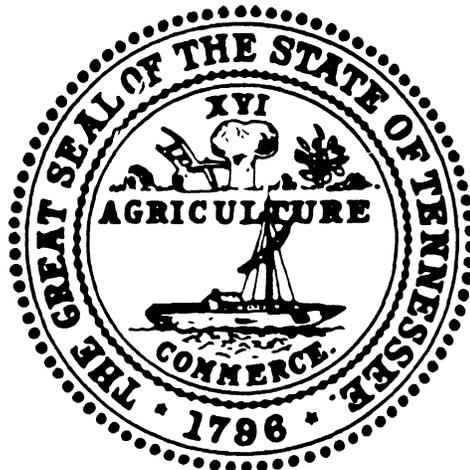


TENNCARE REPORT

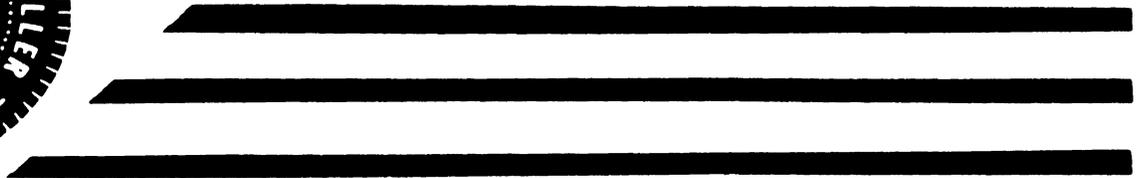
Lakeshore-Heartland
Nashville, Tennessee

Cost Report for the Period
January 1 Through December 31, 2004,
and Resident Accounts for the Period
January 1, 2004, Through September 15, 2005



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

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

June 20, 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 Lakeshore-Heartland, Nashville, Tennessee, for the period January 1 through December 31, 2004, and resident accounts for the period January 1, 2004, through September 15, 2005.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/pn
06/021

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

TennCare Report
Lakeshore-Heartland
Nashville, Tennessee
Cost Report For the Period
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FINDING RECOMMENDING MONETARY REFUNDS

Deficiencies in Accounting for Resident Trust Funds

Lakeshore-Heartland failed to take adequate measures to safeguard resident trust funds. The facility did not make timely monthly reconciliations of the resident trust fund accounts. This resulted in an unreconcilable variance of \$704.35 that the facility must refund

to the trust fund account. Also, the facility has charged Medicaid residents' trust fund accounts for routine barber and beauty services, which are Medicaid services. As a result, the facility should refund Medicaid residents or their responsible parties a total of \$2,212.00 for basic covered services.

FINDINGS NOT RECOMMENDING MONETARY REFUNDS

Nonallowable Expenses Included on the Cost Report

The facility included \$15,498.54 of nonallowable expenses on the "Medicaid Nursing Facility Level 1 Cost Report" for fiscal year ended December 31, 2004. The adjustment to allowable costs consists of improper accelerated depreciation expense. The adjustment had no effect on the facility's Medicaid reimbursable rate.

Inaccurate Accumulation and Reporting of Resident Days

The facility inaccurately reported resident days on the "Medicaid Nursing Facility Level 1 Cost Report." The facility did not include 273 allowable bed hold days. Also, the facility did not maintain an accurate record of resident days by payor type, resulting in a net effect of Medicaid NF-1 days being underreported by an additional 36 and NF-1 private days being overreported by 67. Since the facility's computed cost exceeds the maximum reimbursement allowed by the Medicaid Program, there was no rate effect.

**Lakeshore-Heartland
Nashville, Tennessee
Cost Report for the Period
January 1 Through December 31, 2004,
and Resident Accounts for the Period
January 1, 2004, Through September 15, 2005**

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
Purpose and Authority of the Examination	1
Background	1
Prior Examination Findings	2
Scope of the Examination	2
INDEPENDENT ACCOUNTANT'S REPORT	3
FINDINGS AND RECOMMENDATIONS	5
• Deficiencies in accounting for resident accounts	5
• Nonallowable expenses included on the cost report	6
• Inaccurate accumulation of resident days	7
Summary of Monetary Finding and Recommendation	8

**Lakeshore-Heartland
Nashville, Tennessee
Cost Report for the Period
January 1 Through December 31, 2004,
and Resident Accounts for the Period
January 1, 2004, Through September 15, 2005**

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.

Lakeshore-Heartland, Nashville, Tennessee, provides only NF-1 services. The facility is owned and operated by Lakeshore Estates, Inc. The officers/members of the board of directors are as follows:

Mr. David Sciortino, Chairman
Mrs. Emily Acuff, Secretary
Mr. J. Randall Hooper, Attorney
Dr. Daniel Baccus
Ms. Barbara Outhier
Mr. Bobby Smith
Mr. Don Holiday, President (ex-officio)

Mr. John Thweatt, Vice Chairman
Mr. John Robinson, Treasurer
Mr. Thurman Whitworth
Mr. Thomas Batey
Mr. David Whitefield, Attorney
Mrs. Mary Anne Peugeot

During the examination period, the facility maintained a total of 66 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 24,156 available bed days, the facility reported 17,695 for Medicaid NF-1 residents for the year ended December 31, 2004. Also, the facility reported total operating expenses of \$3,202,217 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 (744-0581)</u>
January 1, 2004, to June 30, 2004	\$120.45
July 1, 2004, to September 30, 2005	\$128.97

PRIOR EXAMINATION FINDINGS

This is the first examination of Lakeshore-Heartland.

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

September 27, 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 September 27, 2005, that Lakeshore-Heartland 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, 2004, through September 15, 2005.

- 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 Lakeshore-Heartland'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 Lakeshore-Heartland's compliance with specified requirements.

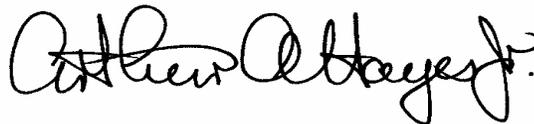
Our examination disclosed the following instances of material noncompliance applicable to state and federal regulations:

- Deficiencies in accounting for resident trust funds
- Nonallowable expenses included on the cost report
- Inaccurate accumulation and reporting of resident days

In our opinion, except for the instances of material noncompliance described above, management's assertions that Lakeshore-Heartland 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, 2004, to September 15, 2005, 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. Deficiencies in Accounting for Resident Accounts

Finding

Lakeshore-Heartland failed to take adequate measures to safeguard resident trust funds. The facility has failed to reconcile the account on a timely basis, the account was underfunded, and the facility was inappropriately charging residents for Medicaid covered services.

The resident trust fund account was not reconciled to the bank statement and the trust fund ledger on a timely basis, and the reconciliations, when performed, were not reviewed for accuracy. The trust fund has not been properly reconciled since December 31, 2003. A reconciliation was performed on September 15, 2005; however, the book balance exceeded the bank statement balance by \$704.35, resulting in a shortage of resident trust funds.

Paragraph 22,163.10(c) of the *Medicare and Medicaid Guide* requires the facility to “hold, safeguard, manage and account for the personal funds of the resident deposited with the facility . . . establish and maintain a system that assures a full and complete and separate accounting, according to generally accepted accounting principles, of each resident’s personal funds entrusted to the facility on the resident’s behalf.”

Lakeshore-Heartland inappropriately charged Medicaid residents’ trust fund accounts for Medicaid covered services. From January 1, 2004, through September 15, 2005, the facility inappropriately charged residents \$2,212.00 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 \$2,212.00 for Medicaid covered services.

Recommendation

Lakeshore-Heartland should establish adequate procedures to ensure compliance with applicable laws and regulations relative to protection of resident trust funds. The facility should reconcile the resident trust fund account from December 31, 2003, forward and continue to reconcile the account on a monthly basis thereafter. The facility should reimburse \$704.35 to the resident trust fund accounts and make appropriate adjustments to the residents’ accounts to ensure accuracy.

Lakeshore-Heartland should not charge Medicaid residents for covered services. The facility should reimburse Medicaid residents or their responsible parties a total of \$2,212.00. In the future, the facility should provide covered services without charge.

Management's Comment

Management concurs. Monthly reconciliations have been properly performed and reviewed each month since September 15, 2005, and will consistently be done in the future. The resident trust fund shortage of \$704.35 was funded from operating cash by bank transfer during the audit. The full sum of \$2,212 for undocumented services was reimbursed to residents or responsible parties during the audit. Written resident approvals for choosing chargeable beauty shop services over normally provided Medicaid services without charge is being maintained on file subsequent to identification of this procedural error.

2. Nonallowable Expenses Included on the Cost Report

Finding

Lakeshore-Heartland included \$15,498.54 of nonallowable expenses on the "Medicaid Nursing Facility Level 1 Cost Report" for the year ended December 31, 2004. The adjustment to allowable expenses consists of \$15,498.54 of improperly accelerated depreciation expense.

Provider Reimbursement Manual 104.17, CMS-Pub 15-1, states, "In initially selecting a proper useful life for computing depreciation under the Medicare program, the provider may use certain published useful life guidelines. . . . For assets acquired on or after January 1, 1981, only the AHA guidelines may be used."

The adjustments to allowable expenses had no effect on the facility's Medicaid reimbursable rate.

Recommendation

Lakeshore-Heartland should include only allowable expenses on the "Medicaid Nursing Facility Level 1 Cost Report." All assets acquired after January 1, 1981, must follow AHA guidelines in determining an asset's useful life.

Management's Comment

Management concurs. To comply with Medicaid reporting standards, we will make appropriate adjustments to depreciation expense on our cost reports to reflect asset lives consistent with AHA guidelines.

3. Inaccurate Accumulation of Resident Days

Finding

Lakeshore-Heartland inaccurately reported resident days on the "Medicaid Nursing Facility Level 1 Cost Report" for the year ended December 31, 2004. The facility failed to include allowable bed hold days in their resident day accumulation. Hence, the facility underreported a total of 273 bed hold days. Also, the facility did not maintain an accurate record of resident days by payor type, resulting in a net effect of Medicaid NF-1 days being underreported by an additional 36 and NF-1 private days being overreported by 67.

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 adjustments to days reported above had no effect on the facility's Medicaid reimbursable rate.

Recommendation

Lakeshore-Heartland 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. Failure to include bed hold days as census days on the Medicaid cost report was a cost report preparation error. We reported nursing days only and have corrected this procedure. Due to retroactive approvals, a subsequent swing between day types is normal.

SUMMARY OF MONETARY FINDING AND RECOMMENDATION

Source of Overpayments

Deficiencies in accounting for resident trust funds	<u>\$2,916.35</u>
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Disposition of Overpayments

Due to residents or their authorized representatives	<u>\$2,916.35</u>
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