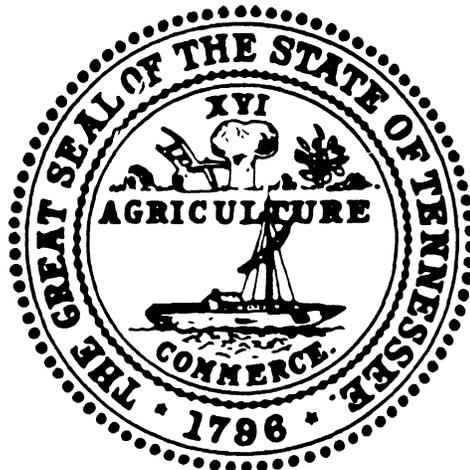


TENNCARE REPORT

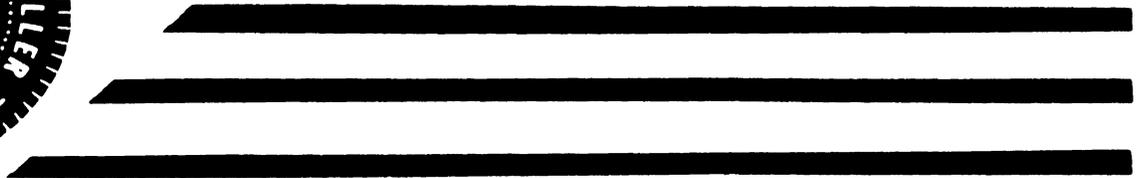
Serene Manor Medical Center
Knoxville, Tennessee

Cost Report and Resident Accounts
For the Period
July 1, 2003, Through June 30, 2004



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

Department of Audit
Division of State Audit



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

March 16, 2006

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
310 Great Circle Road, 4W
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 Serene Manor Medical Center, Knoxville, Tennessee, for the period July 1, 2003, through June 30, 2004, and resident accounts for the period July 1, 2003, through June 30, 2004.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/pn
05/082

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
Serene Manor Medical Center
Knoxville, Tennessee
Cost Report and Resident Accounts
For the Period
July 1, 2003, Through June 30, 2004

FINDINGS RECOMMENDING MONETARY REFUNDS

Nonallowable Expenses Included on the Cost Report

The facility included \$16,809.98 of nonallowable expenses on the “Intermediate Care Statement of Reimbursable Costs” for the year ended June 30, 2004. Disallowed costs for this period consist of \$11,068.56 of costs not related to patient care and \$5,741.42 of inadequately supported expenses. As a result of this adjustment, the facility was overpaid \$15,551.75, computed from July 1 through November 30, 2005.

Need to Properly Manage Unrefunded Credit Balances

The facility has not established a system to ensure that credit balances on the accounts of deceased or discharged residents are properly managed. Unrefunded credit balances of \$6,689.76 remain on the trust fund accounts for 19 former residents.

FINDING NOT RECOMMENDING MONETARY REFUND

Inadequate Surety Bond

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

**Serene Manor Medical Center
Knoxville, Tennessee
Cost Report and Resident Accounts
For the Period
July 1, 2003, Through June 30, 2004**

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**Serene Manor Medical Center
Knoxville, Tennessee
Cost Report and Resident Accounts
For the Period
July 1, 2003, Through June 30, 2004**

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.

Serene Manor Medical Center, Knoxville, Tennessee, provides only NF-1 services. The facility is owned and operated by Serene Manor Medical Center, Inc. with the majority of the shares of the corporation owned by Donald and Nancy Bowman. The officers/members of the board of directors are as follows:

Donald Bowman, CEO
Nancy Bowman, Sec.
Ann Milner
Brenda Armstrong
Alvin Wood

Rita Griffin, Admin.
Dr. E.V. Davidson
Carolyn Jones
Steve Wold

During the examination period, the facility maintained a total of 79 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 28,914 available bed days, the facility reported 27,687 for Medicaid NF-1 residents and 310 for private NF-1 residents for the year ended June 30, 2004. Also, the facility reported total operating expenses of \$2,451,330 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</u>
July 1, 2003, to June 30, 2004	\$91.49

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
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Independent Accountant's Report

April 28, 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
310 Great Circle Road, 4W
Nashville, Tennessee 37247

Ladies and Gentlemen:

We have examined management's assertions, included in its representation letter dated April 28, 2005, that Serene Manor Medical Center complied with the following requirements during the cost report period July 1, 2003, through June 30, 2004, and to the facility's resident accounts for the period June 1, 2003, through July 30, 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 Serene Manor Medical 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 Serene Manor Medical 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. Need to properly manage unrefunded credit balances
3. Inadequate surety bond

In our opinion, except for the instances of material noncompliance described above, management's assertions that Serene Manor Medical Center complied with the aforementioned requirements for the cost reporting period July 1, 2003, to June 30, 2004, and for resident accounts for the period July 1, 2003, to June 30, 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. Nonallowable Expenses Included on the Cost Report

Finding

Serene Manor Medical Center included \$16,809.98 of nonallowable expenses on the “Medicaid Nursing Facility Level 1 Cost Report” for the year ended June 30, 2004. The adjustment to allowable expenses consists of \$11,068.56 of costs not related to patient care and \$5,741.42 of inadequately supported expenses.

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.

As a result of the above adjustments, the facility’s NF-1 Medicaid reimbursable rate was decreased as follows:

<u>Period</u>	<u>Original Rate</u>	<u>Adjusted Rate</u>	<u>Difference</u>
July 1, 2005, to the present	\$97.26	\$95.92	(\$1.34)

Overpayments made by the Medicaid Program to the facility as a result of the above adjustments total \$15,551.75, computed from July 1 through November 30, 2005. (However, see the note below.)

NOTE: At the time this examination was released, the Bureau of TennCare had frozen reimbursement rates statewide for long-term care providers at the level being reimbursed to individual providers at the end of the state’s 2005 fiscal year. If these rates remain frozen throughout the entire year, then the rate reductions and corresponding overpayments recommended in this examination would not be applicable. If, however, the freeze is ultimately lifted, then the rate as recommended in this examination would be effective on the date of the statewide reinstatement.

Recommendation

Serene Manor Medical Center should include only allowable expenses on the “Medicaid Nursing Facility Level 1 Cost Report.” All reported expenses should be adequately supported, related to patient care, and in compliance with other applicable regulations. Business and

personal expenses should be clearly separated, and personal expenses must be excluded from allowable costs.

Management's Comment

Serene Manor Medical Center will include only allowable expenses on the "Medicaid Nursing Facility Level 1 Cost Report." All reported expenses will be adequately supported, relate to patient care, and will be in compliance with other applicable regulations. Business and personal expenses will be clearly separated, and personal expenses will be excluded from allowable costs.

2. Need to Properly Manage Unrefunded Credit Balances

Finding

Serene Manor Medical Center has not established a system 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 in a timely manner of money due them.

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."

Unrefunded credit balances of \$6,689.76 remain on the trust fund accounts of 19 former residents of Serene Manor Medical Center. This entire amount is due to the former residents or their authorized representatives who were not notified of money due them.

Recommendation

Serene Manor Medical Center should maintain a system to refund credit balances on the accounts of former residents. The facility should maintain a record of the 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.

The facility should also maintain evidence of attempts to contact the owner of the credit balance. 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.

Refunds totaling \$6,689.76 should be made to the 19 former residents or their authorized representatives. The facility should notify the State Treasurer of unclaimed balances older than five years and remit such funds with its “Annual Report of Unclaimed Property” to the State of Tennessee.

Management’s Comment

Refunds totaling \$6,689.76 were made by the facility. Documentation/verification has been submitted to the Comptroller’s Office. Serene Manor Medical Center will refund credit balances on former residents in a timely manner. Serene Manor Medical Center will maintain a record of the 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. Attempts to contact the owner of the credit balance will be maintained. A return of first-class mailing sent to the owner’s last known address will be maintained. If the proper owners cannot be located within five years from the date of last account activity, a report of the abandoned property will be filed with the Tennessee Department of Treasury, Division of Unclaimed Property.

3. Inadequate Surety Bond

Finding

Serene Manor Medical Center has failed to maintain an adequate surety bond as required by law. As of March 3, 2005, the surety bond was not sufficient to insure the resident trust fund balance of \$74,426.39.

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

Serene Manor Medical Center should establish adequate procedures to ensure compliance with applicable laws and regulations for the 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

Serene Manor Medical Center has a surety bond increase to \$75,000 from \$45,000, effective November 28, 2005. Serene Manor Medical Center will increase the surety bond as necessary to provide coverage for all money held in trust as the balance of the resident trust fund increases. The highest balance of the patient trust fund accounts any day during the month of September 2005 was \$49,175.08 and in October 2005, \$50,170.43.

SUMMARY OF MONETARY FINDINGS AND RECOMMENDATIONS

Source of Overpayments

Rate reduction (see finding 1)	\$15,551.75
Unrefunded credit balances (see finding 2)	\$ <u>6,689.76</u>
Total	<u>\$22,241.51</u>

Disposition of Overpayments

Due to the State of Tennessee	\$15,551.75
Due to residents or their authorized representatives	\$ <u>6,689.76</u>
Total	<u>\$22,241.51</u>