearing to read "Arthur A. Hayes, Jr.", written in a cursive style.

Arthur A. Hayes, Jr., CPA
Director

AAH/pn

FINDINGS AND RECOMMENDATIONS

1. Nonallowable Expenses Included on the Cost Report

Finding

Palmyra Health Care Center included \$5,974.40 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 \$34.99 of expenses not adequately supported and \$5,939.41 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.” The rule also specifies that unnecessary costs and costs not related to resident care are to be deducted from allowable expenses.

As a result of the adjustment to allowable expenses above and the adjustment to resident days, the facility’s Medicaid reimbursable rate was changed as follows:

<u>Period</u>	NF-1 (744-0300) <u>Original Rate</u>	ICF/MR (744-7034) <u>Original Rate</u>	<u>Adjusted Rate</u>	<u>Difference</u>
June 1, 2004, Through April 30, 2005		\$209.95	\$209.98	\$0.03
July 1, 2004, Through June 30, 2005	\$111.35		\$111.08	(\$0.27)

Overpayments made to the nursing facility as a result of the above adjustments and the adjustments to resident days made in finding 2 total \$3,047.81, computed from June 1, 2004, through June 30, 2005.

Recommendation

Palmyra Health Care Center 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 \$3,047.81, representing overpayments by the Medicaid Program, to the State of Tennessee.

Management's Comment

Management concurs. We understand that the late fees are not allowable for cost report purposes. There are also expenses for meals that are being disallowed for lack of documentation. Going forward the employees are to document on the receipts who the meal was for and the reason for the meal. They are also to attach the agendas if the meal was in relation to a seminar or meeting.

2. Inaccurate Accumulation of Resident Days

Finding

Palmyra Health Care Center did not adequately support or accurately report resident days on the "Medicaid Nursing Facility Level 1 Cost Report" for the fiscal year ended December 31, 2003. The facility overreported Medicaid NF-1 days by 218.

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.

The adjustment to days reported above and the associated charges are incorporated in the rate change noted in finding 1.

Recommendation

Palmyra Health Care Center 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."

Management's Comment

Management concurs. We overreported Medicaid Level 1 days on our cost report. However, these residents did not qualify for Medicaid Level 1. When it was determined that

these residents did not qualify for Medicaid Level 1, they were reclassified to the correct levels of care. These changes were not discovered until after filing the cost report.

3. Improper Billing of Resident Hospital Leave Days

Finding

Palmyra Health Care Center improperly billed the Medicaid Program for 15 hospital leave days when the facility was under 85% occupancy for the fiscal year ended December 31, 2003. Also, the facility failed to observe the 15 consecutive day Medicaid hospital leave limitation during the hospitalization of one resident, resulting in improperly billing the Medicaid Program five days.

Chapter 1200-13-1-.06(4)(b) of the *Rules of 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:

- The resident intends to return to the facility and . . .
- At least 85% of all other beds at the nursing facility are occupied at the time of the hospital admission.

Palmyra Health Care Center was overpaid \$1,283.40 for the 15 hospital leave days billed to the Medicaid Program when the facility was operating below 85% occupancy. Also, as a result of the improper billing for five hospital leave days that exceeded the 15 consecutive day Medicaid hospital leave limitation, the facility was overpaid \$537.80 by the State of Tennessee.

Recommendation

The facility should not accumulate or bill the Medicaid Program for hospital leave days when the facility is operating under 85% occupancy. Also, the facility should not bill Medicaid for hospital leave days that exceed the 15 consecutive hospital leave limitation. The State of Tennessee should take necessary steps to recover the \$1,821.20 due to the State of Tennessee, which represents overpayments by the Medicaid Program as a result of the improper billing of hospital leave days.

Management's Comment

Management concurs. We have communicated the importance of accurate documentation to our employees. The facility did not realize that our occupancy was below 85% and therefore, not able to bill for those days. These amounts will be refunded to the State.

4. Deficiency in Accounting for Resident Accounts

Finding

Palmyra Health Care Center has charged Medicaid residents' trust fund accounts for Medicaid covered services. From January 1 through December 31, 2003, the facility inappropriately charged residents \$1,781.00 for routine barber and beauty services.

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 accounts for Medicaid residents have been incorrectly charged \$1,780.00 for Medicaid covered services.

Recommendation

Palmyra Health Care Center should not charge Medicaid residents for covered services. The facility should reimburse Medicaid residents a total of \$1,781.00. In the future, the facility should provide covered services to all Medicaid residents without charge.

Management's Comment

Management concurs. We have communicated this finding to our employees. They misunderstood when they could actually charge for barber and beauty. It was their understanding that anytime a licensed beautician provided the service that it was chargeable. They are now aware that the facility has to provide alternatives for free basic hair care. These amounts will be refunded.

5. Need to Properly Manage Unrefunded Credit Balances

Finding

Palmyra Health Care Center has not established a system to manage accounts receivable and to ensure that credit balances on the accounts of deceased or discharged residents are properly managed. Management did not maintain evidence that former residents or their authorized representatives were notified of money due them. Also, facility management failed to refund the portion of the credit balances due the Medicaid Program.

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."

Accounts receivable unrefunded credit balances of \$2,967.08 remain on the accounts of four former residents of Palmyra Health Care Center. Of the total unrefunded credit balances, \$667.08 is due the State of Tennessee and \$2,300.00 is due former residents or their authorized representatives.

Recommendation

Palmyra Health Care Center should implement systems to make timely and accurate analysis of its accounts receivable. In addition, 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 \$667.08 should be made to the State of Tennessee for the amount due the Medicaid Program, and \$2,300.00 should be refunded to the former residents or their authorized representatives.

Management's Comment

The facility is researching these accounts and will be issuing the refunds or making corrections as necessary.

SUMMARY OF MONETARY FINDINGS AND RECOMMENDATIONS

Source of Overpayments

Rate reduction (see findings 1 and 2)	\$ 3,047.81
Noncovered hospital leave days (see finding 3)	\$ 1,821.20
Deficiency in accounting for resident accounts (see finding 4)	\$ 1,781.00
Unrefunded credit balances (see finding 5)	<u>\$ 2,967.08</u>
Total	<u>\$ 9,617.09</u>

Disposition of Overpayments

Due to the State of Tennessee	\$ 5,536.09
Due to Medicaid residents or their authorized representatives	<u>\$ 4,081.00</u>
Total	<u>\$ 9,617.09</u>