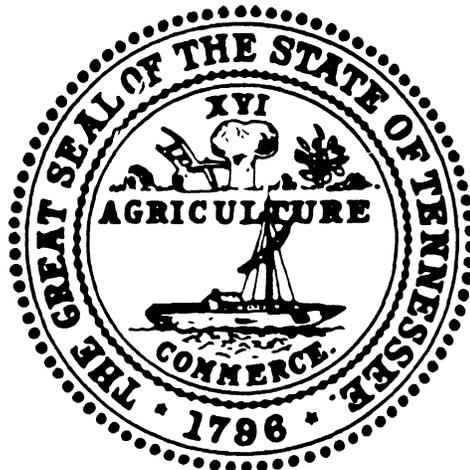


# TENNCARE REPORT

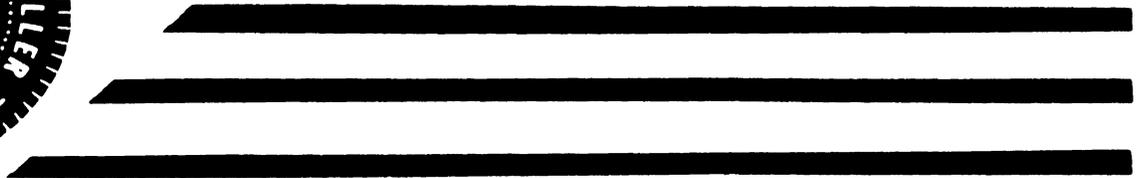
Pine Meadows Healthcare and Rehabilitation Center  
Bolivar, Tennessee

Cost Reports for the Periods  
January 1, 2004, Through December 31, 2004, and  
January 1, 2005, Through December 31, 2005,  
and Resident Accounts for the Period  
January 1, 2004, Through September 30, 2006



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  
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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 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 Pine Meadows Healthcare and Rehabilitation Center, Bolivar, Tennessee, for the periods January 1, 2004, through December 31, 2004, and January 1, 2005, through December 31, 2005, and resident accounts for the period January 1, 2004, through September 30, 2006.

Sincerely,

John G. Morgan  
Comptroller of the Treasury

JGM/pn  
07/025

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

TennCare Report

**Pine Meadows Healthcare and Rehabilitation Center**

Bolivar, Tennessee

Cost Reports for the Periods

January 1, 2004, Through December 31, 2004, and

January 1, 2005, Through December 31, 2005,

and Resident Accounts for the Period

January 1, 2004, Through September 30, 2006

## **FINDINGS RECOMMENDING MONETARY REFUNDS**

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

The facility reported \$5,574.40 of nonallowable excess depreciation expense on the “Medicaid Nursing Facility Level 1 Cost Report” for the fiscal year ended December 31, 2005. As a result of this adjustment, the facility was overpaid \$3,866.64 computed from July 1, 2006, through June 30, 2007.

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

Pine Meadows Healthcare and Rehabilitation Center 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 88 Medicaid residents or their responsible parties a total of \$4,755.

**Pine Meadows Healthcare and Rehabilitation Center  
Bolivar, Tennessee  
Cost Reports for the Periods  
January 1, 2004, Through December 31, 2004, and  
January 1, 2005, Through December 31, 2005,  
and Resident Accounts for the Period  
January 1, 2004, Through September 30, 2006**

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**Pine Meadows Healthcare and Rehabilitation Center  
Bolivar, Tennessee  
Cost Report for the Periods  
January 1, 2004, Through December 31, 2004, and  
January 1, 2005, Through December 31, 2005,  
and Resident Accounts for the Period  
January 1, 2004, Through September 30, 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.

Pine Meadows Healthcare and Rehabilitation Center, Bolivar, Tennessee, provides both NF-1 and NF-2 services. The facility was owned and operated by Kindred Healthcare, Inc., located in Louisville, Kentucky, and its subsidiary, Kindred Health Services Division, at the time

of the examination. The facility was sold on February 1, 2007, to Capitol Source Equity and is leased to and operated by Northpoint Regional LLC, located in Louisville, Kentucky. Allen Craig Tschudi is the sole board member for Northpoint Regional, LLC.

During the examination period, the facility maintained a total of 134 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 49,044 available bed days, the facility reported 34,316 for Medicaid NF-1 residents and 4,133 for Medicaid NF-2 residents for the year ended December 31, 2004. Also, the facility reported total operating expenses of \$6,150,713 for the same period. Of the 48,910 available bed days, the facility reported 32,222 for Medicaid NF-1 residents and 4,146 for Medicaid NF-2 residents for the year ended December 31, 2005. Also, the facility reported total operating expenses of \$6,925,177 for the same 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 (744-0476)</u>	<u>Level II NF (044-5232)</u>
January 1 to June 30, 2004	\$ 91.99	\$141.84
July 1, 2004, to October 1, 2005	\$ 95.09	\$150.30
October 1 to December 31, 2005	\$111.89	\$145.41

**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.



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## **Independent Accountant's Report**

**September 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 37243

Ladies and Gentlemen:

We have examined management's assertions, included in its representation letter dated September 22, 2006, that Pine Meadows Healthcare and Rehabilitation Center complied with the following requirements during the cost reporting periods January 1 through December 31, 2004, and January 1 through December 31, 2005, and to the facility's resident accounts for the period January 1, 2004, through September 30, 2006.

- 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 Pine Meadows Healthcare and Rehabilitation Center'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 Pine Meadows Healthcare and Rehabilitation Center'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 charged for covered services

In our opinion, except for the instances of material noncompliance described above, management's assertions that Pine Meadows Healthcare and Rehabilitation Center complied with the aforementioned requirements for the cost reporting periods January 1 to December 31, 2004, and January 1 through December 31, 2005, and for resident accounts for the period January 1, 2004, to September 30, 2006, 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, 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

Pine Meadows Healthcare and Rehabilitation Center included \$5,574.40 of nonallowable expenses on the “Medicaid Nursing Facility Level 1 Cost Report” for the year ended December 31, 2005. The nonallowable expenses resulted from excess depreciation claimed on 12% of the facility’s assets that were assigned incorrect useful lives.

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 adjustment, the facility’s Medicaid reimbursement 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	\$124.86	\$124.74	\$ (.12)

Overpayments made to the facility as a result of the above adjustments total \$3,866.64 computed from July 1, 2006, through June 30, 2007.

#### Recommendation

Pine Meadows Healthcare and Rehabilitation Center should include only allowable expenses on the “Medicaid Nursing Facility Level 1 Cost Report.” Assets should be depreciated in accordance with required useful life guidelines.

The facility should refund to the State of Tennessee \$3,866.64, representing overpayments by the Medicaid Program as a result of the rate adjustments computed from July 1, 2006, through June 30, 2007.

#### Management’s Comment

Management concurs. In regard to the non-allowed depreciation, we changed the lives on the indicated fixed assets. We understand that the disallowed amount will be deducted from future payments.

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

### **Finding**

Pine Meadows Healthcare and Rehabilitation Center has inappropriately charged Medicaid residents' trust fund accounts for Medicaid covered services. From January 1, 2004, through September 30, 2006, the facility inappropriately charged 88 residents \$4,755 for basic haircuts.

Chapter 1200-8-6-.06(4)(q) of the *Rules of 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 \$4,755 for Medicaid covered services.

### **Recommendation**

Pine Meadows Healthcare and Rehabilitation Center should not charge Medicaid residents for covered services. The facility should reimburse Medicaid residents or their responsible parties a total of \$4,755. In the future, the facility should provide covered services to all Medicaid residents without charge.

### **Management's Comment**

Management concurs. The barber and beauty charges were refunded to the residents on 10/10/06. Current residents received credits on the resident trust fund accounts for the identified amounts. Personal checks were mailed to the residence of discharged patients. Patients are no longer charged for these services.

## SUMMARY OF MONETARY FINDINGS AND RECOMMENDATIONS

### Source of Overpayments

Rate reduction (see finding 1)	\$3,866.64
Unrefunded credit balances (see finding 2)	<u>\$4,755.00</u>
Total	<u>\$8,621.64</u>

### Disposition of Overpayments

Due to the State of Tennessee	\$3,866.64
Due to residents or their responsible parties	<u>\$4,755.00</u>
Total	<u>\$8,621.64</u>