

# TENNCARE REPORT

Norris Health and Rehabilitation Center  
Norris, Tennessee

Cost Report and Resident Accounts  
For the Period  
January 1, 2008, Through December 31, 2008



STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY

Department of Audit  
Division of State Audit



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STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
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June 21, 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 Norris Health and Rehabilitation Center, Norris, Tennessee, for the period January 1, 2008, through December 31, 2008, and resident accounts for the period January 1, 2008, through December 31, 2008.

Sincerely,

Arthur A. Hayes, Jr., CPA  
Director

AAH/pn  
10/025

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

TennCare Report  
**Norris Health and Rehabilitation Center**  
Norris, Tennessee  
Cost Report and Resident Accounts  
For the Period  
January 1, 2008, Through December 31, 2008

## **FINDINGS RECOMMENDING MONETARY REFUNDS**

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

Norris Health and Rehabilitation Center included \$6,897.32 of nonallowable expenses on the “Medicaid Nursing Facility Level 1 Cost Report” for the year ended December 31, 2008. The nonallowable amount included expenses unrelated to resident care; marketing related travel expenses; expenses related to ancillary services; late fees; excess depreciation expenses; and unsupported expenses. As a result of these adjustments and the adjustments to resident days reported below, overpayments made to the facility by the Medicaid Program are estimated at \$72,542.95, computed from July 1, 2009, through June 30, 2011.

### **Inaccurate Accumulation of Resident Days**

The facility inaccurately reported resident days on the “Medicaid Nursing Facility Level 1 Cost Report.” The facility underreported 916 Medicaid NF-1 days, 481 Other NF-2 days, 140 Medicare NF-2 days, and 4 total days, and overreported 1,061 Medicaid NF-2 days, 33 Private NF-1 days, and 439 Other NF-1 days. The adjustments to resident days and the associated charges are incorporated in the rate change in the nonallowable expense finding.

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

Norris Health and Rehabilitation Center failed to ensure that credit balances on the accounts of deceased or discharged residents are properly managed and promptly refunded. Management failed to refund \$8,019.38 due to the State of Tennessee Medicaid Program and \$33,513.62 due to former residents or their authorized representatives.

**Norris Health and Rehabilitation Center  
Norris, Tennessee  
Cost Report and Resident Accounts  
For the Period  
January 1, 2008, Through December 31, 2008**

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**Norris Health and Rehabilitation Center  
Norris, Tennessee  
Cost Report and Resident Accounts  
For the Period  
January 1, 2008, Through December 31, 2008**

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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.

Norris Health and Rehabilitation, Norris, Tennessee, provides both NF-1 and NF-2 services. The facility is owned by SMV Properties Holdings, LLC, and operated by SSC Equity Holdings, LLC. The officers/members of the board of directors are as follows:

Murray Forman, Sole Board Member of SSC Norris  
 H. Paul Shrank II, President  
 Brian R. Tenney, Vice President  
 Wynn G. Sims, Secretary

During the examination period, the facility maintained a total of 103 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 37,698 available bed days, the facility reported 19,447 for Medicaid NF-1 residents and 2,251 for Medicaid NF-2 residents for the year ended December 31, 2008. Also, the facility reported total operating expenses of \$6,202,026 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 (744-0426)</u>	<u>Level II NF (044-5303)</u>
July 1, 2007, through June 30, 2008	\$131.58	\$121.06
July 1, 2008, through June 30, 2009	\$152.75	\$160.21

**PRIOR EXAMINATION FINDINGS**

The 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  
**COMPTROLLER OF THE TREASURY**  
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**Independent Accountant's Report**

**October 15, 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 October 15, 2009, that Norris Health and Rehabilitation 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 December 31, 2008.

- 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 Norris Health and Rehabilitation 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 Norris Health and Rehabilitation Center'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
- Inaccurate accumulation of resident days
- Need to properly manage unrefunded credit balances

In our opinion, except for the instances of material noncompliance described above, Norris Health and Rehabilitation 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 December 31, 2008.

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,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." with a stylized, cursive script.

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

Norris Health and Rehabilitation Center included \$6,897.32 of nonallowable expenses on the “Medicaid Nursing Facility Level 1 Cost Report” for the year ended December 31, 2008. The nonallowable amount consists of \$1,233.00 of expenses that were unrelated to resident care; \$789.29 of marketing related travel expenses; \$76.50 to replace a resident item that was lost or damaged; \$34.84 of expenses related to ancillary services; \$12.50 in late fees; and \$1,946.68 of unsupported expenses. Also, the adjustment includes \$2,804.51 of excess depreciation expense due to 47 assets being depreciated too rapidly.

Chapter 1200-13-6.09(1) 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
- Any fines, penalties, or interest paid on any tax payments or interest charges on overdue payables
- Advertising costs incurred 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.

Such costs are not allowable in computing reimbursable costs and include . . .  
Cost of travel incurred in connection with non-patient care related purposes.

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.”

As a result of the adjustments to allowable expenses above and the adjustment to resident days noted in Finding 2, the facility’s Medicaid reimbursable rate was reduced as follows:

<u>Period</u>	<u>Original Rate</u>	<u>Adjusted Rate</u>	<u>Difference</u>
July 1, 2009, through June 30, 2010	\$137.93	\$134.44	\$ (3.49)
July 1, 2010, through June 30, 2011	\$138.63	\$138.55	\$ (0.08)

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, 2009, through June 30, 2011. Estimated overpayments made to the facility as a result of the expense adjustments and days adjustments are \$72,542.95.

### **Recommendation**

Norris Health and Rehabilitation 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, 2009, through June 30, 2011. The estimated recoupment for the reprocessed Medicaid claims for the period is \$72,542.95.

### **Management’s Comment**

Management agrees that some nonallowable expenses were submitted on the cost report. The provider takes prudent measures to self-disallow all nonallowable costs by accounting for these items uniquely to allow them to be easily identifiable. There are times when some nonallowable items slip by the provider’s review of the final cost report. In addition, the variance in the “lifing” of assets will be corrected to conform to AHA standards.

## **2. Inaccurate Accumulation of Resident Days**

### **Finding**

Norris Health and Rehabilitation Center inaccurately reported resident days on the “Medicaid Nursing Facility Level 1 Cost Report” for the year ended December 31, 2008. The facility underreported 916 Medicaid NF-1 days; 481 Other NF-2 days; 140 Medicare NF-2 days; and 4 total days. The facility overreported 1,061 Medicaid NF-2 days; 33 Private NF-1 days; and 439 Other NF-1 days. Also, gross charges were underreported for Medicaid NF-1 by \$175,185.00; Private NF-1, by \$36,026.75; Other NF-2, by \$91,991.25; Medicare NF-2, by \$26,775.00; and total, by \$43,103.00. Gross charges were overreported for Medicaid NF-2 by \$202,916.25 and Other NF-1, by \$83,958.75.

Chapter 1200-13-6-.10(5) of the *Rules of the Tennessee Department of Finance and Administration* states, “Each facility must maintain daily census records and an adequate patient log. . . . This log, however, must be sufficient . . . to accumulate monthly and yearly totals for Medicaid NF-1 patients and for all other patients.”

Chapter 1200-13-6-.15 of the *Rules of the Tennessee Department of Finance and Administration* states, “The cost reports . . . must provide adequate and statistical data. This data must be based on and traceable to the provider’s financial and statistical records and must be adequate, accurate, and in sufficient detail to support payment made for services rendered to beneficiaries.”

The adjustment to days reported and the associated charges are incorporated in the rate change in Finding 1.

### **Recommendation**

Norris Health and Rehabilitation Center should maintain an adequate system to report and account for resident days and gross charges. The report should provide adequate and accurate statistical data for proper completion of the “Medicaid Nursing Facility Level 1 Cost Report.”

### **Management’s Comment**

Management agrees that resident days and charges reported on the cost report were variant from the daily census compiled by the facility. In 2008, the provider operated an accounts receivable system that allowed wide flexibility in performing adjustments to census and charges. This flexibility resulted in charges and census posted to the general ledger that did not tie back to the daily census. In 2010, the provider implemented a new accounts receivable system that is centrally maintained and places strict limits on the types of adjustments that can be performed. The new accounts receivable system generates reports that will allow the provider the ability to tie out the census prior to the filing of the cost report. In addition, the provider is seeking to hire a business office director to replace the one who generated these adjustments.

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

### **Finding**

Norris Health and Rehabilitation 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 authorized representatives 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(a) 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(1) 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 \$41,533.00 remain on the accounts of 51 former residents of Norris Health and Rehabilitation Center. Of the total unrefunded credit balances, \$8,019.38 is due the State of Tennessee Medicaid Program, and \$33,513.62 is due former residents or their authorized representatives.

### **Recommendation**

Norris Health and Rehabilitation Center 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, social security number, dates of last account activity, the last owner contact, and the amount due the former resident.

The facility should 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 date of 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.

Norris Health and Rehabilitation Center should refund \$8,019.38 to the State of Tennessee Medicaid Program and \$33,513.62 to former residents or their authorized representatives. The facility started the refund process during the auditors’ field work.

### **Management’s Comment**

The provider acknowledges that there were credit balances on the accounts receivable agings. Management refunded the credit balances or, where applicable, made adjustments to discharge the credit. Further, once the new business office manager is hired, she will be in-serviced on Sava’s credit balance policy.

### **Auditor's Comment**

Auditors will revisit the facility and verify proper disposition of the credit balances.

## SUMMARY OF MONETARY FINDINGS AND RECOMMENDATIONS

### Source of Overpayments

Rate reduction (see findings 1 & 2)	\$ 72,542.95
Unrefunded credit balances (see finding 3)	<u>\$ 41,533.00</u>
Total	<u>\$114,075.95</u>

### Disposition of Overpayments

Due to the State of Tennessee	\$ 80,562.33
Due to residents or their authorized representatives	<u>\$ 33,513.62</u>
Total	<u>\$114,075.95</u>