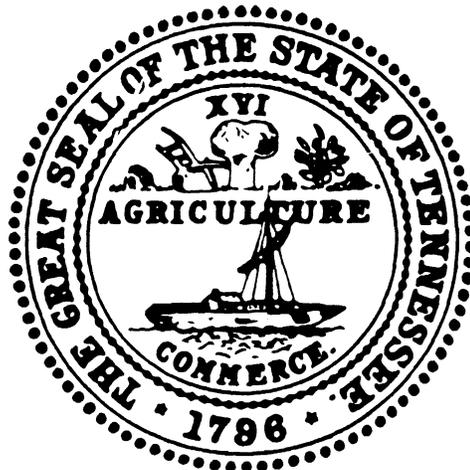


TENNCARE REPORT

St. Francis Nursing Home
Memphis, Tennessee

Cost Report and Resident Accounts
For the Period
June 1, 2004, Through May 31, 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

Melissa Wilson, CFE
In-Charge Auditor

Yan Shumaker
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 21, 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 report of St. Francis Nursing Home, Memphis, Tennessee, for the period June 1, 2004, through May 31, 2005, and resident accounts for the period June 1, 2004, through May 31, 2005.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/pn
06/094

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

TennCare Report
St. Francis Nursing Home
Memphis, Tennessee
Cost Report and Resident Accounts
For the Period
June 1, 2004, Through May 31, 2005

FINDINGS RECOMMENDING MONETARY REFUNDS

Improperly Classified Expenses Included on the Cost Report

The facility included \$133,257.86 in current expenses on the "Medicaid Nursing Facility Level 1 Cost Report" for the year ended May 31, 2005, for items that should have been capitalized and depreciated over the useful life of the asset. The net adjustment for assets improperly expensed during this period is \$121,696.86, after allowable current period depreciation expense of \$11,561.00. Overpayments made to the facility as a result of the above adjustment

total \$151,528.56, computed from July 1, 2006, through June 30, 2007.

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 \$5,565.63 due to the Medicaid Program remain on the accounts of ten former residents.

FINDINGS NOT RECOMMENDING MONETARY REFUNDS

Inappropriate Disposal of Resident Trust Fund Documents Prior to Examination

The facility lacked documentation and/or proper authorization for withdrawals from the resident trust funds for the period under examination. The medical records administrator had disposed of the resident trust fund receipts for the withdrawals made prior to June 1, 2005. As a result, resident monies

could have been inappropriately depleted or misused during the period.

Charges on Cost Report Not Supported by Financial Records

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

**St. Francis Nursing Home
Memphis, Tennessee
Cost Report and Resident Accounts
For the Period
June 1, 2004, Through May 31, 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. Improperly classified expenses included on the cost report	5
2. Need to properly manage unrefunded credit balances	6
3. Inappropriate disposal of resident trust fund documents prior to examination	6
4. Charges on cost report not supported by financial records	8
Summary of Monetary Findings and Recommendations	10

**St. Francis Nursing Home
Memphis, Tennessee
Cost Report and Resident Accounts
For the Period
June 1, 2004, Through May 31, 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.

St. Francis Nursing Home, Memphis, Tennessee, provides both NF-1 and NF-2 services. The facility is owned and operated by St. Francis Nursing Home with the home office, Tenet Healthcare Corporation, located in Dallas, Texas. The officers/members of the board of directors are as follows:

David Archer, Chairman
Charles Tarbox, DON
Gordon Kraus, MD

Thomas Hanlen, Administrator
Brent Adams

During the examination period, the facility maintained a total of 197 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 71,905 available bed days, the facility reported 44,049 for Medicaid NF-1 residents and 4,855 for Medicaid NF-2 residents for the year ended May 31, 2005. Also, the facility reported total operating expenses of \$9,577,574 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 (744-0410)</u>	<u>Level II NF (044-5149)</u>
July 1, 2003, to June 30, 2004	\$120.45	\$141.17
July 1, 2004, to September 30, 2005	\$128.97	\$114.79

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 22, 2006

The Honorable Phil Bredesen, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and

Darin Gordon, 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 June 22, 2006, that St. Francis Nursing Home complied with the following requirements during the cost report period June 1, 2004, through May 31, 2005, and to the facility's resident accounts for the period June 1, 2004, through May 31, 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 St. Francis 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 St. Francis Nursing Home's compliance with specified requirements.

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

1. Improperly classified expenses included on the cost report
2. Need to properly manage unrefunded credit balances
3. Inappropriate disposal of resident trust fund documents prior to examination
4. Charges on cost report not supported by financial records

In our opinion, except for the instances of material noncompliance described above, management's assertions that St. Francis Nursing Home complied with the aforementioned requirements for the cost reporting period June 1, 2004, to May 31, 2005, and for resident accounts for the period June 1, 2004, to May 31, 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. Improperly Classified Expenses Included on the Cost Report

Finding

St. Francis Nursing Home included \$133,257.86 in current expenses on the “Medicaid Nursing Facility Level 1 Cost Report” for items that should have been capitalized and depreciated over the useful life of the asset. The adjustment for assets improperly expensed during the period is \$121,696.86, net of allowable depreciation expense of \$11,561.00 for the fiscal year ended May 31, 2005.

Paragraph 4720 of the *Medicare and Medicaid Guide* states, “If a depreciable asset has at the time of its acquisition an estimated useful life of at least 2 years and a historical cost of at least \$5,000, its cost must be capitalized and written off ratably over the estimated useful life of the asset using one of the approved methods of depreciation.”

As a result of the expense adjustment noted above, the facility’s reimbursable rate was decreased as follows:

<u>Period</u>	<u>Original Rate</u>	<u>Adjusted Rate</u>	<u>Difference</u>
July 1, 2006, through June 30, 2007	\$127.01	\$123.57	(\$3.44)

Overpayments made to the facility as a result of the above adjustment total \$151,528.56 computed from July 1, 2006, through June 30, 2007.

Recommendation

St. Francis Nursing Home should include only allowable expenses on the “Medicaid Nursing Facility Level 1 Cost Report.” All assets, including betterments or improvements, costing \$5,000 or more must be capitalized and written off over their estimated useful lives.

A refund of \$151,528.56, representing overpayments by the Medicaid Program as a result of the rate change, should be made to the State of Tennessee.

Management’s Comment

We concur and will review our facility’s asset capitalization policies.

2. Need to Properly Manage Unrefunded Credit Balances

Finding

St. Francis Nursing Home has not established a system to ensure that credit balances on the accounts of deceased or discharged residents are properly managed. Management failed to refund accounts receivable credit balances due to the Medicaid Program.

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.”

The accounts receivable unrefunded credit balance of \$5,565.63 remains on the accounts of ten former residents of St. Francis Nursing Home. This entire amount is due to the Medicaid Program.

Recommendation

St. Francis Nursing Home should maintain a system to timely refund credit balances on the accounts of former residents. A refund of \$5,565.63 should be made to the State of Tennessee for the amount due the Medicaid Program.

Management’s Comment

We concur. The facility has refunded the entire amount owed. The facility will refund Medicaid credit balances in a time frame consistent with State rules.

3. Inappropriate Disposal of Resident Trust Fund Documents Prior to Examination

Finding

St. Francis Nursing Home lacked documentation and/or proper authorization for withdrawals from the resident trust funds for the period under examination. When the auditors requested the withdrawal receipts from the Administrator of the facility, he stated that the Medical Records Administrator had disposed of the resident trust fund receipts for the withdrawals made prior to June 1, 2005. As a result, resident monies could have been inappropriately depleted or misused during this period. Although withdrawals could not be verified, deposits into the trust fund accounts were reviewed by auditors for the fiscal year ended May 31, 2005, with no material deficiencies noted.

Because of the lack of records for withdrawals for the fiscal year ended May 31, 2005, all of the subsequent activity for 9 of the 90 residents in the resident trust fund was tested by the auditors for the entire fiscal year ended May 31, 2006, with no material deficiencies noted.

The long-term care ombudsman for District 9 in the State of Tennessee was contacted to determine if any of the residents or their authorized representatives had lodged any complaints regarding the funds held in trust by St. Francis Nursing Home. No complaints had been received by the ombudsman for the period June 1, 2004, to March 29, 2007.

Paragraph 22,163.420(b)(1) of the *Medicare and Medicaid Guide* requires the facility to “establish and maintain a system that—(i) assures a full and complete accounting of clients’ personal funds entrusted to the facility.” Paragraph 22,163.10(c)(2) further states that “the facility must hold, safeguard, manage and account for the personal funds of the resident deposited with the facility.” In addition, Section 71-6-117, *Tennessee Code Annotated*, provides for penalties in cases where the improper use of funds paid by a government agency to an adult or to a caretaker for the adult’s use is shown to be willful.

Chapter 1200-13-6-.16 of the *Rules of the Department of Finance and Administration* 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. These records must be maintained for a period of not less than five years from the date of the submission of the cost report, and the provider is required to make such records available upon demand to representatives of the State Department of Health, the State Comptroller of the Treasury, or the United States Department of Health and Human Services.

Recommendation

The Administrator of St. Francis Nursing Home should consider the circumstances surrounding the improper disposal of accounting records and take appropriate personnel action. The facility management should establish written policies and procedures to ensure compliance with applicable laws and regulations relative to protection of resident funds. Adequate documentation must be maintained for withdrawals from the trust fund accounts. These records must be maintained for a minimum of five years and made available upon demand to auditors of the Comptroller of the Treasury.

Management’s Comment

We concur. The facility has taken appropriate personnel action. We will review policies and procedures to ensure compliance with applicable laws and regulations relative to protection

of resident funds. Resident Trust Fund records will be maintained in a manner consistent with State rules.

4. Charges on Cost Report Not Supported by Financial Records

Finding

The financial records of St. Francis Nursing Home did not support the gross charges reported on the “Medicaid Nursing Facility Level 1 Cost Report” for the fiscal year ended May 31, 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

St. Francis 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 their 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 with gross revenues.

SUMMARY OF MONETARY FINDINGS AND RECOMMENDATIONS

Source of Overpayments

Rate reduction (see finding 1)	\$151,528.56
Unrefunded credit balances (see finding 2)	<u>\$ 5,565.63</u>
Total	<u>\$157,094.19</u>

Disposition of Overpayments

Due to the State of Tennessee	<u>\$157,094.19</u>
-------------------------------	---------------------