

TENNCARE REPORT

**Laurelbrook Sanitarium and School, Inc.
Dayton, Tennessee**

**Cost Report for the Period
June 1, 2006, Through May 31, 2007,
and
Resident Accounts for the Period
June 1, 2006, Through May 31, 2009**



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY**

**Department of Audit
Division of State Audit**



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STATE OF TENNESSEE
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June 9, 2011

The Honorable Bill Haslam, 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 Laurelbrook Sanitarium and School, Inc., Dayton, Tennessee, for the period June 1, 2006, through May 31, 2007, and resident accounts for the period June 1, 2006, through May 31, 2009.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/pn
09/027

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

TennCare Report
Laurelbrook Sanitarium and School, Inc.
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FINDINGS RECOMMENDING MONETARY REFUNDS

Residents Inappropriately Charged for Covered Services

Laurelbrook Sanitarium and School, Inc. has charged Medicaid residents' trust fund accounts for haircuts, diapers, and pads, which are Medicaid covered services. As a result of the inappropriate charges, the facility should reimburse Medicaid residents or their responsible parties a total of \$7,344.20.

Improper Billing of Resident Leave Days

The facility improperly billed the Medicaid Program for 176 leave days when the facility was operating below the 85% occupancy requirement for the period June 1, 2004, through May 31, 2007. As a result of the improper billing of noncovered leave days, the facility should refund \$19,079.00 to the State of Tennessee.

Nonallowable Expenses Included on the Cost Report

The facility reported \$1,966.00 of nonallowable expenses on the "Medicaid Nursing Facility Level 1 Cost Report" for the year ended May 31, 2007. As a result of this adjustment, the facility was overpaid \$3,501.36, computed from July 1, 2008, through June 30, 2009.

Need to Properly Manage Unrefunded Credit Balances

The facility failed to ensure that credit balances on the accounts of deceased or discharged residents are properly managed. Unrefunded credit balances of \$1,749.00, due to the Medicaid Program, remain on the accounts of two former residents.

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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	2
INDEPENDENT ACCOUNTANT'S REPORT	3
FINDINGS AND RECOMMENDATIONS	5
1. Residents Inappropriately Charged for Covered Services	5
2. Improper Billing of Resident Leave Days	6
3. Nonallowable Expenses Included on the Cost Report	7
4. Need to Properly Manage Unrefunded Credit Balances	8
Summary of Monetary Findings and Recommendations	10

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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.

Laurelbrook Sanitarium and School, Inc., Dayton, Tennessee, provides only NF-1 services. The facility is owned and operated by the Seventh Day Adventist Church with a board of trustees. The officers/members of the board of directors are as follows:

Cynthia Gettys	Chester Clark	Maudie Westfall, Secretary
Steve Dickman	Elder Conrad Gill	Keith Ferguson
Roger Westfall	Robert Zollinger, Chairman	Fred Douville
Keith Wellman	Charles Hess, President	Elder Larry Owens
Brian Traxler	Paul D. Frechette, Treasurer	Kim Busl
Jack Faatz, Sr.	Ed Lucas	Robert Santini
Morgan Tudor	Mike Cruz	Ruth Zollinger
Evelyn Wellman	Daryl Ellis	David Zollinger
Ronnie Oxentenko		

During the examination period, the facility maintained a total of 50 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 18,250 available bed days, the facility reported 12,968 for Medicaid NF-1 residents for the year ended May 31, 2007. Also, the facility reported total operating expenses of \$2,013,516 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 (744-0119)</u>
October 1, 2005, through June 30, 2006	\$133.47
July 1, 2006, through June 30, 2007	\$139.60

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

May 20, 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:

We have examined management's assertions, included in its representation letter dated May 20, 2009, that Laurelbrook Sanitarium and School, Inc. complied with the following requirements on the "Medicaid Nursing Facility Level 1 Cost Report" for the period June 1, 2006, through May 31, 2007, and to the facility's resident accounts for the period June 1, 2006, through May 31, 2009.

- 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 conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and accordingly, included examining on a test basis, evidence about Laurelbrook Sanitarium and School, Inc.'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 Laurelbrook Sanitarium and School, Inc.'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
- Improper billing of resident leave days
- Nonallowable expenses included on the cost report
- Need to properly manage unrefunded credit balances

In our opinion, except for the instances of material noncompliance described above, Laurelbrook Sanitarium and School, Inc. complied with, in all material respects, the aforementioned requirements for the "Medicaid Nursing Facility Level 1 Cost Report" for the period June 1, 2006, through May 31, 2007, and for resident accounts for the period June 1, 2006, through May 31, 2009.

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

FINDINGS AND RECOMMENDATIONS

1. Residents Inappropriately Charged for Covered Services

Finding

Laurelbrook Sanitarium and School, Inc. has inappropriately charged Medicaid residents' trust fund accounts for Medicaid covered services. From June 1, 2006, through May 31, 2009, the facility charged 53 Medicaid residents a total of \$3,422.20 for haircuts and charged 3 Medicaid residents a total of \$41.56 for pads. Also, from June 1, 2006, through May 31, 2009, the facility charged 24 Medicaid residents a total of \$8,730.93 for diapers. Of the \$8,730.93, the facility was only allowed to charge the residents \$4,850.49, which is the difference between the diapers stocked by the facility and the diapers specifically requested by the residents. Hence, the facility overcharged Medicaid residents \$3,880.44 for diapers, which represents the cost of the stock diapers provided by the facility.

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

No. 93-2 of the *Medicaid Bulletin* states, ". . . diapers, cloth and/or disposable, is a NF responsibility and considered a covered service." It also states, "Stock items include, but are not limited to: . . . pads (ABD, perineal, etc.)."

No. 94-1 of the *Medicaid Bulletin* states, "For covered items, the NF may charge no more than the difference between the cost of an item and/or service it provides and one specifically requested by name by the resident."

As a result of the inappropriate charges, the resident trust fund accounts for Medicaid residents have been incorrectly charged \$7,344.20 for Medicaid covered services.

Laurelbrook Sanitarium and School, Inc. lacked proper authorization for withdrawals from the trust funds. The facility also failed to deposit a personal monthly allowance for the months of August and October of 2006 into the account of one resident.

Paragraph 22,163.10(c) of the *Medicare and Medicaid Guide* requires the facility to

hold, safeguard, manage and account for the personal funds of the resident deposited with the facility . . . establish and maintain a system that assures a full and complete and separate, accounting, according to generally accepted accounting principles, of each resident's personal funds entrusted to the facility on the resident's behalf.

Recommendation

Laurelbrook Sanitarium and School, Inc. should not charge Medicaid residents for covered services. The facility can only charge residents the difference between the cost of the diaper stocked by the facility and the cost of the specific diaper requested by the resident. The facility should establish adequate procedures to ensure compliance with applicable laws and regulations relative to protection of resident trust funds. Laurelbrook Sanitarium and School, Inc. should reimburse Medicaid residents or their authorized representatives a total of \$7,344.20.

Management's Comment

Management concurs. Procedures are in place to ensure compliance for covered items. Medicaid residents or their authorized representatives will be refunded the difference between the cost of stock and cost of specific diapers by August 19, 2011.

2. Improper Billing of Resident Leave Days

Finding

Laurelbrook Sanitarium and School, Inc. improperly billed the Medicaid Program for 176 leave days when the facility was operating below the 85% occupancy requirement for the period June 1, 2004, through May 31, 2007.

Chapter 1200-13-1-.06(4)(b) of the *Rules of the Tennessee Department of Finance and Administration* applicable for dates of service prior to August 1, 2005, allowed Level 1 nursing facilities to be reimbursed up to 15 days for a recipient's bed during his or her hospitalization, provided the following conditions are met:

- The resident intends to return to the facility and . . .
- At least 85% of all other beds at the nursing facility are occupied at the time of the hospital admission.

The above rule was modified to not allow the facility to be paid for any leave days for dates of service August 1, 2005, through September 30, 2005. The rule was modified again effective for dates of service on or after October 1, 2005, and read as follows:

A level 1 nursing facility (NF) shall be reimbursed . . . for the recipient's bed in that facility during the recipient's temporary absence from the facility in accordance with the following:

Effective October 1, 2005, reimbursement will be made for up to a total of 10 days per state fiscal year while the resident is hospitalized or absent from the facility on therapeutic leave.

The resident intends to return to the NF.

At least 85% of all other beds at the nursing facility are occupied at the time of hospital admission or therapeutic absence.

As a result of the improper billing of resident leave days, the facility was overpaid \$19,079.00 by the Medicaid Program for the 176 noncovered leave days for the period June 1, 2004, through May 31, 2007.

Recommendation

Laurelbrook Sanitarium and School, Inc. should not accumulate or bill the Medicaid Program for hospital or therapeutic leave days when the facility is operating below 85% occupancy. The facility should refund \$19,079.00, representing overpayments by the Medicaid Program, to the State of Tennessee as a result of the improper billing of leave days.

Management's Comment

Management concurs. Procedures are in place to monitor billing for hospital and therapeutic leave days when the facility is below 85% occupancy. Refunds will be processed by August 19, 2011.

3. Nonallowable Expenses Included on the Cost Report

Finding

Laurelbrook Sanitarium and School, Inc. included \$1,966.00 of nonallowable expenses on the "Medicaid Facility Level 1 Cost Report" for the year ended May 31, 2007. The nonallowable amount consists of \$36.80 in unsupported salary expense and \$1,929.20 in nonallowable pharmacy expenses.

Chapter 1200-13-6-.09 of the *Rules of the 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."

Chapter 1200-13-13-.04(1)(b) of the *Rules of the Tennessee Department of Finance and Administration* specifies persons dually eligible for Medicare and Medicaid will receive their pharmacy services through Medicare Part D.

As a result of the above adjustments to allowable expenses, 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	\$141.93	\$141.66	\$(0.27)
July 1, 2009, through June 30, 2010	\$142.71	\$142.71	\$ 0.00
July 1, 2010, through June 30, 2011	\$162.75	\$162.75	\$ 0.00

The above rate adjustments will be sent to the Bureau of TennCare for reprocessing of all Medicaid claims for the dates of service July 1, 2008, through June 30, 2009. Estimated overpayments made to the facility as a result of these adjustments total \$3,501.36.

Recommendation

Laurelbrook Sanitarium and School, Inc. should include only allowable expenses on the Nursing Facility Level 1 Cost Report. All reported expenses should be adequately supported and for covered services.

The Bureau of TennCare should reprocess all Medicaid claims for the period July 1, 2008, through June 30, 2009. The estimated recoupment for reprocessed Medicaid claims for this period is \$3,501.36.

Management’s Comment

Management concurs. Staff has been in-serviced regarding nonallowable pharmacy expenses. All reported expenses will be adequately supported.

4. Need to Properly Manage Unrefunded Credit Balances

Finding

Laurelbrook Sanitarium and School, Inc. failed to ensure that credit balances on all of the accounts of deceased or discharged residents are properly managed by the facility. Management failed to refund the portion of the credit balances due the Medicaid Program.

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 \$1,749.00 remain on the accounts of two former residents of Laurelbrook Sanitarium and School, Inc. The entire amount is due the Medicaid Program.

Recommendation

Laurelbrook Sanitarium and School, Inc. should immediately implement an adequate system to promptly refund credit balances on the accounts of former residents.

A refund of \$1,749.00 should promptly be made to the State of Tennessee for the amount due the Medicaid Program.

Management’s Comment

Procedures are in place to refund credit balances of deceased or discharged residents. Unrefunded credit balances of \$1,749.00, due to the Medicaid Program, were recouped in December 2008.

Auditor’s Comment

Laurelbrook Sanitarium and School provided Medicaid remittance advices showing evidence that \$1,749.00 was refunded to the State of Tennessee.

SUMMARY OF MONETARY FINDINGS AND RECOMMENDATIONS

Source of Overpayments

Residents inappropriately charged for covered services (see finding 1)	\$ 7,344.20
Improper billing of resident leave days (see finding 2)	\$19,079.00
Rate reduction (see finding 3)	\$ 3,501.36
Unrefunded credit balances (see finding 4)	<u>\$ 1,749.00</u>
Total	<u>\$31,673.56</u>

Disposition of Overpayments

Due to the State of Tennessee	\$24,329.36
Due to residents or their authorized representatives	<u>\$ 7,344.20</u>
Total	<u>\$31,673.56</u>