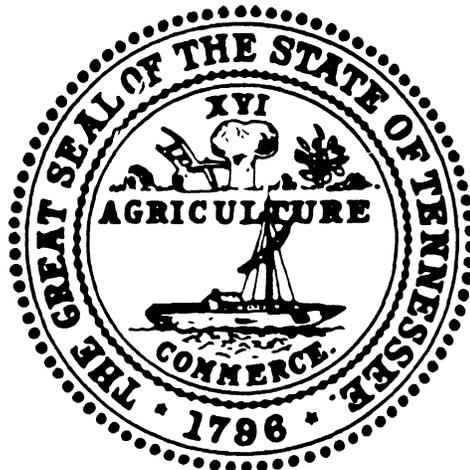


TENNCARE REPORT

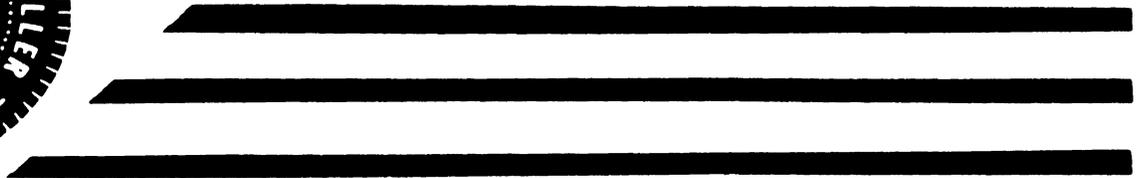
McMinn Memorial Nursing Home
Etowah, Tennessee

Cost Reports for the Periods
July 1, 2003, Through June 30, 2004, and
July 1, 2004, Through June 30, 2005,
and
Resident Accounts for the Period
July 1, 2004, Through June 30, 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
Nashville, Tennessee 37243-0260
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John G. Morgan
Comptroller

April 24, 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 McMinn Memorial Nursing Home, Etowah, Tennessee, for the periods July 1, 2003, through June 30, 2004, and July 1, 2004, through June 30, 2005, and resident accounts for the period July 1, 2004, through June 30, 2005.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/pn
07/039

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

TennCare Report
McMinn Memorial Nursing Home
Etowah, Tennessee
Cost Reports for the Periods
July 1, 2003, Through June 30, 2004, and
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and
Resident Accounts for the Period
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FINDINGS RECOMMENDING MONETARY REFUNDS

Nonallowable Expenses Included on the Cost Report

The facility reported \$8,492.67 of nonallowable expenses on the "Medicaid Nursing Facility Level 1 Cost Report" for the fiscal year ended June 30, 2004. Also, the facility reported \$24,171.40 in nonallowable expenses on the cost report for the fiscal year ended June 30, 2005. As a result of these adjustments, overpayments of \$8,387.60 were made to the facility by the Medicaid Program, computed from October 1, 2005, through June 30, 2007.

Inaccurate Accumulation of Resident Days

The facility inaccurately reported resident days on the "Medicaid Nursing Facility Level 1 Cost Report." The facility underreported 615 Medicaid NF-1 and 35

Private NF-2 days, and overreported 615 Private NF-1 and 35 Private NF-2 days for the year ended June 30, 2004. For the year ended June 30, 2005, the facility underreported 245 Medicaid NF-1 and 96 Medicaid NF-2 days, and overreported 32 Medicare NF-2, 245 Private NF-1, and 86 Private NF-2 days. The adjustments to resident days and the associated charges are incorporated in the rate change in the "nonallowable expenses" finding.

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 \$8,393.11 to 22 former residents or their responsible representatives.

**McMinn Memorial Nursing Home
Etowah, Tennessee
Cost Reports for the Periods
July 1, 2003, Through June 30, 2004, and
July 1, 2004, Through June 30, 2005,
and
Resident Accounts for the Period
July 1, 2004, Through June 30, 2005**

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**McMinn Memorial Nursing Home
Etowah, Tennessee
Cost Reports for the Periods
July 1, 2003, Through June 30, 2004, and
July 1, 2004, Through June 30, 2005,
and
Resident Accounts for the Period
July 1, 2004, Through June 30, 2005**

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 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.

McMinn Memorial Nursing Home, Etowah, Tennessee, provides both NF-1 and NF-2 services. The facility was owned and operated by McMinn County General Government at the time of the examination. The facility was sold on December 1, 2007, to Doctors Hospital of McMinn County LLC. This company is a consortium of 16 local physicians and Restoration HealthCare, LLC. Restoration Healthcare LLC is owned by Stephen N. Clapp and Mark Allen Clapp.

During the examination period, the facility maintained a total of 88 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 32,208 available bed days, the facility reported 20,915 for Medicaid NF-1 residents and 1,727 for Medicaid NF-2 residents for the year ended June 30, 2004. Also, the facility reported total operating expenses of \$3,709,438 for the same period. Of the 32,120 available bed days, the facility reported 20,516 for Medicaid NF-1 and 1,747 for Medicaid NF-2 residents for the year ended June 30, 2005. Also, the facility reported total operating expenses of \$3,887,160 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 (744-0131)</u>	<u>Level II NF (044-5277)</u>
July 1, 2003, to June 30, 2004	\$ 109.25	\$ 137.57
July 1, 2004, to June 30, 2005	\$ 104.77	\$ 157.80

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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Independent Accountant's Report

December 13, 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 December 13, 2006, that McMinn Memorial Nursing Home complied with the following requirements on the "Medicaid Nursing Facility Level 1 Cost Report" for the periods July 1, 2003, through June 30, 2004, and July 1, 2004, through June 30, 2005, and to the facility's resident accounts for the period July 1, 2004, through June 30, 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 McMinn Memorial Nursing Home'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 McMinn Memorial Nursing Home'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
- Inaccurate accumulation of resident days
- Need to properly manage unrefunded credit balances

In our opinion, except for the instances of material noncompliance described above, McMinn Memorial Nursing Home complied with, in all material respects, the aforementioned requirements for the "Medicaid Nursing Facility Level 1 Cost Report" for the periods July 1, 2003, to June 30, 2004, and July 1, 2004, through June 30, 2005, and for resident accounts for the period July 1, 2004, through June 30, 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

FINDINGS AND RECOMMENDATIONS

1. Nonallowable Expenses Included on the Cost Report

Finding

McMinn Memorial Nursing Home included \$8,492.67 of nonallowable expenses on the “Medicaid Nursing Facility Level 1 Cost Report” for the year ended June 30, 2004. The nonallowable amount consists of \$5,887.70 in unsupported expenses; \$1,400.00 in donations; \$122.64 in late fees; \$1,007.00 in bank service charges; and \$75.33 for a non-resident-related business lunch allocated from Woods Memorial Hospital.

The facility included \$24,171.40 of nonallowable expenses on the “Medicaid Nursing Facility Level 1 Cost Report” for the year ended June 30, 2005. The nonallowable amount consists of \$5,010.70 in unsupported expenses for the facility; \$17,491.28 in unsupported expenses allocated from Woods Memorial Hospital; \$953.82 in late fees and finance charges for the facility’s accounts payable; and \$715.60 in late fees allocated from Woods Memorial Hospital.

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.” The rule also specifies that unnecessary costs, costs not related to resident care, and all fines and penalties are to 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 gifts or donations.

As a result of the adjustments to allowable expenses above and the adjustment to resident days, the facility’s Medicaid reimbursable rate was changed as follows:

<u>Period</u>	<u>Original Rate</u>	<u>Adjusted Rate</u>	<u>Difference</u>
October 1, 2005, through June 30, 2006	\$116.12	\$115.60	\$ (0.52)
July 1, 2006, through June 30, 2007	\$139.07	\$139.07	\$ (0.00)

Overpayments made to the nursing facility as a result of the above adjustments and the adjustments to resident days made in finding 2 total \$8,387.60, computed from October 1, 2005, through June 30, 2007.

Recommendation

McMinn Memorial Nursing Home should include only allowable expenses on the “Medicaid Nursing Facility Level 1 Cost Report.” All reported expenses should be adequately supported, related to resident care, and in compliance with other applicable regulations.

The facility should refund \$8,387.60, 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, 2007.

Management’s Comment

Management concurs. This finding is a combination of accounting process as well as communication with firms hired to perform the cost reporting. The plan of correction for this finding is three-fold:

- a. For allocated expenses, proper supporting documentation explaining such expenses will be attached to the payment request. Payment requests without such documentation will not be approved or paid. This should avoid unsupported expenses.
- b. In addition, the administrator and nursing director will review monthly operating reports and identify any suspicious allocation or payment for further research in case the item was charged to the wrong cost center.
- c. All nonallowable expenses should be identified in separate accounts to allow for exclusion on the cost report. This will require educating accounting staff with regard to what items are allowable or nonallowable. Some of the costs in this finding are due to the normal course of business and unfortunately a result of the financial position of the facility at the time, but we realize that these are not allowable and should be excluded in the future.

2. Inaccurate Accumulation of Resident Days

Finding

McMinn Memorial Nursing Home inaccurately reported resident days on the “Medicaid Nursing Facility Level 1 Cost Report” for the year ended June 30, 2004. The facility underreported a total of 615 Medicaid NF-1 and 35 Medicare NF-2 days and overreported 615 Private NF-1 and 35 Private NF-2 days. Also, charges were understated for Medicaid NF-1 by \$72,570.00 and Medicare NF-2 by \$6,475.00, and overstated for Private NF-1 by \$72,570.00 and Private NF-2 by \$6,475.00.

McMinn Memorial Nursing Home inaccurately reported resident days on the “Medicaid Nursing Facility Level 1 Cost Report” for the year ended June 30, 2005. The facility underreported 245 Medicaid NF-1 and 96 Medicaid NF-2 days, and overreported 245 Private NF-1 and 86 Private NF-2 days. Also, charges were understated for Medicaid NF-1 by \$31,663.33, and for Medicaid NF-2 by \$15,542.40, and overstated for Private NF-1 by \$31,281.33 and Private NF-2 by \$13,923.40.

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 and the associated charges are incorporated in the rate change noted in finding 1.

Recommendation

McMinn Memorial Nursing Home 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

Management concurs. This finding is a result of poor communication structure within the cost center and billing department with regard to change in insurance coverage and retroactive approval of PAEs by the State. This correction has already been made with billing being relocated to the nursing facility and a routine process of communication between staff and billing to discuss insurance changes as well as status changes between care levels.

3. Need to Properly Manage Unrefunded Credit Balances

Finding

McMinn Memorial Nursing Home has not established a system to manage accounts receivable and 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.

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 \$8,393.11 remain on the accounts of 22 former residents of McMinn Memorial Nursing Home. The entire amount is due former residents or their authorized representatives.

Recommendation

McMinn Memorial Nursing Home 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 the 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 the Treasury must include any accrued interest. Proper claims against the funds will be honored by the Tennessee Department of the Treasury.

A refund of \$8,393.11 should be made to the former residents or their authorized representatives.

Management's Comment

Management concurs. Unfortunately, the systems in place during the period audited were inadequate in documenting and accounting for credit balances. In May 2007, a new policy and process was instituted to reconcile and process patient refunds. An attached list will document that the refunds in question during the audit were refunded and/or filed with the State as unclaimed property. This was not a timely solution given the age of the accounts, but these accounts were resolved. In the future, residents and/or responsible parties will be notified within 60 days of the credit balance and this notification will be maintained to further support our work to resolve the credit before filing with the Division of Unclaimed Property.

SUMMARY OF MONETARY FINDINGS AND RECOMMENDATIONS

Source of Overpayments

Rate increase (see findings 1 and 2)	\$ 8,387.60
Unrefunded credit balances (see finding 3)	<u>\$ 8,393.11</u>
Total	<u>\$16,780.71</u>

Disposition of Overpayments

Due to the State of Tennessee	\$ 8,387.60
Due to former residents or their authorized representatives	<u>\$ 8,393.11</u>
Total	<u>\$16,780.71</u>