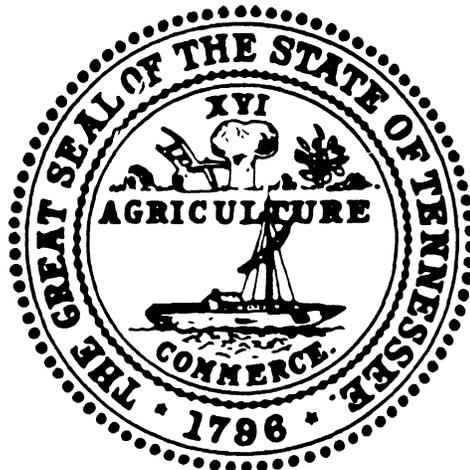


TENNCARE REPORT

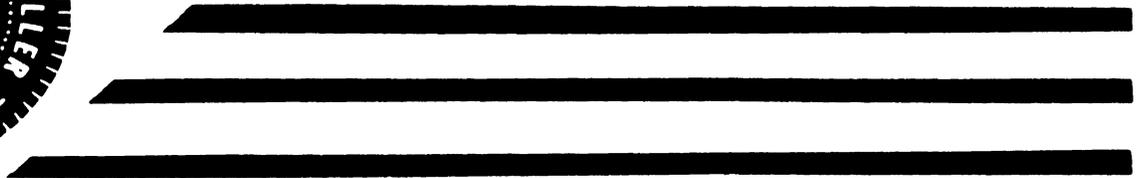
The Palace
Red Boiling Springs, Tennessee

Cost Report and Resident Accounts
For the Period
January 1, 2005, Through December 31, 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
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John G. Morgan
Comptroller

June 12, 2008

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 The Palace, Red Boiling Springs, Tennessee, for the period January 1, 2005, through December 31, 2005, and resident accounts for the period January 1, 2005, through December 31, 2005.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/pn
06/095

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

TennCare Report

The Palace

Red Boiling Springs, Tennessee

Cost Report and Resident Accounts

For the Period

January 1, 2005, Through December 31, 2005

FINDINGS RECOMMENDING MONETARY REFUNDS

Nonallowable Expenses Included on the Cost Report

The Palace reported \$52,232.79 of nonallowable expenses on the "Medicaid Nursing Facility Level 1 Cost Report." As a result of this adjustment and the adjustments to resident days and gross charges, the facility was overpaid \$10,846.33, computed from July 1, 2006, through June 30, 2008.

Inaccurate Accumulation of Resident Days and Gross Charges

The facility inaccurately reported resident days and gross charges on the "Medicaid Nursing Facility Level 1 Cost Report." The

facility underreported 388 Medicaid NF-1 days and 260 Private NF-2 days, and overreported 301 Medicaid NF-2 days, 223 Medicare NF-2 days, and 124 Private NF-1 days. The Palace understated gross charges for Medicaid NF-1 by \$47,724.00 and Private NF-2 by \$38,220.00. Also, the facility overstated gross charges for Medicaid NF-2 by \$44,247.00; Medicare NF-2 by \$32,781.00; Private NF-1 by \$15,252.00; and the total by \$6,336.00. These adjustments are incorporated in the rate change noted in the nonallowable expense finding.

**The Palace
Red Boiling Springs, Tennessee
Cost Report and Resident Accounts
For the Period
January 1, 2005, Through December 31, 2005**

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**The Palace
Red Boiling Springs, Tennessee
Cost Report and Resident Accounts
For the Period
January 1, 2005, Through December 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 of the Treasury 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.

The Palace, Red Boiling Springs, Tennessee, provides both NF-1 and NF-2 services. The facility is owned and operated by International Health Care Properties VII & VIII, LP, dba The Palace. The owners are Nu-eh Chang, located in Kobe City, Hyogo, Japan, with 99% ownership; and International Health Care Associates VII & VIII, Inc., located in Brentwood, Tennessee, with

1% ownership. International Health Care Associates VII & VIII, Inc., owners and officers are Seiji Suzuki, 50% owner and president; Jere M. Ervin, 50% owner and vice president, secretary, and treasurer; and William D. Orand, vice president.

During the examination period, the facility maintained a total of 119 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 43,435 available bed days, the facility reported 24,641 for Medicaid NF-1 residents and 3,638 for Medicaid NF-2 residents for the year ended December 31, 2005. Also, the facility reported total operating expenses of \$5,379,503 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 (744-0458)</u>	<u>Level II NF (044-5329)</u>
January 1, 2005, through September 30, 2005	\$110.91	\$145.05
October 1, 2005, through October 31, 2005	\$131.43	\$160.22
November 1, 2005, through December 31, 2005	\$132.98	\$160.22

PRIOR EXAMINATION FINDINGS

This 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
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Independent Accountant's Report

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 37247

Ladies and Gentlemen:

We have examined management's assertions, included in its representation letter dated June 15, 2006, that The Palace complied with the following requirements on the "Medicaid Nursing Facility Level 1 Cost Report" for the period January 1, 2005, through December 31, 2005, and to the facility's resident accounts for the period.

- Income and expenses reported on the cost report are reasonable, allowable, and in accordance with state and federal rules, regulations, and reimbursement principles.
- Resident days reported on the 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 based on our examination.

Our examination was made in accordance with attestation standards established by the American Institute of Certified Public Accountants, and accordingly, included examining on a test basis, evidence about The Palace'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 The Palace's compliance with specified requirements.

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

- Nonallowable expenses included on the cost report
- Inaccurate accumulation of resident days and gross charges

In our opinion, except for the instances of material noncompliance described above, The Palace complied with, in all material respects, the aforementioned requirements for the "Medicaid Nursing Facility Level 1 Cost Report" for the period January 1, 2005, through December 31, 2005, and for resident accounts for the period January 1, 2005, through December 31, 2005.

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." The signature is written in a cursive, flowing style.

Arthur A. Hayes, Jr., CPA
Director

AAH/pn

FINDINGS AND RECOMMENDATIONS

1. Nonallowable Expenses Included on the Cost Report

Finding

The Palace included \$52,232.79 of nonallowable expenses on the “Medicaid Nursing Facility Level 1 Cost Report” for the year ended December 31, 2005. The nonallowable amount consists of \$29,689.19 of unsupported expenses; \$1,407.49 of travel expenses related to marketing; \$78.09 of liquor; \$378.55 of expenses not related to patient care; \$11,733.93 of unsupported accounts payable expense; and \$1,898.42 of unsupported debt and interest expense. Also, the adjustment includes \$7,047.12 in excess depreciation on 15 assets that were assigned incorrect useful lives. The depreciation adjustment on the 15 assets that were assigned incorrect useful lives carries forward to the year ended December 31, 2006, for an excess depreciation adjustment of \$7,047.41.

Chapter 1200-13-6-.09(1) 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 patient 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 alcoholic beverages furnished to employees or to others regardless of how or where furnished, such as cost of alcoholic beverages furnished at a provider picnic or furnished as a fringe benefit;
- Costs of travel incurred in connection with non-patient care related purposes.

Paragraph 4695 of the *Medicare and Medicaid Guide* states:

. . . the provider may use certain published useful life guidelines. The guidelines used depend on when the asset was acquired. For assets acquired before January 1, 1981, either the Internal Revenue (IRS) or the American Hospital Association

(AHA) guidelines may be used. For assets acquired after January 1, 1981, only the AHA may be used.

As a result of the adjustment to allowable expenses above and the adjustments to resident days and gross charges noted in Finding 2, the facility's Medicaid reimbursable rate was affected as follows:

<u>Period</u>	<u>Original Rate</u>	<u>Adjusted Rate</u>	<u>Difference</u>
July 1, 2006, through June 30, 2007	\$139.07	\$139.07	\$ 0.00
July 1, 2007, through June 30, 2008	\$129.97	\$129.59	(\$0.38)

Overpayments made to the facility as a result of the above expense adjustments and the adjustments to resident days and gross charges total \$10,846.33, computed from July 1, 2006, through June 30, 2008.

Recommendation

The Palace should include only allowable expenses on the "Medicaid Nursing Facility Level 1 Cost Report." All reported expenses should be adequately supported, related to patient care, and in compliance with other applicable regulations.

The facility should refund \$10,846.33, representing overpayments by the Medicaid Program, to the State of Tennessee as a result of the rate reduction computed from July 1, 2006, through June 30, 2008.

Management's Comment

Management concurs with the finding. The Palace will correct this deficiency by including only allowable expenses on the "Medicaid Nursing Facility Level 1 Cost Report" and all reported expenses will be adequately supported and related to patient care, and in compliance with other applicable regulations. The facility agrees to a recoupment of \$10,846.33, representing overpayments by the Medicaid Program, by the State of Tennessee as a result of the rate reduction computed from July 1, 2006, through June 30, 2008.

2. Inaccurate Accumulation of Resident Days and Gross Charges

Finding

The Palace inaccurately reported resident days and gross charges on the “Medicaid Nursing Facility Level 1 Cost Report” for the year ended December 31, 2005. The facility underreported 388 Medicaid NF-1 days and 260 Private NF-2 days, and overreported 301 Medicaid NF-2 days, 223 Medicare NF-2 days, and 124 Private NF-1 days.

Medicaid NF-1 gross charges were understated by \$47,724.00, and Private NF-2 gross charges were understated by \$38,220.00. Also, the facility overstated gross charges for Medicaid NF-2 by \$44,247.00, Medicare NF-2 by \$32,781.00, Private NF-1 by \$15,252.00, and total gross charges by \$6,336.00.

Chapter 1200-13-6-.10 of the *Rules of Tennessee Department of Finance and Administration* states:

Gross charges to patients’ accounts must match the charges to the patient log. . . . Each facility must maintain daily census records and an adequate patient log. . . . This log, however, must be sufficient to provide the following information on an individual basis and to accumulate monthly and yearly totals for Medicaid NF patients and for all other patients.

Chapter 1200-06-13-.15 of the *Rules* 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 adjustment to days reported and the associated charges are incorporated in the rate change noted in Finding 1.

Recommendation

The Palace should maintain an adequate system to report and account for resident days. The report should provide the statistical data necessary for proper completion of the “Medicaid Nursing Facility Level 1 Cost Report.”

Management's Comment

Management concurs with the finding. To correct this deficiency, The Palace will maintain an adequate system to report and account for resident days. This report will provide the statistical data necessary for proper completion of the "Medicaid Nursing Facility Level 1 Cost Report."

SUMMARY OF MONETARY FINDINGS AND RECOMMENDATIONS

Source of Overpayments

Rate reduction (see findings 1 and 2)	<u>\$10,846.33</u>
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Disposition of Overpayments

Due to the State of Tennessee	<u>\$10,846.33</u>
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