TENNCARE REPORT

Newport Health and Rehabilitation Center
Newport, 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

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June 16, 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 Newport Health and Rehabilitation Center, Newport, 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
10/026

State of Tennessee

A u d i t   H i g h l i g h t s

Comptroller of the Treasury   Division of State Audit

TennCare Report
Newport Health and Rehabilitation Center
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FINDINGS RECOMMENDING MONETARY REFUNDS

Nonallowable Expenses Included on the Cost Report
Newport Health and Rehabilitation Center included $11,535.03 of nonallowable expenses on the "Medicaid Nursing Facility Level 1 Cost Report" for the year ended December 31, 2008. The nonallowable amount includes ambulance services, marketing, transportation services, expenses unrelated to resident care, physical therapy expense, x-ray service, noncovered barber and beauty expense, alcohol, excess depreciation expenses, and unsupported expenses. As a result of these adjustments, overpayments made to the facility by the Medicaid Program are estimated at $11,817.78, computed from July 1, 2009, through October 8, 2010.

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 and promptly refunded. Management failed to refund $406.06 due to the State of Tennessee Medicaid Program and $180.30 due to a former resident or an authorized representative.

Newport Health and Rehabilitation Center
Newport, Tennessee
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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.

Newport Health and Rehabilitation Center, Newport, Tennessee, provides both NF-1 and NF-2 services. The facility is owned by SSC Newport Operating Company, LLC, and operated by SavaSeniorCare, LLC, located in Houston, Texas. The officers/members of the board of directors are as follows:

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

During the examination period, the facility maintained a total of 150 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 54,900 available bed days, the facility reported 27,819 for Medicaid NF-1 residents and 861 for Medicaid NF-2 residents for the year ended December 31, 2008. Also, the facility reported total operating expenses of $6,397,066 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:

Period	Level I NF (744-0465)	Level II NF (044-5176)
July 1, 2007, through June 30, 2008	$130.88	$119.20
July 1, 2008, through June 30, 2009	$144.51	$135.65

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 28, 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 28, 2009, that Newport 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 Newport 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 Newport 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
- Need to properly manage unrefunded credit balances

In our opinion, except for the instances of material noncompliance described above, Newport 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,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA
Director

AAH/pn

FINDINGS AND RECOMMENDATIONS

1. Nonallowable Expenses Included on the Cost Report

Finding

Newport Health and Rehabilitation Center included $11,535.03 of nonallowable expenses on the "Medicaid Nursing Facility Level 1 Cost Report" for the year ended December 31, 2008. The nonallowable amount consists of $3,841.89 in ambulance services; $1,837.08 of marketing expense; $1,052.00 in transportation services; $377.20 in expenses unrelated to resident care; $372.15 of physical therapy expense; $157.51 in x-ray service; $25.00 of noncovered barber and beauty expense; $17.57 in alcohol; and $1,627.56 of unsupported expenses. Also, the adjustment includes $2,227.07 of excess depreciation expense due to 35 of the facility's 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
- Advertising costs which seek to increase patient population
- Travel expenses which are personal in nature, not proper or related to patient care
- Any other costs which are identified and specified as non-allowable by the Medicaid Program manuals, or federal or state rules or regulations

Chapter 1200-13-6-.10(1)(d) of the *Rules of the Tennessee Department of Finance and Administration* states, "Costs may be included only for covered services as defined by the Department of Health." Chapter 1200-13-6-.08(G)(2)(t) requires the removal of various types of expenses including radiology.

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 alcoholic beverages furnished to employees or to others

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 above adjustments, the facility's Medicaid reimbursable rate was affected as follows:

Period	Original Rate	Adjusted Rate	Difference
July 1, 2009, through June 30, 2010	$119.93	$119.52	$ (0.41)
July 1, 2010, through October 8, 2010	$132.03	$131.97	$ (0.06)

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 October 8, 2010. Estimated overpayments made to the facility as a result of the expense adjustments are $11,817.78.

Recommendation

Newport Health and Rehabilitation Center 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.

The Bureau of TennCare should reprocess all Medicaid claims for the period July 1, 2009, through October 8, 2010. The estimated recoupment for the reprocessed Medicaid claims for this period is $11,817.78.

Management's Comment

Management agrees there were some nonallowable expenses 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 with AHA standards.

2. Need to Properly Manage Unrefunded Credit Balances

Finding

Newport 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 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 $586.36 remain on the accounts of two former residents of Newport Health and Rehabilitation Center. Of the total unrefunded credit balances, $406.06 is due to the State of Tennessee Medicaid Program, and $180.30 is due to former residents or their authorized representatives.

Recommendation

Newport Health and Rehabilitation 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 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.

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.

Newport Health and Rehabilitation Center should refund $406.06 to the State of Tennessee Medicaid Program and $180.30 to a former resident or the resident's authorized representative. It is noted that the facility started the refund process during the auditors' fieldwork.

Management's Comment

Management refunded the credit balances noted in the finding. The facility's business office manager will be in-serviced on Sava's policy on proper handling of credit balances.

Auditor's Comment

Newport Health and Rehabilitation Center provided copies of cancelled checks showing that the appropriate refunds have been made.

Summary of Monetary Findings and Recommendations

Source of Overpayments

Rate reduction (see finding 1)	$11,817.78
Unrefunded credit balances (see finding 2)	$ 586.36
Total	$12,404.14

Disposition of Overpayments

Due to the State of Tennessee	$12,223.84
Due to residents or their authorized representatives	$ 180.30
Total	$12,404.14