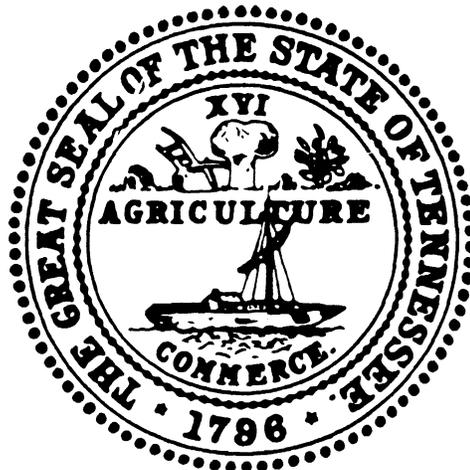


TENNCARE REPORT

Weakley County Nursing Home
Dresden, Tennessee

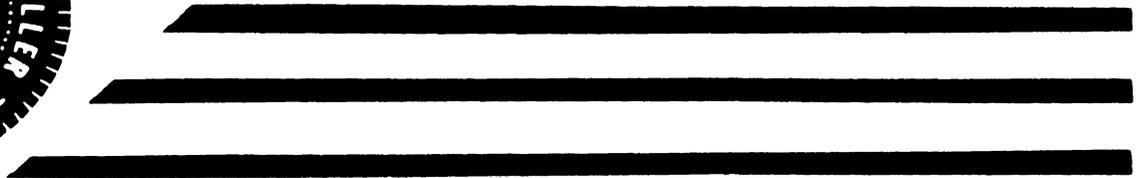
Cost Reports for the Periods
July 1, 2003, Through June 30, 2004, and
July 1, 2004, Through June 30, 2005,
and Resident Accounts for the Period
July 1, 2004, Through June 30, 2005



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit



Arthur A. Hayes, Jr., CPA, JD, CFE
Director

Gregg S. Hawkins, CPA, CFE
Assistant Director

Julie Rogers, CPA, CISA
Audit Manager

Andrea D. Thomas, CFE
In-Charge Auditor

Adam Gamble, CFE
Auditor

Amy Brack
Editor

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 401-7897

TennCare/Medicaid audits are available on-line at www.comptroller.state.tn.us/sa/reports/index.html.
For more information about the Comptroller of the Treasury, please visit our website at
www.comptroller.state.tn.us.



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

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

John G. Morgan
Comptroller

June 19, 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 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 reports of Weakley County Nursing Home, Dresden, 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, 2004, through June 30, 2005.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/pn
06/093

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

TennCare Report
Weakley County Nursing Home
Dresden, 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, 2004, Through June 30, 2005

FINDING RECOMMENDING MONETARY REFUND

Nonallowable Expenses Included on the Cost Report

Weakley County Nursing Home included \$1,657.45 of nonallowable expenses on the "Medicaid Nursing Facility Level 1 Cost Report" for the fiscal year ended June 30, 2004. Nonallowable expenses in the amount of \$2,686.87 were included on the cost

report for the fiscal year ended June 30, 2005. Nonallowable expenses consisted of excess depreciation expense, unsupported expenses, and donation expense. As a result of this adjustment, the facility was overpaid \$8,131.78, computed from October 1, 2005, through June 30, 2007.

FINDINGS NOT RECOMMENDING MONETARY REFUNDS

Charges on Cost Report Not Supported by Financial Records

The facility was unable to provide adequate financial records that would substantiate the gross routine service charges as reported on the cost report.

Insufficient Surety Bond Coverage for the Resident Trust Fund

Weakley County Nursing Home's surety bond coverage was insufficient to ensure all funds held in trust for its residents.

**Weakley County Nursing Home
Dresden, 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, 2004, Through June 30, 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
1. Nonallowable Expenses Included on the Cost Report	5
2. Charges on Cost Report Not Supported by Financial Records	6
3. Insufficient Surety Bond Coverage for the Resident Trust Fund	8
Summary of Monetary Finding and Recommendation	10

**Weakley County Nursing Home
Dresden, 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, 2004, Through June 30, 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.

Weakley County Nursing Home, Dresden, Tennessee, provides both NF-1 and NF-2 services. The facility is owned and operated by Weakley County. The officers/members of the board of directors are as follows:

Mac Buckley, Chairman
Dr. Kenneth Carr
David Rock
Jack Baltz
Kevin McAlpin

David McBride
Chad Coffman
Julia Rich
Bob Gardner

During the examination period, the facility maintained a total of 136 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 49,776 available bed days, the facility reported 33,287 for Medicaid NF-1 residents and 1,582 for Medicaid NF-2 residents for the year ended June 30, 2004. Of the 49,640 available bed days, the facility reported 32,924 for Medicaid NF-1 residents and 1,499 for Medicaid NF-2 residents for the year ended June 30, 2005. Also, the facility reported total operating expenses of \$5,250,913 for the fiscal year ended June 30, 2004, and \$5,869,036 for the fiscal 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>Period</u>	<u>Level I NF (744-0201)</u>	<u>Level II NF (044-5437)</u>
July 1, 2003, to June 30, 2004	\$105.06	\$140.11
July 1, 2004, to June 30, 2005	\$ 95.81	\$121.06

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
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 401-7897
FAX (615) 532-2765

Independent Accountant's Report

June 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 37243

Ladies and Gentlemen:

We have examined management's assertions, included in its representation letter dated June 16, 2006, that Weakley County Nursing Home 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, 2004, 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 hospital and therapeutic leave 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 Weakley County Nursing Home'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 Weakley County Nursing Home'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. Charges on cost report not supported by financial records
3. Insufficient surety bond coverage for the resident trust fund

In our opinion, except for the instances of material noncompliance described above, management's assertions that Weakley County Nursing Home 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, 2004, 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,



Arthur A. Hayes, Jr., CPA
Director

FINDINGS AND RECOMMENDATIONS

1. Nonallowable Expenses Included on the Cost Report

Finding

Weakley County Nursing Home included \$1,657.45 of nonallowable expenses on the “Medicaid Nursing Facility Level 1 Cost Report” for the year ended June 30, 2004. The nonallowable amount consists of \$1,657.45 resulting from excess depreciation claimed on 2% of the facility’s assets that were assigned incorrect useful lives.

Weakley County Nursing Home included \$2,686.87 of nonallowable expenses on the “Medicaid Nursing Facility Level 1 Cost Report” for the year ended June 30, 2005. The nonallowable amount consists of \$659.42 of unsupported expense and \$370.00 of donation expense. Also, the adjustment includes \$1,657.45 resulting from excess depreciation claimed on 2% of the facility’s assets that were assigned incorrect useful lives.

Chapter 1200-13-6-.09(1)(4) 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.” It also specifies that unnecessary costs and costs unrelated to resident care be deducted from allowable expenses.

Paragraph 5866 of the *Medicare and Medicaid Guide* states,

Costs not related to patient care are costs which are not appropriate or necessary and proper in developing and maintaining the operation of patient care facilities and activities. Costs which are not necessary include costs which usually are not common or accepted occurrences in the field of the provider’s activity.

Such costs are not allowable in computing reimbursable costs and include . . .
Costs of gifts or donations.

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 (American Hospital Association) guidelines may be used.”

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, through June 30, 2006	\$114.36	\$114.11	(\$0.25)
July 1, 2006, through June 30, 2007	\$130.96	\$130.90	(\$0.06)

The overpayment to the nursing facility as a result of the above adjustments totals \$8,131.78, computed from October 1, 2005, through June 30, 2007.

Recommendation

Weakley County Nursing Home should include only allowable expenses on the “Medicaid Nursing Facility Level 1 Cost Report.” All reported expenses should be related to resident care. All assets should be depreciated in accordance with approved useful life guidelines.

The facility should refund \$8,131.78 to the State of Tennessee, representing overpayments by the Medicaid Program as a result of the rate adjustments computed from October 31, 2005, through June 30, 2007.

Management’s Comment

Management concurs. We make every effort to identify non-allowable costs. It remains the intention of the facility to include only allowable expenses on the Medicaid cost report and every endeavor will be made to do this in the future.

We concur that on some of our assets depreciation based on generally accepted accounting principles differed from the State’s rules. We will adjust the depreciation on future cost reports to reflect the State’s rules.

2. Charges on Cost Report Not Supported by Financial Records

Finding

The financial records of Weakley County Nursing Home did not support the gross charges reported on the “Medicaid Nursing Facility Level 1 Cost Report” for the fiscal year ended June 30, 2005. The facility was unable to provide adequate records to substantiate the gross routine service charges as reported on the cost report. Although the facility’s contracted consultant who prepares the cost report used alternative methods to determine gross charges, the

facility's financial accounting system had not been designed to properly accumulate these charges. The methods used by the cost report preparer in determining gross charges were considered a reasonable alternative by auditors for this period.

Chapter 1200-13-6-.10 of the *Rules of Tennessee Department of Finance and Administration* states, "Gross charges to the patient accounts must match the charges to the patient log."

Chapter 1200-13-6-.16 of the *Rules* states, "Each provider of Level 1 nursing facility services is required to maintain adequate financial and statistical records which are accurate and in sufficient detail to substantiate the cost data reported."

Gross routine service charges must be substantiated by the facility's financial records in order to be utilized to compute the Medicaid reimbursement rate.

Recommendation

Weakley County Nursing Home should maintain sufficient records and documentation to support the cost data reported on the "Medicaid Nursing Facility Level 1 Cost Report." Adequate charge logs must be maintained to accumulate monthly and yearly totals. These records must be available upon demand to the State Comptroller of the Treasury or his agents. The facility cannot rely on alternative methods in calculating charges, but must maintain the appropriate and adequate records necessary that are then, in turn, used to accurately complete the cost report.

Management's Comment

Management concurs that net revenues were reported on the facility's financial statements and that gross revenues had to be calculated to create an accurate allocation of reimbursable expenses. Management will work with its software vendor so that in the future reports can be generated to create financial statements stated with gross revenues.

Facility revenues (called gross revenues) are booked at the private rate no matter the payer, consistent with the State of Tennessee reimbursement regulations. In order to achieve accurate financial statements, a contractual allowance is recorded which adjusts the facility books to the allowable (net revenue) that will actually be paid by the payer source such as Medicare, Medicaid Level 1, or Medicaid Level 2.

The facility financial statements do report net reimbursable revenues; however, the facility did provide the State auditors with a sample (selected by the State auditors) of patient account detail to document that all patient accounts were charged the gross rate and then adjusted to the reimbursable amount. We were not asked any follow-up questions by the State auditors related to the documentation that we provided.

Rebuttal

While select accounts did reflect charges booked at gross then contractually adjusted to amounts reimbursable by the appropriate government agency, there was nothing documented to explain or verify the leap to financial statement summaries that were accumulated on net reimbursable revenues. This is the primary factor in determining the allocation of costs applicable to the Medicaid program. In the final analysis, a system was not in place, short of verifying every single resident's individual accounts receivable record for the entire year, to accumulate the charges and appropriately summarize them by payor class, at gross, and with the appropriate contractual adjustment made to each payor class as a whole. Thus, the financial statements in no way adequately support the financial data included on the cost report.

3. Insufficient Surety Bond Coverage for the Resident Trust Fund

Finding

Weakley County Nursing Home failed to maintain an adequate trust fund surety bond to protect resident funds. The amount of the surety bond was not sufficient to cover all funds held in trust. The coverage limit of the surety bond during the examination period was \$50,000. As of June 15, 2005, the surety bond was not sufficient to ensure the resident trust fund balance of \$52,006.54.

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."

Recommendation

Weakley County Nursing Home should maintain controls 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 at any point in time.

Management's Comment

Management concurs that the facility maintain adequate surety bond coverage for all money held in the Patient Trust Fund.

Patient Trust Fund money and Patient Liability income are separated out and deposited into their designated accounts.

At the time of the State Audit, Patient Trust Fund money and Patient Liability money was deposited into the Patient Trust Fund account and the Patient Liability was written from the Patient Trust Fund account and transferred into the facility's operating account. Although this was done on the same day, bank transaction records/deposits did not reflect same-day service.

Patient Liability money is no longer being deposited into the Patient Trust Fund account. This keeps the balance of the Patient Trust Fund account below the Surety Bond amount of \$50,000.00. The Patient Trust Fund Balance will be monitored by the facility's Bookkeeper and Administrator to ensure balances remain below the Surety Bond amount.

If future balances reflect the need to increase the Surety Bond amount, then an increase will be made at that time.

Summary of Monetary Finding and Recommendation

Source of Overpayments

Rate reduction (see finding 1)	<u>\$8,131.78</u>
--------------------------------	-------------------

Disposition of Overpayments

Due to the State of Tennessee	<u>\$8,131.78</u>
-------------------------------	-------------------