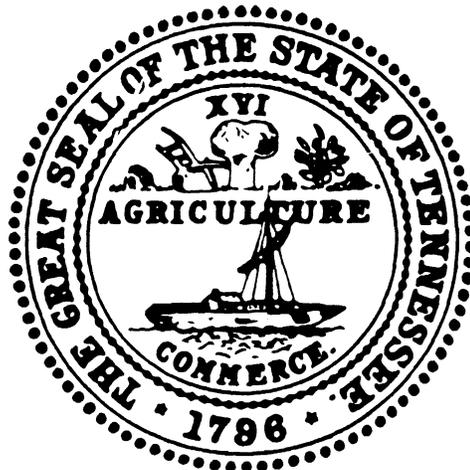


TENNCARE REPORT

Jefferson City Health and Rehabilitation Center
Jefferson City, Tennessee

Cost Reports for the Periods
January 1 Through December 31, 2004, and
January 1 Through December 31, 2005,
and Resident Accounts for the Period
January 1, 2004, Through September 15, 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
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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 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 Jefferson City Health and Rehabilitation Center, Jefferson City, Tennessee, for the periods January 1 through December 31, 2004, and January 1 through December 31, 2005, and resident accounts for the period January 1, 2004, through September 15, 2006.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/pn
07/026

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

TennCare Report
Jefferson City Health and Rehabilitation Center
Jefferson City, Tennessee
Cost Reports for the Periods
January 1 Through December 31, 2004, and
January 1 Through December 31, 2005,
and Resident Accounts for the Period
January 1, 2004, Through September 15, 2006

FINDINGS RECOMMENDING MONETARY REFUNDS

Nonallowable Expenses Included on the Cost Report

The facility included \$4,304.54 of nonallowable expenses on the "Medicaid Nursing Facility Level 1 Cost Report" for the year ended December 31, 2004, and \$6,667.61 for the year ended December 31, 2005. The nonallowable expenses consist of expenses not related to patient care, travel expenses related to marketing, and unsupported expenses. As a result of these adjustments and the adjustments to resident days, the facility was overpaid \$12,013.21, computed from October 1, 2005, through June 30, 2007.

Improper Accumulation of Resident Days

The facility inaccurately reported resident days on the "Medicaid Nursing Facility Level 1 Cost Report." The facility overreported 72 Medicaid NF-1 days and underreported 72 Private NF-1 days and five Medicare NF-2 days for the year ended

December 31, 2004. The facility overreported 241 Private NF-1 days and underreported 213 Medicaid NF-1 days, 20 Private NF-2 days, and one Medicare NF-2 day. The adjustments to resident days and the associated charges are incorporated in the rate change in the nonallowable expense finding.

Residents Inappropriately Charged for Covered Services

Jefferson City Health 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 refund 82 Medicaid residents or their responsible parties a total of \$1,880. Also, the facility needs to ensure monthly insurance premium deductions are properly deducted from resident trust fund accounts. The facility owes one resident \$353.98 and is owed \$41.85 by another resident.

**Jefferson City Health and Rehabilitation Center
Jefferson City, Tennessee
Cost Report for the Periods
January 1 Through December 31, 2004, and
January 1 Through December 31, 2005,
and Resident Accounts for the Period
January 1, 2004, Through September 15, 2006**

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**Jefferson City Health and Rehabilitation Center
Jefferson City, Tennessee
Cost Reports for the Periods
January 1 Through December 31, 2004, and
January 1 Through December 31, 2005,
and Resident Accounts for the Period
January 1, 2004, Through September 15, 2006**

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.

Jefferson City Health and Rehabilitation Center, Jefferson City, 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 170 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 62,220 available bed days, the facility reported 38,788 for Medicaid NF-1 residents and 2,126 for Medicaid NF-2 residents for the year ended December 31, 2004. Also, the facility reported total operating expenses of \$8,888,011 for the same period. Of the 62,050 available bed days, the facility reported 41,266 for Medicaid NF-1 residents and 2,273 for Medicaid NF-2 residents for the year ended December 31, 2005. Also, the facility reported total operating expenses of \$10,458,401 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 (744-0477)</u>	<u>Level II NF (044-5246)</u>
January 1 to June 30, 2004	\$ 100.85	\$ 158.33
July 1, 2004, to September 30, 2005	\$ 110.52	\$ 157.80
October 1 to December 31, 2005	\$ 117.38	\$ 158.42

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
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Independent Accountant's Report

October 5, 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 October 5, 2006, that Jefferson City Health 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 15, 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 Jefferson City Health 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 Jefferson City Health 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
- Improper accumulation of resident days
- Residents inappropriately charged for covered services

In our opinion, except for the instances of material noncompliance described above, management's assertions that Jefferson City Health 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 15, 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,



Arthur A. Hayes, Jr., CPA
Director

AAH/pn

FINDINGS AND RECOMMENDATIONS

1. Nonallowable Expenses Included on the Cost Report

Finding

Jefferson City Healthcare and Rehabilitation Center included \$4,304.54 of nonallowable expenses on the “Medicaid Nursing Facility Level 1 Cost Report” for the year ended December 31, 2004. The nonallowable expenses consist of \$3,600.42 of costs not related to patient care, primarily pizza and other food items for the employees; \$664.12 of travel expense related to marketing; and \$40.00 of unsupported expenses.

The facility included \$6,667.61 of nonallowable expenses on the “Medicaid Nursing Facility Level 1 Cost Report” for the year ended December 31, 2005. The nonallowable expenses consist of \$5,114.60 in costs not related to patient care, primarily pizza and other food items for the employees; \$450.65 of travel expense related to marketing; and \$1,102.36 of unsupported expenses.

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 . . .
Cost of travel incurred in connection with non-patient care related purposes.

As a result of the above adjustments and the adjustments to resident days, finding 2, 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	\$117.38	\$117.28	(\$0.10)
July 1, 2006, through June 30, 2007	\$137.36	\$137.14	(\$0.22)

The overpayment to the nursing facility as a result of the above adjustments and the adjustments to resident days totals \$12,013.21, computed from October 1, 2005, through June 30, 2007.

Recommendation

Jefferson City Healthcare and Rehabilitation Center should include only allowable expenses on the “Medicaid Nursing Facility Level 1 Cost Report.” All reported expenses should be related to resident care.

The facility should refund to the State of Tennessee \$12,013.21, representing overpayments by the Medicaid Program as a result of the rate adjustments computed from October 1, 2005, through June 30, 2007.

Management’s Comment

We agree with the findings and will ensure these types of expenses are included in the appropriate sections of the cost report on future submissions. Diligence will continue to ensure all expenses are supported with appropriate documentation.

2. Inaccurate Accumulation of Resident Days

Finding

Jefferson City Health and Rehabilitation Center inaccurately reported resident days on the “Medicaid Nursing Facility Level 1 Cost Report” for the fiscal year ended December 31, 2004. The facility overreported 72 Medicaid NF-1 days and underreported 72 Private NF-1 days and 5 Medicare NF-2 days. Also, Medicaid NF-1 charges were overstated by \$7,632; Private NF-1 charges were understated by \$7,632; and both Medicare NF-2 and total charges were understated by \$890.

Jefferson City Health and Rehabilitation Center inaccurately reported resident days on the “Medicaid Nursing Facility Level 1 Cost Report” for the fiscal year ended December 31, 2005. The facility overreported 241 Private NF-1 days and underreported 213 Medicaid NF-1 days, 20 private NF-2 days, and one Medicare NF-2 day. Also, Private NF-1 charges were overstated by \$26,992; Medicaid NF-1 charges were understated by \$23,856; Private NF-2 charges were understated by \$3,700; Medicare NF-2 charges were understated by \$185; and total charges were understated by \$749.

Chapter 1200-13-6-.15 of the *Rules of Tennessee Department of Finance and Administration* 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 above and the associated charges are incorporated in the rate change noted in finding 1.

Recommendation

Jefferson City Health and Rehabilitation Center should maintain an adequate system to report and account for resident days. The report should provide adequate and accurate statistical data necessary for proper completion of the "Medicaid Nursing Facility Level 1 Cost Report."

Management's Comment

We agree with these findings and will ensure future cost reports receive due diligence to ensure proper categorization of resident days.

3. Residents Inappropriately Charged for Covered Services

Finding

Jefferson City Health and Rehabilitation Center has inappropriately charged Medicaid residents' trust fund accounts for Medicaid covered services. From January 1, 2004, through September 15, 2006, the facility inappropriately charged 82 residents \$1,880 for basic haircuts.

The facility failed to reconcile resident trust fund accounts for two residents that have a monthly insurance premium deducted from their trust fund account. As a result, one resident is owed \$353.98 by the facility for deducting incorrect monthly premiums and another resident owes the facility \$41.85.

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."

Paragraph 22,163.10(c)(2) of the *Medicare and Medicaid Guide* states that "the facility must hold, safeguard, manage, and account for the personal funds of the resident deposited with the facility."

As a result of the inappropriate charges, the resident trust fund accounts for Medicaid residents have been incorrectly charged \$1,880 for Medicaid covered services. Also, two residents need their resident trust fund accounts reconciled, with the facility owing \$353.98 to one resident and needing to collect \$41.85 from another resident account.

Recommendation

Jefferson City Health and Rehabilitation Center should not charge Medicaid residents for covered services. The facility should reimburse Medicaid residents or their responsible parties a total of \$1,880. In the future, the facility should provide covered services without charge.

Jefferson City Health and Rehabilitation Center should establish adequate procedures to ensure proper withdrawals are made from resident trust funds to pay their monthly insurance premiums. The facility should reimburse one resident account \$353.98 and collect \$41.85 from the other resident account.

Management's Comment

All residents affected by this practice have been identified and all current residents have received appropriate refunds. We have changed our practice and the facility is now providing monthly haircuts free of charge per state policies.

We are in the process of refunding accounts for all previous residents affected and identified by auditors during the designated fiscal years.

The residents whose trust accounts were inappropriately affected have had appropriate adjustments made.

Auditor's Comment

As of June 14, 2007, we have not received evidence that the resident accounts have been corrected that had insurance premium discrepancies.

SUMMARY OF MONETARY FINDINGS AND RECOMMENDATIONS

Source of Overpayments

Rate reduction (see findings 1 and 2)	\$12,013.21
Deficiencies in account for resident accounts (see finding 3)	<u>\$ 2,192.13</u>
Total	<u>\$14,205.34</u>

Disposition of Overpayments

Due to the State of Tennessee	\$12,013.21
Due to residents or their authorized representatives	<u>\$ 2,192.13</u>
Total	<u>\$14,205.34</u>