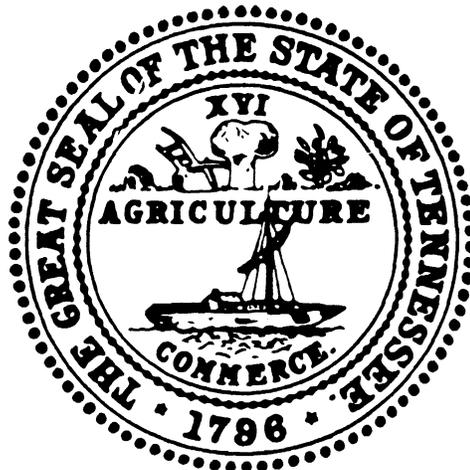


# TENNCARE REPORT

Life Care Center of Cleveland  
Cleveland, 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, 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**  
State Capitol  
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John G. Morgan  
Comptroller

June 17, 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 reports of Life Care Center of Cleveland, Cleveland, 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, 2005, through December 31, 2005.

Sincerely,

John G. Morgan  
Comptroller of the Treasury

JGM/pn  
07/038

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

TennCare Report  
**Life Care Center of Cleveland**  
Cleveland, 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, 2005, Through December 31, 2005

## FINDINGS RECOMMENDING MONETARY REFUNDS

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

Life Care Center of Cleveland included \$3,666.33 of nonallowable expenses on the "Medicaid Nursing Facility Level 1 Cost Report" for the year ended December 31, 2004, and \$6,258.65 for the year ended December 31, 2005. Nonallowable expenses included marketing related travel expenses, expenses not related to patient care, unsupported expenses, and excess depreciation expense. As a result of these adjustments, overpayments of \$2,216.97

were made to the facility by the Medicaid Program, computed from October 1, 2005, through June 30, 2008.

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

Life Care Center of Cleveland has not established a system to ensure credit balances on accounts of deceased or discharged residents are properly managed. Unrefunded credit balances of \$3,894.73 due to the Medicaid Program remain on the accounts of three former residents.

**Life Care Center of Cleveland  
Cleveland, 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, 2005, Through December 31, 2005**

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**Life Care Center of Cleveland  
Cleveland, 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, 2005, Through December 31, 2005**

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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 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.

Life Care Center of Cleveland, Cleveland, Tennessee, provides both NF-1 and NF-2 services. The facility is owned and operated by Life Care Centers of America, Inc., located in Cleveland, Tennessee. The officers/members of the board of directors are as follows:

Forest Preston, Chairman	Don Giardina, President
Beecher Hunter, Executive Vice President	J. Stephen Ziegler, Chief Financial Officer
Kathy Murray, Chief Operating Officer	Angelea Clayton, Administrative Assistant to the Chairman
Mike Carter, Assistant to the Chairman	Stan Burton, Executive Vice President
John McMullan, Consultant	David Weiss, Consultant

During the examination period, the facility maintained a total of 163 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 59,658 available bed days, the facility reported 27,020 for Medicaid NF-1 residents and 2,839 for Medicaid NF-2 residents for the year ended December 31, 2004. Of the 59,495 available bed days, the facility reported 26,021 for Medicaid NF-1 residents and 3,353 for Medicaid NF-2 residents for the year ended December 31, 2005. Also, the facility reported total operating expenses of \$9,054,641 for the year ended December 31, 2004, and total operating expenses of \$9,703,210 for the year ended December 31, 2005.

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 (744-0433)</u>	<u>Level II NF (044-5244)</u>
July 1, 2003, through June 30, 2004	\$111.67	\$155.02
July 1, 2004, through September 30, 2005	\$106.11	\$139.55
October 1, 2005, through June 30, 2006	\$119.99	\$123.62

**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**

**December 7, 2006**

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:

We have examined management's assertions, included in its representation letter dated December 7, 2006, that Life Care Center of Cleveland complied with the following requirements on the "Medicaid Nursing Facility Level 1 Cost Report" for the periods January 1, 2004, through December 31, 2004, and January 1, 2005, through December 31, 2005, and to the facility's resident accounts for the period January 1, 2005, through December 31, 2005.

- 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 Life Care Center of Cleveland'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 Life Care Center of Cleveland's compliance with specified requirements.

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

1. Nonallowable expenses included on the cost report
2. Need to properly manage unrefunded credit balances

In our opinion, except for the instances of material noncompliance described above, Life Care Center of Cleveland complied with, in all material respects, the aforementioned requirements for the "Medicaid Nursing Facility Level 1 Cost Report" for the periods January 1, 2004, through December 31, 2004, and 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,



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

Life Care Center of Cleveland included \$3,666.33 of nonallowable expenses on the “Medicaid Nursing Facility Level 1 Cost Report” for the year ended December 31, 2004. The nonallowable amount consisted of \$1,902.34 of costs not related to resident care, including marketing related travel expenses, unjustified meals expense and advertising; \$1,142.95 of unsupported expenses; and \$621.04 in excess depreciation expense due to one asset being depreciated too rapidly.

The facility included \$6,258.65 of nonallowable expenses on the “Medicaid Nursing Facility Level 1 Cost Report” for the year ended December 31, 2005. The nonallowable amount consisted of \$3,776.77 of costs not related to resident care, primarily marketing related travel expenses; \$1,860.84 of unsupported expenses; and \$621.04 in excess depreciation expense due to one asset being depreciated too rapidly.

Chapter 1200-13-6-.09 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. . . .

The following are also expenses not considered a part of the cost of providing routine service, and should be deducted:

Costs which are not necessary or related to patient care.

Advertising costs incurred . . . which seek to increase patient population or utilization of the provider’s facilities by the general public.

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.

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 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 above adjustments, 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	\$119.99	\$119.88	\$(0.11)
July 1, 2006, through June 30, 2007	\$139.07	\$139.07	\$(0.00)
July 1, 2007, through June 30, 2008	\$146.00	\$146.00	\$(0.00)

Overpayments made to the facility as a result of the above adjustments total \$2,216.97, computed from October 1, 2005, through June 30, 2008.

### **Recommendation**

Life Care Center of Cleveland should only include 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 \$2,216.97, representing overpayments by the Medicaid Program, to the State of Tennessee as a result of the rate reduction computed from October 1, 2005, through June 30, 2008.

### **Management's Comment**

Management concurs. Additional measures have been taken to properly maintain financial records. Also, adjustments have been made to the cost report preparation to exclude the additional unallowable expenses.

## 2. Need to Properly Manage Unrefunded Credit Balances

### **Finding**

Life Care Center of Cleveland has not established a system to ensure that credit balances on the accounts of deceased or discharged residents are properly managed. Management failed to refund the portion of the credit balances due to the Medicaid Program.

Section 66-29-113, *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 the 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 totaling \$3,894.73 remain on the accounts of three former residents of Life Care Center of Cleveland. This entire amount is due to the Medicaid Program for overpayments to the facility made on behalf of the three residents.

### **Recommendation**

Life Care Center of Cleveland should maintain a system to refund credit balances on the accounts of former residents. A refund of \$3,894.73 should be made to the State of Tennessee for the amount due the Medicaid Program.

### **Management’s Comment**

Management concurs. The credit balances in question have been refunded and are no longer outstanding. No additional repayment to the State of Tennessee will be needed.

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

### **Source of Overpayments**

Rate reduction (see finding 1)	\$2,216.97
Unrefunded credit balances (see finding 2)	<u>\$3,894.73</u>
Total	<u>\$6,111.70</u>

### **Disposition of Overpayments**

Due to the State of Tennessee	<u>\$6,111.70</u>
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