

TENNCARE REPORT

Graceland Nursing Center
Memphis, Tennessee

Cost Report for the Period
January 1, 2008, Through December 31, 2008,
and Resident Accounts for the Period
January 1, 2008, Through September 14, 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 14, 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 Graceland Nursing Center, Memphis, Tennessee, for the period January 1, 2008, through December 31, 2008, and resident accounts for the period January 1, 2008, through September 14, 2009.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/pn
10020

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

TennCare Report
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FINDINGS RECOMMENDING MONETARY REFUNDS

Need to Properly Manage Unrefunded Credit Balances

Graceland Nursing Center failed to ensure that credit balances on the accounts of deceased or discharged residents are properly managed and promptly refunded. Unrefunded credit balances of \$20,051.73 remain on the trust fund accounts of 22 former Medicaid residents. Management also failed to refund accounts receivable credit balances on 27 former residents' accounts, of which \$4,374.29 is due to the State of Tennessee Medicaid Program and \$13,872.29 is due to former residents or their responsible parties.

Residents Inappropriately Charged for Covered Services

The facility inappropriately charged Medicaid residents' trust fund accounts for haircuts, which are Medicaid covered services. As a result of the inappropriate charges, the facility should reimburse 88 Medicaid residents or their responsible parties a total of \$4,275.00.

Improper Billing of Resident Leave Days

Graceland Nursing Center improperly billed the Medicaid Program for 46 resident leave days while exceeding the 10-day annual hospital and therapeutic leave limitation for the period July 1, 2007, through June 30, 2009. As a result of the improper billing of noncovered resident leave days, the facility should refund \$4,443.09 to the State of Tennessee.

Nonallowable Expenses Included on the Cost Report

The facility included \$19,121.69 of nonallowable expenses on the "Medicaid Nursing Facility Level 1 Cost Report" for the year ended December 31, 2008. The nonallowable amount included food expense not related to resident care, donations, marketing, excess depreciation expense, and unsupported expenses. As a result of these adjustments, overpayments made to the facility by the

Medicaid Program are estimated at \$1,042.38, computed from July 1, 2010, through June 30, 2011.

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**Graceland Nursing Center
Memphis, Tennessee
Cost Report for the Period
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January 1, 2008, Through September 14, 2009**

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.

Graceland Nursing Center, Memphis, Tennessee, provides both NF-1 and NF-2 services. The facility is owned and operated by Provident Foundation, Inc., of Baton Rouge, Louisiana. The officers/members of the board of directors are as follows:

Steve E. Hicks, CEO
Donovan O. Hicks, Vice President
Marla Page Scannicchio, Vice President
Walter Monsour, Vice Chairman
Walter G. Bumphus, Ph.D.

Debra Lockwood, Vice President
Mary Depietro, Vice President
Thomas Harrow
Tom Greene

During the examination period, the facility maintained a total of 240 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 87,840 available bed days, the facility reported 53,667 for Medicaid NF-1 residents and 20,538 for Medicaid NF-2 residents for the year ended December 31, 2008. Also, the facility reported total operating expenses of \$15,081,357 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 (744-0566)</u>	<u>Level II NF (044-5331)</u>
July 1, 2007, through June 30, 2008	\$146.01	\$166.57
July 1, 2008, through June 30, 2009	\$144.38	\$154.57

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.



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Independent Accountant's Report

September 24, 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 September 24, 2009, that Graceland Nursing Center complied with the following requirements on the "Medicaid Nursing Facility Level 1 Cost Report" for the period January 1, 2008, through December 31, 2008, and to the facility's resident accounts for the period January 1, 2008, through September 14, 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 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 Graceland Nursing Center'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 Graceland Nursing Center's compliance with specified requirements.

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

1. Need to properly manage unrefunded credit balances
2. Residents inappropriately charged for covered services
3. Improper billing of resident leave days
4. Nonallowable expenses included on the cost report

In our opinion, except for the instances of material noncompliance described above, Graceland Nursing Center complied with, in all material respects, the aforementioned requirements for the "Medicaid Nursing Facility Level 1 Cost Report" for the period January 1, 2008, through December 31, 2008, and for resident accounts for the period January 1, 2008, through September 14, 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. Need to Properly Manage Unrefunded Credit Balances

Finding

Graceland Nursing Center failed 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 responsible parties were notified of money due them. Also, 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 resumed 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 \$18,246.58 remain on the accounts of 27 former Medicaid residents of Graceland Nursing Center. Of the total accounts receivable unrefunded credit balances, \$4,374.29 is due to the State of Tennessee Medicaid Program, and \$13,872.29 is due former residents or their responsible parties.

Resident trust fund unrefunded credit balances of \$20,051.73 remain on the accounts of 22 former residents of Graceland Nursing Center. The entire amount is due former residents or their responsible parties.

Recommendation

Graceland Nursing Center should immediately implement a system to promptly refund credit balances on the accounts of former residents. In addition, the facility should maintain evidence that former residents or their responsible parties 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.

The facility should also maintain evidence of attempts to contact the owner of the credit balance. 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.

Graceland Nursing Center should refund \$4,374.29 to the State of Tennessee Medicaid Program and \$33,924.02 to former residents or their responsible parties.

Management's Comment

It is the procedure at Graceland Nursing Center to process all refunds within 30 days of discharge and to refund credit balances to the State of Tennessee Medicaid Program as soon as they are identified. However, if a refund is processed and not cashed, or if the refund is returned to Graceland Nursing Center, the procedure is to remit the unclaimed funds to the State of Tennessee through the Unclaimed Property Division of the state. The Uniform Disposition of Unclaimed Property Act Reporting Forms and Instructions states that the dormancy period for unrefunded credit balances is 5 years, which the facility had been following prior to the audit period. We have since clarified with the Unclaimed Property Division that Section 1700-2-1-.08 of the Act does allow for voluntary reporting on a more frequent basis and that the dormancy period can be waived. The facility implemented in May 2010, the procedure to remit all unclaimed property every 6 months. Graceland Nursing Center is still in the process of reviewing all credit balances noted in the report to determine if they are valid credits or system adjustments which are not due and payable to the resident.

2. Residents Inappropriately Charged for Covered Services

Finding

Graceland Nursing Center has inappropriately charged Medicaid residents' trust fund accounts for Medicaid covered services. From January 1, 2008, through September 14, 2009, the facility inappropriately charged 88 Medicaid residents \$4,275.00 for basic haircuts.

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."

As a result of the inappropriate charges, the resident trust fund accounts for Medicaid residents have been incorrectly charged \$4,275.00 for Medicaid covered services.

Recommendation

Graceland Nursing Center should not charge Medicaid residents for covered services. The facility should reimburse Medicaid residents or their responsible parties a total of \$4,275.00. In the future, the facility should provide covered services to all Medicaid residents without charge.

Management's Comment

Graceland Nursing Center has refunded the resident trust fund account for the haircuts identified in the audit. A new procedure was put in place whereby every resident is made aware, upon admission, that routine grooming care, such as a hair shampoo, trims, and simple hair cuts are provided by facility staff at no additional charge. The residents are also informed that services provided in the facility by barbers and beauticians, who are not employed by the facility, are chargeable to the resident.

Auditor's Comment

Graceland Nursing Center provided copies of canceled checks showing evidence that \$4,275.00 was refunded to Medicaid residents.

3. Improper Billing of Resident Leave Days

Finding

Graceland Nursing Center improperly billed the Medicaid Program for 46 hospital and therapeutic leave days while exceeding the annual 10-day limitation for bed hold days during the state fiscal year.

The rule in effect for the period under examination, Chapter 1200-13-1.06(4)(b) of the *Rules of the Tennessee Department of Finance and Administration*, states:

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 hospital and therapeutic leave days, the facility was overpaid \$4,443.09 by the Medicaid Program for the 46 noncovered leave days for the period July 31, 2007, through June 30, 2009.

Recommendation

Graceland Nursing Center should not accumulate or bill the Medicaid Program for hospital and therapeutic leave days in excess of the ten bed hold days allowed for reimbursement per state fiscal year. The facility should refund \$4,443.09, representing overpayments by the Medicaid Program, to the State of Tennessee as a result of the improper billing of hospital and therapeutic leave days.

Management's Comment

During the audit, Graceland Nursing Center learned that the billing software was not functioning properly and it was limiting the 10 resident bed hold leave days based on a calendar year (January 1 to December 31) rather than a fiscal year (July 1 to June 30). Due to the software error, Graceland processed corrections and refunded the money to the State of Tennessee. A manual process for tracking resident bed hold days was implemented upon the audit findings.

Auditor's Comment

Graceland Nursing Center provided Medicaid remittance advices and copies of voided adjustment requests showing evidence that the noncovered leave days had been recouped by the State of Tennessee.

4. Nonallowable Expenses Included on the Cost Report

Finding

Graceland Nursing Center included \$19,121.69 of nonallowable expenses on the "Medicaid Nursing Facility Level 1 Cost Report" for the year ended December 31, 2008. The nonallowable amount consists of \$928.81 of food expense not related to resident care; \$600.00 of donations; \$446.32 of marketing expense; and \$179.72 of unsupported expenses. Also, the adjustment includes \$16,966.84 of excess depreciation expense due to 77 of the facility's assets being depreciated too rapidly.

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.” Such costs that are not allowable in computing reimbursable costs include:

- Costs which are not necessary or related to patient care
- Advertising costs which seek to increase patient population

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.

- Costs of gifts or donations

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 after January 1, 1981, only the AHA (American Hospital Association) guidelines may be used.”

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, 2009, through June 30, 2010	\$147.35	\$147.35	\$ 0.00
July 1, 2010, through June 30, 2011	\$155.27	\$155.25	\$ (0.02)

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, 2010, through June 30, 2011. Estimated overpayments made to the facility as a result of the expense adjustments are \$1,042.38.

Recommendation

Graceland Nursing Center 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 resident care, and in compliance with other applicable regulations. Assets should be depreciated in accordance with required useful life guidelines.

The Bureau of TennCare should reprocess all Medicaid claims for the period July 1, 2010, through June 30, 2011. The estimated recoupment for the reprocessed Medicaid claims for this period is \$1,042.38.

Management's Comment

As a result of the audit, appropriate staff have been educated as to the allowable and nonallowable expenses that were identified as a result of the audit, and amounts will be properly eliminated from allowable costs on future cost reports. In addition, the depreciation records were updated in 2009 to eliminate the excess depreciation expense that was taken in previous years. Overpayments will be recouped on future remittances according to the state auditors.

Auditor's Comment

Graceland Nursing Center submitted its 2009 depreciation schedule with the appropriate corrections made to the assets' useful lives.

SUMMARY OF MONETARY FINDINGS AND RECOMMENDATIONS

Source of Overpayments

Unrefunded credit balances (see finding 1)	\$38,298.31
Residents improperly charged for covered services (see finding 2)	\$ 4,275.00
Improper billing of resident leave days (see finding 3)	\$ 4,443.09
Rate reduction (see finding 4)	<u>\$ 1,042.38</u>
Total	<u>\$48,058.78</u>

Disposition of Overpayments

Due to the State of Tennessee	\$ 9,859.76
Due to residents or their responsible parties	<u>\$38,199.02</u>
Total	<u>\$48,058.78</u>