

# TENNCARE REPORT

NHC Healthcare, Knoxville  
Knoxville, Tennessee

Cost Report for the Period  
January 1, 2006, Through December 31, 2006,  
and  
Resident Accounts for the Period  
January 1, 2004, Through June 30, 2007



STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY

Department of Audit  
Division of State Audit



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June 8, 2009

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 report of NHC HealthCare, Knoxville, Tennessee, for the period January 1, 2006, through December 31, 2006, and resident accounts for the period January 1, 2004, through June 30, 2007.

Sincerely,

Arthur A. Hayes, Jr., CPA  
Director

AAH/pn  
08/116

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

TennCare Report  
**NHC HealthCare, Knoxville**  
Knoxville, Tennessee  
Cost Report for the Period  
January 1, 2006, Through December 31, 2006,  
and  
Resident Accounts for the Period  
January 1, 2004, Through June 30, 2007

## **FINDINGS RECOMMENDING MONETARY REFUNDS**

### **Residents Inappropriately Charged for Covered Services**

NHC HealthCare, Knoxville 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 201 Medicaid residents or their responsible parties a total of \$5,201.25. Also, the facility charged Medicaid residents' trust fund accounts for covered legend drugs and inappropriate finance charges totaling \$548.73.

### **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. Unrefunded credit balances of \$22,546.97 remain on the trust fund accounts for 50 former residents.

## **FINDING NOT RECOMMENDING MONETARY REFUND**

### **Need to Properly Manage Resident Trust Fund Accounts**

NHC HealthCare, Knoxville had three Medicaid residents with trust fund balances exceeding the \$2,000 resource limit.

**NHC HealthCare, Knoxville  
Knoxville, Tennessee  
Cost Report for the Period  
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**TABLE OF CONTENTS**

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	<u>Page</u>
<b>INTRODUCTION</b>	1
Purpose and Authority of the Examination	1
Background	1
Prior Examination Findings	2
Scope of the Examination	2
<b>INDEPENDENT ACCOUNTANT'S REPORT</b>	4
<b>FINDINGS AND RECOMMENDATIONS</b>	6
1. Residents Inappropriately Charged for Covered Services	6
2. Need to Properly Manage Unrefunded Credit Balances	7
3. Need to Properly Manage Resident Trust Fund Accounts	9
Summary of Monetary Findings and Recommendations	10

**NHC HealthCare, Knoxville  
Knoxville, Tennessee  
Cost Report for the Period  
January 1, 2006, Through December 31, 2006,  
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January 1, 2004, Through June 30, 2007**

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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.

NHC HealthCare, Knoxville, of Knoxville, Tennessee, provides both NF-1 and NF-2 services. The facility is owned by National Health Investors, Inc., and operated by NHC HealthCare/Knoxville, LLC. The officers of National Health Care are as follows:

- W. Andrew Adams, Chairman
- Robert G. Adams, President/Chief Executive Officer, Inside Director
- John K. Lines, Senior Vice President, General Counsel
- Donald K. Daniel, Senior Vice President & Controller, Principal Accounting Officer
- Charlotte A. Swafford, Senior Vice President - Treasurer
- Joanne M. Batey, Senior Vice President – Homecare
- D. Gerald Coggin, Senior Vice President – Corporate Relations
- Steve F. Flatt, Senior Vice President – Development
- Judy Powell, Senior Vice President – Patient Services
- David Lassiter, Senior Vice President – Corporate Affairs

During the examination period, the facility maintained a total of 139 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 50,735 available bed days, the facility reported 20,470 for Medicaid NF-1 residents and 6,463 for Medicaid NF-2 residents for the year ended December 31, 2006. Also, the facility reported total operating expenses of \$7,890,900 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 (744-0115)</u>	<u>Level II NF (044-5098)</u>
October 1, 2005, through June 30, 2006	\$ 132.98	\$ 164.53
July 1, 2006, through June 30, 2007	\$ 139.07	\$ 175.42

**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  
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**Independent Accountant's Report**

**July 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 37243

Ladies and Gentlemen:

We have examined management's assertions, included in its representation letter dated July 19, 2007, that NHC HealthCare, Knoxville complied with the following requirements on the "Medicaid Nursing Facility Level 1 Cost Report" for the period January 1, 2006, through December 31, 2006, and to the facility's resident accounts for the period January 1, 2004, through June 30, 2007.

- 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 NHC HealthCare, Knoxville'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 NHC HealthCare, Knoxville's compliance with specified requirements.

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

- Residents inappropriately charged for covered services
- Need to properly manage unrefunded credit balances
- Need to properly manage resident trust fund accounts

In our opinion, except for the instances of material noncompliance described above, NHC HealthCare, Knoxville complied with, in all material respects, the aforementioned requirements for the "Medicaid Nursing Facility Level 1 Cost Report" for the period January 1, 2006, through December 31, 2006, and for resident accounts for the period January 1, 2004, to June 30, 2007.

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. Residents Inappropriately Charged for Covered Services

#### Finding

NHC HealthCare, Knoxville has inappropriately charged Medicaid residents' trust fund accounts for Medicaid covered services. From January 1, 2004, through June 30, 2007, the facility inappropriately charged 201 residents \$5,201.25 for basic haircuts.

The facility inappropriately charged five residents a total of \$536.70 for covered legend drugs. Also, one resident's trust fund account was inappropriately reduced by \$12.03 for finance charges.

Chapter 1200-8-6-.06(4)(q) of the *Rules of Tennessee Department of Health* states, in regard to basic services, "Residents shall have shampoos, haircuts, and shaves as needed, or desired."

Chapter 1200-13-1-.06(13)(d) of the *Rules of Tennessee Department of Finance and Administration* states, "When prescribed legend drugs . . . listed on the *Tennessee Department of Health and Environment Title XIX Drug Formulary* are furnished recipients as a part of skilled nursing services or intermediate care facility services, reimbursements will be made to the facility with no dispensing fee." This is deemed to be a covered service by the Medicaid program.

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 \$5,749.98 for Medicaid covered services.

#### Recommendation

NHC HealthCare, Knoxville should not charge Medicaid residents for covered services. Finance charges should not be deducted from residents' trust fund accounts. Finance charges should be treated as facility operating expenses and reported on the facility's Medicaid cost report as such.

The facility should reimburse Medicaid residents or their responsible parties a total of \$5,749.98. In the future, the facility should provide covered services without charge.

## **Management's Comment**

Routine personal hygiene items and services required to meet the needs of residents, including but not limited to, hair hygiene supplies, comb, brush, shampoo, etc. . . . are provided to Medicaid covered residents. Haircuts, styling, permanents, etc. . . . performed by Licensed Cosmetologists are above and beyond Medicaid covered services.

The five residents with a total of \$536.70 for legend drugs and a finance charge will be reversed and refunded.

We intend to request an appeal hearing from the Department of Finance and Administration.

## **Rebuttal**

The standard form utilized by NHC Healthcare, Knoxville, where the responsible party elects whether or not to utilize professional beauty shop services, mentions the free services but fails to clearly indicate how to select only the free services. If the responsible party selects the option that they do not wish this service, it could be assumed that they are declining both the professional services and the free services. The form should include an option to select the free services covered under the Medicaid program.

## **Auditor's Comment**

NHC Healthcare, Knoxville provided evidence of refunding five residents a total of \$536.70 for covered legend drugs and one resident \$12.03 for finance charges.

## **2. Need to Properly Manage Unrefunded Credit Balances**

### **Finding**

NHC HealthCare, Knoxville 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 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."

Resident trust fund unrefunded credit balances of \$22,546.97 remain on the accounts of 50 former residents of NHC HealthCare, Knoxville. The entire amount is due former residents or their authorized representatives.

### **Recommendation**

NHC HealthCare, Knoxville 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 \$22,546.97 should be made to the 50 former residents or their authorized representatives.

### **Management's Comment**

Management shall exercise due diligence to ascertain the whereabouts of the owner to prevent abandonment from being presumed. We have attempted and will continue to attempt to locate and refund these amounts to former residents or their responsible parties.

We intend to request an appeal hearing from the Department of Finance and Administration.

### **Auditor's Comment**

As of April 24, 2009, NHC Healthcare, Knoxville has not provided evidence that any of the 50 former residents have received a refund.

### **3. Need to Properly Manage Resident Trust Fund Accounts**

#### **Finding**

NHC HealthCare, Knoxville had three residents with trust fund balances exceeding the Medicaid resource limit.

Chapter 1240-3-3.05 of the *Rules of Department of Human Services* states, “(1) Applicants for medical assistance are permitted to retain resources in an amount not to exceed the SSI limits. . . . (3)(b) Countable resources for Adults Medically Needy cases are determined by using SSI policy at 20 C.F.R. Part 416.”

Paragraph 15,642 of the *Medicare and Medicaid Guide* states, “Resources that may be retained are . . . cash assets up to \$2,000 for an individual.”

As a result, Medicaid had been billed for three residents who do not currently satisfy the financial eligibility requirements.

#### **Recommendation**

NHC HealthCare, Knoxville should notify each resident or the resident’s authorized representative when any resident’s funds approach the \$2,000 Medicaid resource limit. The facility should not bill the Medicaid program for services rendered to any resident whose resources exceed the Social Security Income limit. Those residents must be billed as private payors until the resources are spent down sufficiently to satisfy the financial eligibility requirements.

#### **Management’s Comment**

These balances have been rectified by the following:

- Medical record number 6305 purchased a wheelchair on 8/28/07.
- Medical record number 5814 expired on 11/9/07. The balance was refunded to the son.
- Medical record number 6863 expired on 10/10/07. The balance was refunded to the son.

#### **Auditor’s Comment**

NHC Healthcare, Knoxville provided evidence that all three resident trust fund accounts that had balances exceeding \$2,000 have been either refunded or reduced below the \$2,000 threshold.

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

### **Source of Overpayments**

Residents inappropriately charged for covered services (see finding 1)	\$ 5,749.98
Unrefunded credit balances (see finding 2)	<u>\$22,546.97</u>
Total	<u>\$28,296.95</u>

### **Disposition of Overpayments**

Due to residents or their authorized representatives	<u>\$28,296.95</u>
Total	