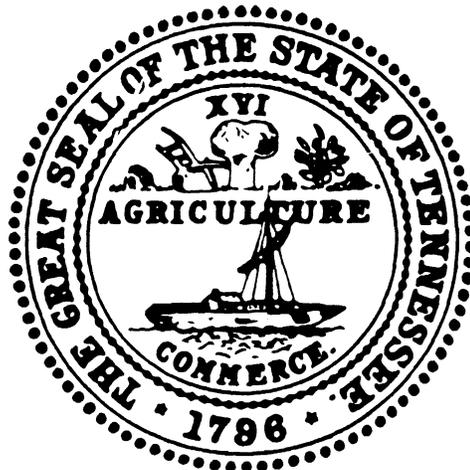


# TENNCARE REPORT

The Wexford House  
Kingsport, Tennessee

Cost Report for the Period  
July 1, 2004, Through June 30, 2005,  
And Resident Accounts for the Period  
July 1, 2004, Through May 31, 2006



STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY

Department of Audit  
Division of State Audit



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TennCare/Medicaid audits are available on-line at [www.comptroller.state.tn.us/sa/reports/index.html](http://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](http://www.comptroller.state.tn.us).



STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
State Capitol  
Nashville, Tennessee 37243-0260  
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**John G. Morgan**  
Comptroller

June 19, 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 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 report of The Wexford House, Kingsport, Tennessee, for the period July 1, 2004, through June 30, 2005, and resident accounts for the period July 1, 2004, through May 31, 2006.

Sincerely,

John G. Morgan  
Comptroller of the Treasury

JGM/pn  
06/097

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

TennCare Report  
**The Wexford House**  
Kingsport, Tennessee  
Cost Report for the Year Ended  
July 1, 2004, Through June 30, 2005,  
And Resident Accounts for the Period  
July 1, 2004, Through May 31, 2006

## FINDINGS RECOMMENDING MONETARY REFUNDS

### **Nonallowable Expenses Included on the Cost Report**

The Wexford House included \$34,419.24 of total nonallowable expenses on the "Medicaid Nursing Facility Level 1 Cost Report" for the fiscal year ended June 30, 2005. The adjustment to allowable cost consists of unsupported expenses, expenses not related to patient care, and excess depreciation expense. As a result of this adjustment, the facility was overpaid \$10,290.95, from July 1, 2006, through June 30, 2008.

### **Residents Inappropriately Charged for Covered Services**

The facility has charged Medicaid residents' trust fund accounts for haircuts, which are Medicaid covered services. As a result of the inappropriate charges, the facility should reimburse 75 Medicaid residents a total of \$1,139.00.

The facility has failed to reconcile the resident trust fund account on a timely basis. This resulted in an unreconcilable variance of \$13.21 that the facility must refund to the resident trust fund account.

### **Need to Properly Manage Unrefunded Credit Balances**

The Wexford House has not established a system to ensure that credit balances on the accounts of deceased or discharged residents are properly managed and promptly refunded. Management failed to refund \$36,192.29 of the credit balances due to the State of Tennessee Medicaid Program; \$7,239.63 due to former residents or their authorized representatives; \$25,643.14 due to the United States Government Medicare Program; and \$4,703.79 due to various insurance carriers.

**The Wexford House  
Kingsport, Tennessee  
Cost Report for the Period  
July 1, 2004, Through June 30, 2005,  
And Resident Accounts for the Period  
July 1, 2004, Through May 31, 2006**

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**The Wexford House  
Kingsport, Tennessee  
Cost Report for the Period  
July 1, 2004, Through June 30, 2005,  
And Resident Accounts for the Period  
July 1, 2004, Through May 31, 2006**

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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.

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 Wexford House, Kingsport, Tennessee, provides both NF-1 and NF-2 services. The facility is owned and operated by RHA Health Services, Inc., located in Atlanta, Georgia. The officers/members of the board of directors are as follows:

Bryant G. Coats  
Chet H. Bradeen  
Howard Oakes  
William P. Walker

Robert B. Coats, Jr.  
Charles W. Northcutt, III  
James D. Loftin, Jr.  
Gordon J. Simmons

During the examination period, the facility maintained a total of 174 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 63,510 available bed days, the facility reported 35,479 for Medicaid NF-1 residents and 3,080 for Medicaid NF-2 residents for the year ended June 30, 2005. Also, the facility reported total operating expenses of \$9,166,438 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 (744-0529)</u>	<u>Level II NF (044-5207)</u>
July 1, 2004, through September 30, 2005	\$ 128.97	\$ 157.80
October 1, 2005, through June 30, 2006	\$ 129.97	\$ 164.53

### **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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NASHVILLE, TENNESSEE 37243-0264  
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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 37243

Ladies and Gentlemen:

We have examined management's assertions, included in its representation letter dated June 15, 2006, that The Wexford House complied with the following requirements on the "Medicaid Nursing Facility Level 1 Cost Report" for the period July 1, 2004, through June 30, 2005, and to the facility's resident accounts for the period July 1, 2004, through May 31, 2006.

- 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 Wexford House'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 Wexford House'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
- Residents inappropriately charges for covered services
- Need to properly manage unrefunded credit balances

In our opinion, except for the instances of material noncompliance described above, The Wexford House complied with, in all material respects, the aforementioned requirements for the "Medicaid Nursing Facility Level 1 Cost Report" for the period July 1, 2004, to June 30, 2005, and for resident accounts for the period July 1, 2004, to May 31, 2006.

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, appearing to read "Arthur A. Hayes, Jr.", written in a cursive style.

Arthur A. Hayes, Jr., CPA  
Director

AAH/pn

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## FINDINGS AND RECOMMENDATIONS

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### 1. Nonallowable Expenses Included on the Cost Report

#### Finding

The Wexford House included \$34,419.24 of nonallowable expenses on the “Medicaid Nursing Facility Level 1 Cost Report” for the fiscal year ended June 30, 2005. The amount consists of \$1,041.34 of unsupported expenses and \$6,904.63 of nonallowable expenses which include unexplained travel expenses, the purchases of alcoholic beverages, meals, and other expenses not related to patient care. Also, the adjustment includes \$23,438.21 of excess depreciation on 76 assets that were assigned incorrect useful lives and \$3,035.06 of unsupported depreciation expense. The depreciation adjustment on the 76 assets that were assigned incorrect useful lives carries forward to the year ended June 30, 2006, for an excess depreciation adjustment of \$22,446.24.

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;

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

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

As a result of the adjustments above, 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	\$145.80	\$145.51	\$ (0.29)

Overpayments made to the facility as a result of the above adjustments total \$10,290.95, computed from July 1, 2006, through June 30, 2008.

### **Recommendation**

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

The facility should refund \$10,290.95 to the State of Tennessee, representing overpayments by the Medicaid Program as a result of the rate reductions computed from July 1, 2006, through June 30, 2008.

### **Management's Comment**

Management concurs that certain travel and depreciation expenses should not have been included in the Medicaid Nursing Facility Level 1 Cost Report, but also represents that inclusion of such expenses was not intentional on its part. To prevent this from happening in the future, management has developed new procedures for assigning useful lives to fixed assets in accordance with IRS and AHA Guidelines. Management will also maintain better control over accounting for travel and employee meal purchases to insure that non-allowable purchases are not included in future cost reports.

## **2. Residents Inappropriately Charged for Covered Services**

### **Finding**

The Wexford House has inappropriately charged Medicaid residents' trust fund accounts for Medicaid covered services. From July 1, 2004, through May 31, 2006, the facility inappropriately charged 75 residents \$1,139.00 for haircuts.

Chapter 1200-8-6-.06(4)(q) of the *Rules of the 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 resident trust fund accounts for Medicaid residents have been incorrectly charged \$1,139.00 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. The trust fund had not been properly reconciled since February 28, 2006. A reconciliation was performed on June 13, 2006; however, the book balance exceeded the bank statement balance by \$13.21, 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.”

As a result of the untimely reconciliation and resulting shortage, the resident trust fund account is underfunded by \$13.21.

### **Recommendation**

The Wexford House should not charge Medicaid residents for covered services. The facility should reimburse Medicaid residents or their responsible parties a total of \$1,139.00. In the future, the facility should provide covered services to all Medicaid residents without charge.

The Wexford House should establish adequate procedures to ensure compliance with applicable laws and regulations relative to the protection of resident trust funds. The facility should also reimburse the resident trust fund account \$13.21 to cover the shortage noted while reconciling the account. The facility should continue to reconcile the account on a monthly basis.

### **Management’s Comment**

Management will refund the amount due to residents for haircuts that the auditors deem to be inappropriate. It has also revised its policy to insure that all residents are able to receive such covered services without charge.

Patient trust fund balances are now being reconciled on a monthly basis.

### **3. Need to Properly Manage Unrefunded Credit Balances**

#### **Finding**

The Wexford House has not established a system to ensure that credit balances on the accounts of deceased or discharged residents are properly managed. Management did not maintain evidence that former residents or their authorized representatives were notified of money due them. Also, facility management failed to refund the portion of the credit balances due the Medicaid Program, Medicare Program, and various private insurance carriers.

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."

Accounts receivable unrefunded credit balances of \$73,778.85 remain on the accounts of 110 former residents of The Wexford House. Of the total unrefunded credit balances, \$36,192.29 is due to the State of Tennessee Medicaid Program; \$7,239.63 is due former residents or their authorized representatives; \$25,643.14 is due the United States Government Medicare Program; and \$4,703.79 is due to various insurance carriers.

#### **Recommendation**

The Wexford House should implement a system to promptly refund credit balances on the accounts of former residents. In addition, the facility should maintain evidence that former residents or their authorized representatives are notified of money due them. The facility should maintain a record of credit balances with the resident's name and social security number, the dates of last account activity and last owner contact, and the amount due the former resident.

The facility should also maintain evidence of attempts to contact the owner of the credit balance. Return of first-class mailing sent to the owner's last known address would satisfy the requirement that an attempt to contact the owner had been made, provided the mailing was not returned "undeliverable." If the proper owners cannot be located within five years from the date of last account activity, a report of the abandoned property must be filed with the Tennessee Department of Treasury, Division of Unclaimed Property. Such a report is to be made before May 1 of each year and is to include all property deemed abandoned as of the previous December 31. Remittance of the abandoned property is due with the filing of the report. Funds transferred to the Tennessee Department of Treasury must include any accrued interest. Proper claims against the funds will be honored by the Tennessee Department of Treasury.

The Wexford House should refund \$36,192.29 to the State of Tennessee Medicaid Program and \$7,239.63 to former residents or their authorized representatives. Additionally, the facility should refund \$25,643.14 to the United States Government for Medicare credit balances

and \$4,703.79 to various insurance carriers for credit balances on accounts of former private-pay residents.

### **Management's Comment**

Management acknowledges that its system for refunding credit balances needed strengthening. Management has developed new procedures for timely follow-up of credit balances and refunds of balances due owners. This procedure will include retention of correspondence to the former resident or the owner of the balance due the former resident.

Additionally, management has been researching the causes for the old credit balances to determine the appropriateness of the amount due residents. Management has been refunding the credit balances to the appropriate parties after research of each account. Currently, \$35,957.12 remains to be resolved of the original \$73,778.85 identified by the audit.

## SUMMARY OF MONETARY FINDINGS AND RECOMMENDATIONS

### Source of Overpayments

Rate reduction (see finding 1)	\$ 10,290.95
Deficiencies in accounting for resident accounts (see finding 2)	\$1,152.21
Unrefunded credit balances (see finding 3)	<u>\$ 73,778.85</u>
Total	<u>\$ 85,222.01</u>

### Disposition of Overpayments

Due to the State of Tennessee	\$ 46,483.24
Due to residents or their authorized representatives	\$ 8,391.84
Due to the United States Government	\$ 25,643.14
Due to insurance providers	<u>\$ 4,703.79</u>
Total	<u>\$ 85,222.01</u>