

# TENNCARE REPORT

**Douglas Nursing Home  
Milan, Tennessee**

**Cost Report and Resident Accounts  
For the Period  
January 1, 2007, Through December 31, 2007**



**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY**

**Department of Audit  
Division of State Audit**



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**COMPTROLLER OF THE TREASURY**  
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May 13, 2010

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 Douglas Nursing Home, Milan, Tennessee, for the period January 1, 2007, through December 31, 2007, and resident accounts for the period January 1, 2007, through December 31, 2007.

Sincerely,

Arthur A. Hayes, Jr., CPA  
Director

AAH/pn  
09/025

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

TennCare Report  
**Douglas Nursing Home**  
Milan, Tennessee  
Cost Report and Resident Accounts  
For the Period  
January 1, 2007, Through December 31, 2007

## **FINDING RECOMMENDING MONETARY REFUND**

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

The facility included \$7,163.46 of nonallowable expenses on the “Medicaid Nursing Facility Level 1 Cost Report” for the year ended December 31, 2007. The nonallowable expenses consisted of nonallowable legal costs and excess depreciation expense resulting from incorrect useful lives and accelerated depreciation methods for two fixed assets. As a result of these adjustments, estimated overpayments made to the facility by the Medicaid Program were \$5,540.73, computed from July 1, 2008, through June 30, 2010.

## **FINDING NOT RECOMMENDING MONETARY REFUND**

### **Resident Trust Funds Not in Interest-Bearing Account**

The facility failed to deposit funds in excess of one hundred dollars received from, or on behalf of, a resident in an interest-bearing account, insured by an agency of the federal government.

**Douglas Nursing Home  
Milan, Tennessee  
Cost Report and Resident Accounts  
For the Period  
January 1, 2007, Through December 31, 2007**

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**Douglas Nursing Home  
Milan, Tennessee  
Cost Report and Resident Accounts  
For the Period  
January 1, 2007, Through December 31, 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.

Douglas Nursing Home, Milan, Tennessee, provides both NF-1 and NF-2 services. The facility is owned and operated by Cornerstone Health Services Group, located in Cary, North Carolina. The officers/members of the board of directors are as follows:

Cyndi Milenski, President  
 John Simonton, Vice President  
 Ward Milenski, Secretary  
 Kathy Kyle, Member

During the examination period, the facility maintained a total of 72 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 26,280 available bed days, the facility reported 18,174 for Medicaid NF-1 residents and 2,432 for Medicaid NF-2 residents for the year ended December 31, 2007. Also, the facility reported total operating expenses of \$4,247,763 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 (744-0055)</u>	<u>Level II NF (044-5434)</u>
July 1, 2006, through June 30, 2007	\$129.86	\$175.42
July 1, 2007, through June 30, 2008	\$134.40	\$166.91

**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**

**October 8, 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:

We have examined management's assertions, included in its representation letter dated October 8, 2008, that Douglas Nursing Home complied with the following requirements on the "Medicaid Nursing Facility Level 1 Cost Report" for the period January 1, 2007, through December 31, 2007, and to the facility's resident accounts for the period January 1, 2007, through December 31, 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 Douglas 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 Douglas 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
- Resident Trust Funds Not in Interest-Bearing Account

In our opinion, except for the instances of material noncompliance described above, Douglas Nursing Home complied with, in all material respects, the aforementioned requirements for the "Medicaid Nursing Facility Level 1 Cost Report" for the period January 1, 2007, through December 31, 2007, and for resident accounts for the period January 1, 2007, through December 31, 2007.

This report is intended solely for the information and 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

Douglas Nursing Home included \$7,163.46 of nonallowable expenses on the “Medicaid Nursing Facility Level 1 Cost Report” for the year ended December 31, 2007. The nonallowable amount consists of \$5,928.00 of nonallowable legal costs; \$158.14 of travel costs that should have been allocated to another facility; and \$1,077.32 of excess depreciation expense for one asset that was assigned an incorrect useful life and one asset using an accelerated depreciation method.

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.”

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.

Paragraph 5862.04 of the *Medicare and Medicaid Guide* indicates that litigation-related expenses must be related to patient care in order to be allowable.

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.”

Paragraph 4695 of the *Medicare and Medicaid Guide* states, “In initially selecting a proper useful life for computing depreciation . . . the provider may use certain published useful life guidelines. . . . For assets acquired on or after January 1, 1981, only the AHA (American Hospital Association) guidelines may be used.”

Chapter 1200-13-6-.10(1)(a) of the *Rules* states, “Only the straight line method of computing depreciation is permitted.”

As a result of the above 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, 2008, through June 30, 2009	\$150.27	\$149.77	\$(0.50)
July 1, 2009, through June 30, 2010	\$148.54	\$148.75	\$ 0.21

The above rate adjustments will be sent to the Bureau of TennCare for reprocessing of all Medicaid claims for the dates of service from July 1, 2008, through June 30, 2010. Estimated overpayments made to the facility as a result of these adjustments were \$5,540.73.

### **Recommendation**

Douglas Nursing Home should include only allowable expenses on the “Medicaid Nursing Facility Level 1 Cost Report.” All reported expenses should be for covered services, related to resident care, and in compliance with other applicable regulations. Assets should be depreciated in accordance with required useful life guidelines and using only the straight line method of depreciation.

The Bureau of TennCare should reprocess all Medicaid claims for the period July 1, 2008, through June 30, 2010. The estimated recoupment for the reprocessed Medicaid claims for this period is \$5,540.73.

### **Management’s Comment**

We wish to state in our response that legal fees should be allowable as they are a direct cost associated with doing business in the economy that we deal with today. We will abide by the decision of the audit. We concur that travel expenses are not allowable as reported. We concur that the depreciation method as reported was not in accordance with the method as required by state guidelines. In these matters we will only report allowable expenses in the future in accordance with state regulations and will appropriately allocate costs in the future.

### **Rebuttal**

The legal fees are nonallowable because they were incurred to expedite an appeal to lift Douglas Nursing Home’s suspension on admitting new residents. This did not affect the facility’s ability to care for the current residents.

2. **Resident Trust Funds Not in Interest-Bearing Account**

**Finding**

Douglas Nursing Home failed to deposit individual resident trust funds in excess of one hundred dollars per resident in an interest-bearing account.

Paragraph 66-11-906 of *Tennessee Code Annotated* states, “Each nursing home shall deposit any funds in excess of one hundred dollars (\$100) received from, or on behalf of, a resident in an interest-bearing account, insured by an agency of the federal government.”

**Recommendation**

Douglas Nursing Home should ensure resident trust funds in excess of one hundred dollars, per resident, be deposited into an interest-bearing account, insured by an agency of the federal government. Interest earned on that account should be allocated to the residents’ accounts.

**Management’s Comment**

We concur that the method previously used was not the most appropriate method. We have corrected this by changing our Resident Trust Fund Account to a bank which will allow us to deposit directly into an interest-bearing account with interest disbursed according to state and federal guidelines. We have established procedures to assure that this issue does not recur.

## **SUMMARY OF MONETARY FINDING AND RECOMMENDATION**

### **Source of Overpayments**

Rate reduction (see finding 1)	<u>\$5,540.73</u>
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### **Disposition of Overpayments**

Due to the State of Tennessee	<u>\$5,540.73</u>
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