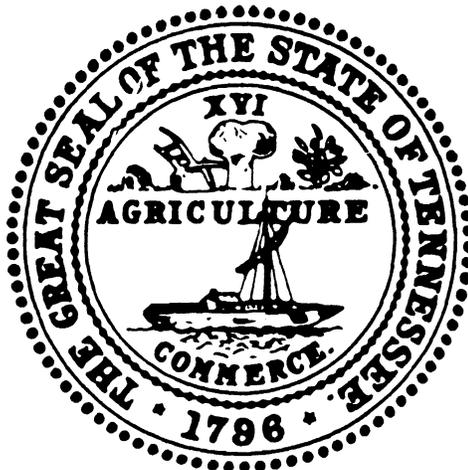


TENNCARE REPORT

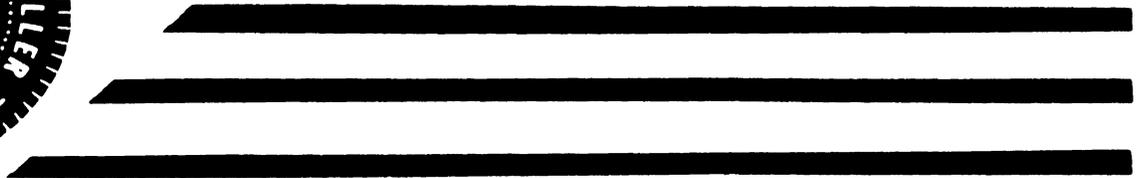
Wayne County Nursing Home
Waynesboro, Tennessee

Cost Reports for the Periods
July 1, 2002, Through June 30, 2003,
And
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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TennCare/Medicaid audits are available on-line at www.comptroller.state.tn.us/sa/reports/index.html.
For more information about the Comptroller of the Treasury, please visit our website at
www.comptroller.state.tn.us.



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
State Capitol
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John G. Morgan
Comptroller

April 15, 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 limited scope examination of the salaries expense reported on the Medicaid cost reports of Wayne County Nursing Home, Waynesboro, Tennessee, for the periods July 1, 2002, through June 30, 2003, and July 1, 2004, through June 30, 2005.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/pn
08/026

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

TennCare Report
Wayne County Nursing Home
Waynesboro, Tennessee
Cost Reports for the Periods
July 1, 2002, Through June 30, 2003,
And
July 1, 2004, Through June 30, 2005

FINDING RECOMMENDING MONETARY REFUND

Unreasonable Salary Expense Included on the Cost Report

The facility reported \$583,716.71 of total nonallowable expenses in the “Medicaid Nursing Facility Level 1 Cost Report.” As a result of this adjustment, the facility was overpaid \$131,117.65, computed from July 1, 2004, through June 30, 2007.

**Wayne County Nursing Home
Waynesboro, Tennessee
Cost Reports for the Periods
July 1, 2002, Through June 30, 2003,
And
July 1, 2004, Through June 30, 2005**

TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| INTRODUCTION | 1 |
| Purpose and Authority of the Examination | 1 |
| Background | 1 |
| Prior Examination Findings | 2 |
| Scope of the Examination | 3 |
| INDEPENDENT ACCOUNTANT'S REPORT | 4 |
| FINDING AND RECOMMENDATION | 6 |
| • Unreasonable salary expense included on the cost report | 6 |
| Summary of Monetary Finding and Recommendation | 8 |

**Wayne County Nursing Home
Waynesboro, Tennessee
Cost Reports for the Periods
July 1, 2002, Through June 30, 2003,
And
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.

Wayne County Nursing Home, Waynesboro, Tennessee, provides only NF-1 services. The facility is owned and operated by Wayne County. The officers/members of the board of directors are as follows:

Mr. Larry Haggard
Mrs. Rachael Abrams
Mr. Gene Davidson
Mrs. Diane Rich
Mr. Edward Mathis

During the examination periods, the facility maintained a total of 109 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 39,785 available bed days, the facility reported 38,247 for Medicaid NF-1 residents for the year ended June 30, 2003. Of the 39,785 available bed days, the facility reported 35,746 for Medicaid NF-1 residents for the year ended June 30, 2005. Also, the facility reported total operating expenses of \$4,473,651 for the year ended June 30, 2003, and \$4,176,596 for the year ended June 30, 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 (744-0200)</u> |
|--|----------------------------------|
| July 1, 2002, through June 30, 2003 | \$114.56 |
| July 1, 2004, through September 30, 2005 | \$121.03 |

PRIOR EXAMINATION FINDINGS

The prior report of Wayne County Nursing Home, for the period July 1, 2003, through June 30, 2004, contained the following findings:

1. Improperly maintaining accounts off the nursing facility books
2. Nonallowable expenses included on the cost report
3. Improper billing of resident hospital leave days
4. Inappropriate charges of resident accounts
5. Deficiency in accounting for resident trust fund

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 in the Independent Accountant's report. Our examination does not cover quality of care, clinical, or medical provisions.



STATE OF TENNESSEE
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Independent Accountant's Report

September 20, 2007

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 20, 2007, that Wayne County Nursing Home complied with the following requirement on the "Medicaid Nursing Facility Level 1 Cost Report" for the periods July 1, 2002, through June 30, 2003, and July 1, 2004, through June 30, 2005.

- Salary expense reported on the cost report is reasonable, allowable, and in accordance with state and federal rules, regulations, and reimbursement principles.

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 Wayne County 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 Wayne County Nursing Home's compliance with specified requirements.

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

- Unreasonable salary expense included on the cost report

In our opinion, except for the instance of material noncompliance described above, Wayne County 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, 2002, through June 30, 2003, and 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,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." with a stylized flourish at the end.

Arthur A. Hayes, Jr., CPA
Director

AAH/pn

FINDING AND RECOMMENDATION

Unreasonable Salary Expense Included on the Cost Report

Finding

Wayne County Nursing Home included \$583,716.71 of excess bonuses paid to the employees on the “Medicaid Nursing Facility Level 1 Cost Report” for the fiscal year ended June 30, 2003.

Employees received an annual bonus that was calculated based on the resulting income for the year. The annual bonuses were approved by the board of directors. The amounts and distribution of the bonuses were left to the discretion of the facility’s former administrators. The total amount of bonuses for the fiscal year ended June 30, 2003, was \$583,716.71, paid to employees across the board based on a percentage of their current-year compensation, which was 22.5 percent for that year.

Paragraph 5607 of the *Medicare and Medicaid Guide* states,

The determination as to the reasonableness of a person’s compensation is made by comparing it with the compensation paid to other individuals in similar circumstances. To obtain uniformity in the application of the principle, the intermediary identifies compensation paid to individuals other than owners by comparable institutions in the same geographical area.

The base pre-bonus salaries for the fiscal year ended June 30, 2003, were comparable to similar personnel salaries in that area of the state, according to Labor and Work Force Development studies. However, annual bonuses of 22.5 percent of their current-year compensation were clearly excessive and unreasonable.

In determining the amounts to be considered unreasonable compensation, the reasonable costs of otherwise allowable fringe benefits not provided by the facility have been used to offset the excessive bonuses paid to employees of the facility. The provider could have claimed group health insurance costs as an allowable expense had such coverage been offered to its employees; \$520,710.30 was allowed as estimated group health insurance costs to offset the bonus adjustment of \$583,716.71. As of early 2006, the provider now has a group health insurance benefit for its employees. Prior to that time, for the fiscal year ended June 30, 2003, forty-five of the employees were enrolled in the state’s TennCare Program.

As a result of the bonus adjustments, the facility’s Medicaid reimbursable rate was affected as follows:

| <u>Period</u> | <u>Original Rate</u> | <u>Adjusted Rate</u> | <u>Difference</u> |
|--|----------------------|----------------------|-------------------|
| July 1, 2004, through September 30, 2005 | \$121.03 | \$117.65 | \$ (3.38) |
| October 1, 2005, through June 30, 2006 | \$103.90 | \$103.90 | \$ 0.00 |
| July 1, 2006, through June 30, 2007 | \$112.76 | \$113.62 | \$ 0.86 |

Overpayments from TennCare to the facility as a result of the above adjustments total \$131,117.65, computed from June 1, 2004, through June 30, 2007.

Recommendation

Wayne County Nursing Home should include only 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 \$131,117.65, representing overpayments by the Medicaid Program, to the State of Tennessee as a result of the rate adjustments computed from June 1, 2004, through June 30, 2007.

Management’s Comment

Although management does not contest this finding, management does state that all compensation to employees was made in good faith and with absolutely no intent to mislead or deprive TennCare of rightful payment. Wayne County Nursing Home Management and Board firmly believed that compensation was consistent with compensation paid in other nursing homes in the area. Not only did Wayne County Nursing Home employees not receive health insurance benefits, they did not have Workers Compensation Coverage until July 2004 (first year premium was \$75,623.00) and 33 employees had 10 years or more experience at Wayne County Nursing Home.

Auditor’s Comment

Per Labor and Workforce Development studies, Wayne County Nursing Home’s personnel salaries, including the 22.5% bonus, significantly exceeded average salaries for rural nursing homes within the area. Workers compensation coverage is not considered a direct employee benefit; thus, our position is that no allowance be made for estimates of these type costs.

Summary of Monetary Finding and Recommendation

Source of Overpayment

| | |
|------------------------------|---------------------|
| Rate reduction (see finding) | <u>\$131,117.65</u> |
|------------------------------|---------------------|

Disposition of Overpayment

| | |
|-------------------------------|---------------------|
| Due to the State of Tennessee | <u>\$131,117.65</u> |
|-------------------------------|---------------------|