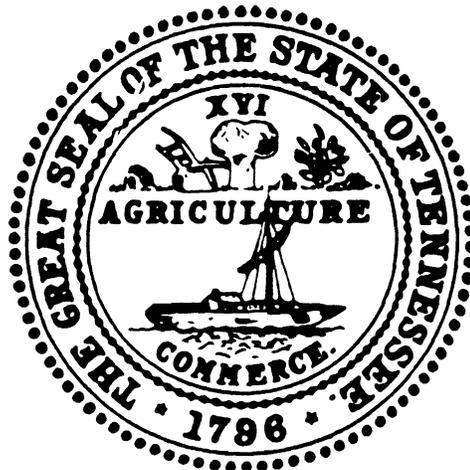


TENNCARE REPORT

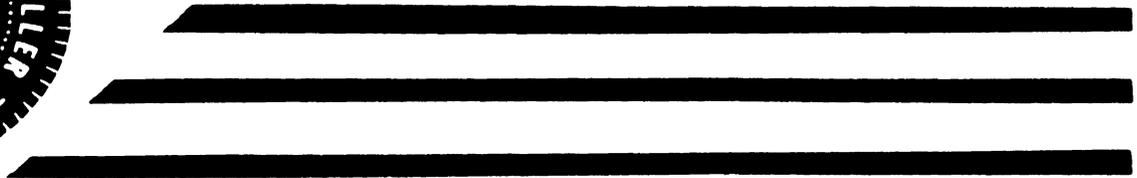
Etowah Health Care Center
Etowah, Tennessee

Cost Report and Resident Accounts
For the Period
January 1 Through December 31, 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

June 15, 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 37243

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 Etowah Health Care Center, Etowah, Tennessee, for the period January 1 through December 31, 2004, and resident accounts for the period January 1 through December 31, 2004.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/pn
06/017

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

TennCare Report
Etowah Health Care Center
Etowah, Tennessee
Cost Report and Resident Accounts
For the Period
January 1 Through December 31, 2004

FINDING RECOMMENDING MONETARY REFUND

Nonallowable Expenses Included on the Cost Report

Etowah Health Care Center included \$2,646 of nonallowable expenses on the "Medicaid Nursing Facility Level 1 Cost Report." As a result, the facility was overpaid \$2,902.94, computed from October 1, 2005, through June 30, 2006.

FINDING NOT RECOMMENDING MONETARY REFUND

Need to Adequately Maintain Resident Trust Funds

Etowah Health Care Center failed to maintain adequate documentation necessary to protect resident trust funds and to ensure an accurate accounting of those funds.

**Etowah Health Care Center
Etowah, Tennessee
Cost Report and Resident Accounts
For the Period
January 1 Through December 31, 2004**

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**Etowah Health Care Center
Etowah, Tennessee
Cost Report and Resident Accounts
For the Period
January 1 Through December 31, 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.

Etowah Health Care Center, Etowah, Tennessee, provides both NF-1 and NF-2 services. The real property is owned by the Health and Education Facilities Board of Etowah, Tennessee. The facility is owned and operated by Southeastern Health Facilities, Inc., a Tennessee corporation. The officers/members of the board of directors are as follows:

John Faust, M.D., President
Martin Baker, Secretary
Suzanne Baker

John Low, Vice President
Robert Buchanan, Treasurer
Della Faust

M-K Management Services, Inc., of Memphis, Tennessee, provides management oversight.

During the examination period, the facility maintained a total of 120 licensed nursing facility beds from January 1 through October 11, 2004, and a total of 105 licensed nursing facility beds from October 12 through December 31, 2004. 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 42,705 available bed days, the facility reported 27,723 for Medicaid NF-1 residents and 128 for Medicaid NF-2 residents for the year ended December 31, 2004. Also, the facility reported total operating expenses of \$4,526,591 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 (744-0321)</u>	<u>Level II NF (044-5422)</u>
July 1, 2003, to June 30, 2004	\$ 98.34	\$158.33
July 1, 2004, to September 30, 2005	\$115.59	\$157.80

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
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT

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PHONE (615) 401-7897
FAX (615) 532-2765

Independent Accountant's Report

August 18, 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 37243

Ladies and Gentlemen:

We have examined management's assertions, included in its representation letter dated August 18, 2005, that Etowah Health Care Center complied with the following requirements during the cost report period January 1 through December 31, 2004, and to the facility's resident accounts for the period January 1 through December 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 Etowah 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 Etowah 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. Need to adequately maintain resident trust funds

In our opinion, except for the instances of material noncompliance described above, management's assertions that Etowah Health Care Center complied with the aforementioned requirements for the cost reporting period January 1 to December 31, 2004, and for resident accounts for the period January 1 to December 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. Nonallowable Expenses Included on the Cost Report

Finding

Etowah Health Care Center included \$2,646.00 of nonallowable expenses on the “Medicaid Nursing Facility Level 1 Cost Report” for the year ended December 31, 2004. The nonallowable amount consisted of \$2,000.00 of owners’ health insurance premiums, of which the expenses are not related to patient care, and \$646.00 of non-sufficient fund bank charges.

Chapter 1200-13-6-.09 of the *Rules of Tennessee Department of Finance and Administration* notes that “the following are . . . expenses not considered a part of the cost of providing routine service, and should be deducted. . . . Costs which are not necessary or related to patient care.” The rule also specifies that fines and penalties be deducted from allowable expenses.

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

<u>Period</u>	<u>Original Rate</u>	<u>Adjusted Rate</u>	<u>Difference</u>
October 1, 2005, to the present	\$121.34	\$121.20	(\$0.14)

Overpayments made to the facility as a result of the above adjustments total \$2,902.94, computed from October 1, 2005, through June 30, 2006.

Recommendation

Etowah Health Care Center should include only allowable expenses on the “Medicaid Nursing Facility Level 1 Cost Report.” All reported expenses should be related to patient care. Costs considered to be fines or penalties should not be reported as reimbursable.

The facility should refund \$2,902.94, representing overpayments by the Medicaid Program, to the State of Tennessee as a result of the rate reduction computed from October 1, 2005, through June 30, 2006.

Management’s Comment

Management concurs.

2. Need to Adequately Maintain Resident Trust Funds

Finding

Etowah Health Care Center failed to maintain adequate documentation necessary to protect resident trust funds and to ensure an accurate accounting of those funds. The individual trust accounts were poorly organized, making current account balances difficult to determine.

The facility does not maintain accurate individual accounts receivable records. The facility relies on the numbers of days in the month and research done by the bookkeeper to determine accounts receivable balances at any given time. As a result, potential unrefunded credit balances that could be due to residents or their authorized representatives are not readily apparent.

Chapter 1200-13-6.10(4) of the *Rules of Tennessee Department of Finance and Administration* requires gross charges on patients' accounts to trace to the charges on the patient log and that all charges on the accounts be supported by charge records, corresponding to the charges reported on the department's billing forms. This rule further requires that personal funds held by the provider for Medicaid patients must be properly accounted for with detailed records of amounts received and disbursed. Chapter 1200-13-6-.15 of the *Rules* states, "adequate cost and statistical 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."

Recommendation

Etowah Health Care Center should institute measures to adequately safeguard and account for resident trust funds. The facility should maintain records adequate to verify resident accounts without the need to employ alternative methods. The facility should institute and maintain accurate individual accounts receivable records.

Management's Comment

We do not concur with the wording of this finding. Specifically, "Etowah Health Care Center failed to maintain adequate documentation necessary to protect resident trust funds and to ensure an accurate accounting of those funds" and "The facility does not maintain accurate individual accounts receivable records."

Staff from our Management office has visited Etowah Health Care Center several times since becoming aware of this finding. While we agree that there are numerous areas that we can improve in and have already begun appropriate actions to do so, overall, the patient trust fund and accounts receivable records are protected and accurate.

It seems that the timing of this examination included the transition between our old accounts receivable software, Accumed, and our new custom accounts receivable software package—hence, the reason that some previous balances had to be researched. I understand where that would cause some confusion during the audit. Our bookkeeper had never before been involved in the audit process and obviously did not explain her methods clearly enough. We apologize that your auditors left Etowah Health Care Center feeling insecure about our accounting methods and we have discussed this in great detail with our bookkeeper.

Rebuttal

During our examination, resident account balances were not accurate and reliable as documented in the computer system. Considerable manual research was required to reconcile each resident's account balance.

SUMMARY OF MONETARY FINDING AND RECOMMENDATION

Source of Overpayments

Rate reduction (see finding 1)	<u>\$2,902.94</u>
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Disposition of Overpayments

Due to the State of Tennessee	<u>\$2,902.94</u>
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