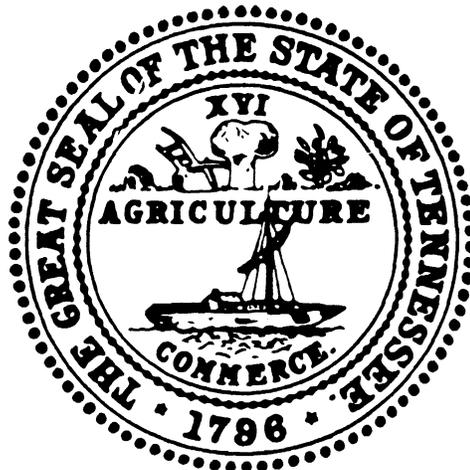


# TENNCARE REPORT

Bells Nursing Home, Inc.  
Bells, Tennessee

Cost Reports for the Periods  
April 1, 2004, Through March 31, 2005, and  
April 1, 2005, Through March 31, 2006,  
and Resident Accounts for the Period  
April 1, 2005, Through March 31, 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 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 reports of Bells Nursing Home, Inc., Bells, Tennessee, for the periods April 1, 2004, through March 31, 2005, and April 1, 2005, through March 31, 2006, and resident accounts for the period April 1, 2005, through March 31, 2006.

Sincerely,

John G. Morgan  
Comptroller of the Treasury

JGM/pn  
07/027

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

TennCare Report  
**Bells Nursing Home, Inc.**  
Bells, Tennessee  
Cost Reports For the Years Ended  
April 1, 2004, Through March 31, 2005, and  
April 1, 2005, Through March 31, 2006,  
and Resident Accounts for the Period  
April 1, 2005, Through March 31, 2006

## FINDING RECOMMENDING MONETARY REFUND

### **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. The facility should refund \$671.57 to former residents or their responsible representatives.

## FINDINGS NOT RECOMMENDING MONETARY REFUNDS

### **Inaccurate Accumulation and Reporting of Resident Days**

The facility inaccurately overreported 473 resident days on the "Medicaid Nursing Facility Level 1 Cost Report" for the year ended March 31, 2005. For the year ended March 31, 2006, the facility inaccurately reported 35 hospital leave days on the cost report for non-reimbursable Medicaid NF-1 days. The adjustment to resident days had no effect on the facility's Medicaid reimbursable rate.

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

The facility included \$6,406.92 of nonallowable expenses on the "Medicaid Nursing Facility Level 1 Cost Report" for the year ended March 31, 2005, and \$56,406.17 for the year ended March 31, 2006. Nonallowable expenses included amounts related to other lines of business, unsupported expenses, and capital assets that should have been depreciated. These adjustments to expenses had no effect on the facility's Medicaid reimbursable rate.

**Bells Nursing Home, Inc.**  
**Bells, Tennessee**  
**Cost Reports for the Periods**  
**April 1, 2004, Through March 31, 2005, and**  
**April 1, 2005, Through March 31, 2006,**  
**and Resident Accounts for the Period**  
**April 1, 2005, Through March 31, 2006**

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**Bells Nursing Home, Inc.**  
**Bells, Tennessee**  
**Cost Reports for the Periods**  
**April 1, 2004, Through March 31, 2005, and**  
**April 1, 2005, Through March 31, 2006,**  
**and Resident Accounts for the Period**  
**April 1, 2005, Through March 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.

Bells Nursing Home, Inc., Bells, Tennessee, provides both NF-1 and NF-2 services. The facility is owned and operated by Bells Nursing Home, Inc., and the principle stockholders are Craig Laman and Billy Cobb.

During the examination period, the facility maintained a total of 120 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 43,800 available bed days, the facility reported 34,245 for Medicaid NF-1 residents, and 72 were for Medicaid NF-2 residents for the year ended March 31, 2005. Also, the facility reported operating expenses of \$5,998,073 for the same period. Of the 43,800 available bed days, the facility reported 30,711 for Medicaid NF-1 residents for the year ended March 31, 2006. Also, the facility reported total operating expenses of \$6,299,383 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 (744-0527)</u>	<u>Level II NF (044-5463)</u>
April 1, 2004, to June 30, 2004	\$ 112.26	\$ 158.33
July 1, 2004, to September 30, 2005	\$ 122.15	\$ 157.80
October 1, 2005, to March 31, 2006	\$ 132.98	\$ 164.53

**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 21, 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 September 21, 2006, that Bells Nursing Home, Inc. complied with the following requirements during the cost reporting periods April 1, 2004, through March 31, 2005, and April 1, 2005, through March 31, 2006, and to the facility's resident accounts for the period April 1, 2005, through March 31, 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 Bells Nursing Home, Inc.'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 Bells Nursing Home, Inc.'s compliance with specified requirements.

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

- Need to properly manage unrefunded credit balances
- Inaccurate accumulation and reporting of resident days
- Nonallowable expenses included on the cost report

In our opinion, except for the instances of material noncompliance described above, management's assertions that Bells Nursing Home, Inc. complied with the aforementioned requirements for the cost reporting periods April 1, 2004, through March 31, 2005, and April 1, 2005, through March 31, 2006, and for resident accounts for the period April 1, 2005, through March 31, 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

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## FINDINGS AND RECOMMENDATIONS

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### 1. Need to Properly Manage Unrefunded Credit Balances

#### Finding

Bells Nursing Home, Inc. 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 were notified of money due them.

Section 66-29-113 of *Tennessee Code Annotated* required 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 receivables unrefunded credit balances of \$671.57 remain on the accounts of three former residents of Bells Nursing Home, Inc. The entire amount is due former residents or their authorized representatives.

#### Recommendation

Bells Nursing Home, Inc. should implement a system to 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.

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.

A refund of \$671.57 should be given to the former residents or their authorized representatives.

## **Management's Comment**

This facility does have a system to ensure credit balance refunds to residents. There were three residents with credit balances that were deceased or discharged. The total was \$671.57 (less than one tenth of one percent of our accounts receivable). Two of these residents have been refunded credit balances, leaving one patient who returned to the facility and currently has an outstanding balance due to the facility. There is always historical data that we have by knowing our residents that leads to slow refunding to ensure accuracy, such as late R/A reporting.

### **2. Inaccurate Accumulation and Reporting of Resident Days**

#### **Finding**

Bells Nursing Home, Inc. inaccurately reported resident days on the "Medicaid Nursing Facility Level 1 Cost Report" for the year ended March 31, 2005. The facility overreported 421 NF-1 Medicaid days and 52 NF-1 Private days. This resulted in 473 total resident days being overreported.

Bells Nursing Home, Inc. failed to observe the hospital and therapeutic leave limitations for the year ended March 31, 2006. The facility reported 35 hospital leave days for Medicaid residents that exceeded the leave limitations on the "Medicaid Nursing Facility Level 1 Cost Report" for the year ended March 31, 2006. The facility did not receive payment for the 35 Medicaid leave days incorrectly reported.

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.

Chapter 1200-13-1-.06(4)(b) of the *Rules* states, "Effective October 1, 2005, reimbursement will be made for up to a total of 10 days per state fiscal year while the resident is hospitalized or absent from the facility on therapeutic leave."

The facility cannot include resident days on its cost report if the facility will not receive reimbursement for those resident days.

The adjustment to days reported above had no effect on the facility's Medicaid reimbursable rate.

## **Recommendation**

Bells Nursing Home, Inc. 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.” The facility can only include reimbursable resident days on its cost report.

## **Management’s Comment**

We concur with your finding of over reporting 473 resident days on the “Medicaid Nursing Facility Level I Cost Report” for the year ended March 31, 2005. Although over-reported, this finding would result in a higher cost per day. This happening was from duplicating numbers from our census to the accounting firm that completes our cost report.

For the year ended March 31, 2006, your finding stated that we inaccurately reported 35 hospital leave days on the cost report for NF-1 days. The change to 10 allowable days also stated that we should continue to log patients as to their status and record them. We were not paid for these days and they were reported as non-covered hospital days.

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

#### **Finding**

Bells Nursing Home, Inc. included \$6,406.92 of nonallowable expenses on the “Medicaid Nursing Facility Level 1 Cost Report” for the year ended March 31, 2005. The nonallowable expenses consist of \$5,944.01 of costs not related to the nursing facility and \$462.91 of unsupported expenses.

The facility included \$56,406.17 of nonallowable expenses on the “Medicaid Nursing Facility Level 1 Cost Report” for the year ended March 31, 2006. The nonallowable amount consists of \$10,572.02 of expenses not related to the nursing facility; \$685.00 of advertising expense; \$3,010.63 of unsupported expenses; and \$42,823.52 for assets improperly expensed that should have been capitalized and depreciated, net of \$1,476.48 of allowable depreciation expense for this period.

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 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.”

The adjustment to allowable expenses had no effect on the facility’s Medicaid reimbursable rate.

### **Recommendation**

Bells Nursing Home, Inc. should include only allowable expenses on the “Medicaid Nursing Facility Level 1 Cost Report.” All reported expenses should be related to resident care and only for services provided for the residents at that facility. Costs associated to the owner’s other lines of business should not be included on the nursing facility cost report. All assets, including betterments or improvements, costing \$5,000 or more must be capitalized and depreciated over their proper useful lives.

### **Management’s Comment**

We concur with the findings of \$6,406.92 for the year ended March 31, 2005. This was an accounting issue and has been addressed for future accounting on cost reports.

Concerning your finding for the year ended March 31, 2006, totaling \$56,406.17, we concur with your finding of \$10,572.02 of this amount, due to accounting error. The \$3,010.63 of unsupported expenses was resident related, but we concur on not having proper documentation or unsupported invoices for expenses.

Concerning the finding of \$44,300.00 for assets improperly expensed that you say should have been capitalized and depreciated, our opinion is and was that the parking lot was destroyed or damaged to an unsafe condition by a tornado that hit the Bells Nursing Home on November 9, 2002. The nursing home was damaged heavily. Heavy equipment had to be brought in (trackhoes and bulldozers) to clear the nearly 200 large trees that were blown into the building and onto the parking area. “GAAP” does not address this, but our rationale was if we had not been hit by a tornado, we would not have repaved the parking area. The paragraph in the *Medicare and Medicaid Guide* does not apply to a direct hit by a tornado. We were repairing, not extending the life of the parking lot. The State requires a smooth and safe surfaced parking lot.

The other findings we concur with, but the expenses were resident related. We may not have proper supporting documentation.

### **Auditor's Comment**

Facility management has agreed to depreciate the \$44,300 for the parking lot damaged during the tornado as noted in our recommendation.

## **SUMMARY OF MONETARY FINDINGS AND RECOMMENDATIONS**

### **Source of Overpayments**

Unrefunded credit balances (see finding 1)	<u>\$ 671.57</u>
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### **Disposition of Overpayments**

Due to residents or their authorized representatives	<u>\$ 671.57</u>
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