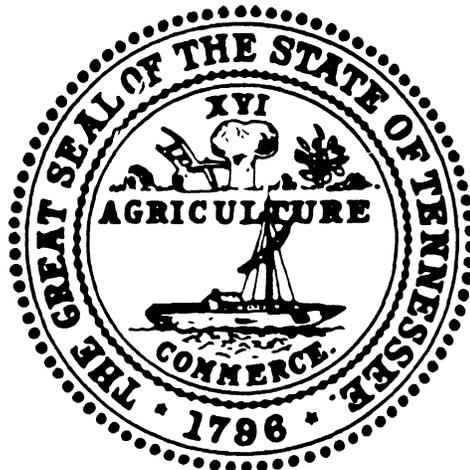


# TENNCARE REPORT

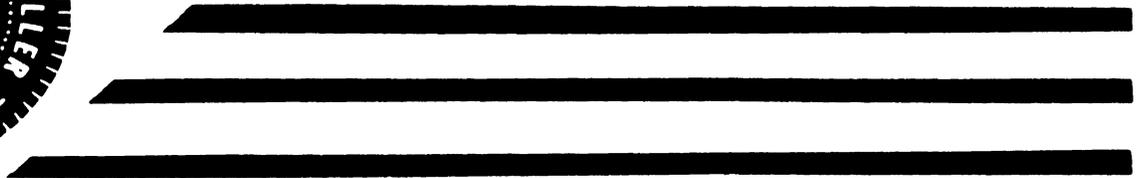
Comcare, Inc.  
Greeneville, Tennessee

Cost Reports for the Periods  
July 1, 2003, Through June 30, 2004, and  
July 1, 2004, Through June 30, 2005,  
and Resident Accounts for the Period  
July 1, 2003, Through June 30, 2005



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**

State Capitol  
Nashville, Tennessee 37243-0260  
(615) 741-2501

John G. Morgan  
Comptroller

April 26, 2007

The Honorable Phil Bredesen, Governor  
and

Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243

and

Mr. Darin Gordon, 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 reports of Comcare, Inc., Greeneville, Tennessee, for the periods July 1, 2003, through June 30, 2004, and July 1, 2004, through June 30, 2005, and resident accounts for the period July 1, 2003, through June 30, 2005.

Sincerely,

John G. Morgan  
Comptroller of the Treasury

JGM/pn  
06/075

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

TennCare Report

**Comcare, Inc.**

Greeneville, Tennessee

Cost Reports for the Periods

July 1, 2003, Through June 30, 2004, and

July 1, 2004, Through June 30, 2005,

and Resident Accounts for the Period

July 1, 2003, Through June 30, 2005

## **FINDINGS NOT RECOMMENDING MONETARY REFUNDS**

### **Incorrect Useful Lives Used on Depreciable Assets**

The facility used incorrect useful lives on approximately 20 percent of the facility's depreciable assets for purposes of computing depreciation expense on the "Intermediate Care Statement of Reimbursable Costs" for the years ended June 30, 2004, and June 30, 2005. The depreciation expense on 10 assets was computed using an improper accelerated depreciation method. The adjustment to allowable expenses has no effect on the

facility's ICF/MR Medicaid reimbursement rate.

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

The facility did not maintain a surety bond for the funds held in trust for its residents, as required by law. Failure to maintain a surety bond increases the risk that resident trust funds would not be replaced in the event of misappropriation or theft.

**Comcare, Inc.**  
**Greeneville, Tennessee**  
**Cost Reports for the Periods**  
**July 1, 2003, Through June 30, 2004, and**  
**July 1, 2004, Through June 30, 2005,**  
**and Resident Accounts for the Period**  
**July 1, 2003, Through June 30, 2005**

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**Comcare, Inc.**  
**Greeneville, Tennessee**  
**Cost Reports for the Periods**  
**July 1, 2003, Through June 30, 2004, and**  
**July 1, 2004, Through June 30, 2005,**  
**and Resident Accounts for the Period**  
**July 1, 2003, Through June 30, 2005**

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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 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.

Comcare, Inc., Greeneville, Tennessee, provides ICF/MR services. The facilities are owned and operated by Comcare, Inc. The officers/members of the board of directors are as follows:

Randy Davenport, President  
 Elizabeth Campbell, Vice President  
 Shelly Shaw, Secretary/Treasurer  
 Nancy McMillian  
 Cathy Taylor  
 Marjorie Nelle Cardwell

Mary Anna Pirozzoli  
 Jeff Ward  
 Alan Corley  
 Rebekah McGill  
 Dr. Fred Martinson  
 Kathleen Wright

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 8,784 available bed days, the facility reported 8,768 for Medicaid ICF/MR residents for the year ended June 30, 2004. Of the 8,784 available bed days, the facility reported 8,720 for Medicaid ICF/MR residents for the year ended June 30, 2005. Also, the facility reported total operating expenses of \$3,100,715 for the year ended June 30, 2004, and \$3,261,218 for the year ended June 30, 2005.

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>ICF/MR</u>	<u>July 1, 2003 - October 31, 2003</u>	<u>November 1, 2003 - September 30, 2004</u>	<u>October 1, 2004 - June 30, 2005</u>
744-7098	\$353.75	\$348.18	\$325.54
744-7097	\$315.37	\$310.37	\$330.09
744-7100	\$367.98	\$362.51	\$358.25
744-7099	\$381.37	\$363.10	\$381.88
744-7102	\$358.00	\$348.32	\$376.73
744-7101	\$395.63	\$356.56	\$378.54

**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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NASHVILLE, TENNESSEE 37243-0264  
PHONE (615) 401-7897  
FAX (615) 532-2765

**Independent Accountant's Report**

**April 11, 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:

We have examined management's assertions, included in its representation letter dated April 11, 2006, that Comcare, Inc., complied with the following requirements during the cost reporting periods July 1, 2003, through June 30, 2004, and July 1, 2004, through June 30, 2005, and to the facility's resident accounts for the period July 1, 2003, through June 30, 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 85% occupancy rule and the hospital and therapeutic leave day rule in effect for the period tested.

- 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 Comcare, Inc.'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 Comcare, Inc.'s compliance with specified requirements.

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

- Incorrect useful lives used on depreciable assets
- 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 Comcare, Inc., complied with the aforementioned requirements for the cost reporting periods July 1, 2003, through June 30, 2004, and July 1, 2004, through June 30, 2005, and for resident accounts for the period July 1, 2003, through June 30, 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,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." with a stylized flourish at the end.

Arthur A. Hayes, Jr., CPA  
Director

AAH/pn

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## FINDINGS AND RECOMMENDATIONS

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### 1. Incorrect Useful Lives Used on Depreciable Assets

#### Finding

Comcare, Inc., used incorrect useful lives on approximately 20 percent of the facility's depreciable assets for purposes of computing depreciation expense reported on the "Intermediate Care Statement of Reimbursable Cost" for the years ended June 30, 2004, and June 30, 2005. The useful lives of over 40 assets were not in agreement with the AHA (American Hospital Association) guidelines. The depreciation expense on 10 assets was computed using an improper accelerated depreciation method. Some assets were assigned useful lives shorter than required while others were assigned useful lives greater than required. Although in the current examination, the net impact on allowable expenses for the current year was not material, the impact in future years could have either positive or negative material effects on the Medicaid reimbursement rate.

Paragraph 4695 of the *Medicare and Medicaid Guide* states, "In initially selecting a proper useful life for computing depreciation . . . 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."

Chapter 1200-13-6-.10(1)(a) of the *Rules of the Tennessee Department of Finance and Administration* states, "Only the straight line method of computing depreciation is permitted."

#### Recommendation

Comcare, Inc. should take steps to ensure staff use the correct useful lives on assets currently in service, computing depreciation expense by dividing the net book value of each asset at June 30, 2006, by the remaining proper useful life. Assets placed in service after June 30, 2006, must use the approved guidelines in initially assigning useful lives to depreciable assets. Comcare, Inc., must use only the straight line method of depreciation.

#### Management's Comment

Management concurs with the finding and provides the following explanation: Independent auditors maintain the fixed asset schedule for Comcare, Inc. Annually, the auditors update the asset schedule for additions and retirements. The auditors also assign useful lives and depreciation methods to the asset additions. Comcare agrees that 40 assets of 199 were assigned incorrect useful lives according to the AHA (American Hospital Association) guidelines. Of these 40 assets, 26 were assigned useful lives greater than and 14 were assigned useful lives less

than the AHA guidelines. The impact of useful lives greater than the guideline would result in an increase in depreciation expense and the reimbursement rate; whereas, a useful life less than the guideline would result in a decrease in depreciation expense and the reimbursement rate. The independent auditors acknowledged the accelerated depreciation method was used for 10 assets added during fiscal year ended June 30, 2004. These errors were discovered during the State Audit review and were corrected immediately by Comcare's independent auditors. A corrected copy of the June 30, 2005, depreciation schedule was provided to the State auditors before their review was completed.

In the future, Comcare management will consult with our independent auditors annually concerning the depreciation schedule to attempt to insure compliance with the AHA guidelines and usage of the correct depreciation method.

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

### **Finding**

Comcare, Inc., 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 individual resident trust fund balances. The maximum balance of all individual accounts was approximately \$35,000 during each month from December 2005 through March 31, 2006.

Section 68-11-906(f), *Tennessee Code Annotated*, states, "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."

Failure to maintain a surety bond increases the risk that resident trust funds would not be replaced in the event of misappropriation or theft.

### **Recommendation**

Comcare, Inc., 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 as necessary to provide coverage for all money held in trust for the residents of the facility.

### **Management's Comment**

Management concurs with the finding and provides the following explanation: Comcare, through court approval, has historically provided a copy of the binder for the employee dishonesty and theft insurance included in its general liability coverage as evidence of

appropriate protection for resident trust funds. The State auditor provided Comcare with the legislative reference indicating the type of bond that must be maintained for residents served under an Intermediate Care Facility contract. When it was determined the employee dishonesty and theft portion of the general liability policy did not meet the legislative requirement, Comcare immediately purchased a Surety Bond. The Surety Bond was issued on April 28, 2006, and a copy was promptly provided to the State auditor.