

TENNCARE REPORT

Signature HealthCARE, LLC
Louisville, Kentucky

Home Office Cost Report
for the Period
January 1, 2009, Through December 31, 2009



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
DEPARTMENT OF AUDIT
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June 25, 2014

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 home office cost report of Signature HealthCARE, LLC, Louisville, Kentucky, for the period January 1, 2009, through December 31, 2009.

Sincerely,

A handwritten signature in black ink that reads "Deborah V. Loveless".

Deborah V. Loveless, CPA
Director

DVL/pn
11/044

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

TennCare Report
Signature HealthCARE, LLC
Louisville, Kentucky
Home Office Cost Report
for the Period
January 1, 2009, Through December 31, 2009

FINDING RECOMMENDING MONETARY REFUND

Nonallowable Expenses Included on the Home Office Cost Report

Signature HealthCARE, LLC improperly allocated \$1,929,205.95 of home office expenses to its subsidiary programs for the fiscal year ended December 31, 2009. The nonallowable amount included unsupported expenses, costs not related to patient care, nonallowable owner's compensation, excess depreciation expense, marketing expense, donations, liquor, and late fees. Of the total expenses, \$561,623.94 will be allocated to the 22 nursing facilities that operated in Tennessee during the examination period.

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Signature HealthCARE, LLC
Louisville, Kentucky
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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. Since chain organizations allocate costs to their subsidiary nursing homes, it is necessary to examine the home office cost report.

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.

As of December 31, 2013, Signature HealthCARE, LLC, Louisville, Kentucky, operates and provides home office services for 112 long-term care locations in 9 states, including

Tennessee. The home office currently operates the following facilities in Tennessee participating in the NF-1 and NF-2 programs:

1. The Bridge at Highland (acquired by Signature on December 1, 2010)
2. The Bridge at Monteagle
3. The Bridge at Ridgely
4. The Bridge at Rockwood
5. The Bridge at South Pittsburg
6. Donelson Place Care and Rehabilitation Center
7. Harriman Care and Rehabilitation Center
8. Mountain City Care and Rehabilitation Center
9. Pickett Care and Rehabilitation Center
10. Pigeon Forge Care and Rehabilitation Center
11. Pine Ridge Care and Rehabilitation Center
12. Signature HealthCARE of Clarksville
13. Signature HealthCARE of Cleveland
14. Signature HealthCARE of Columbia
15. Signature HealthCARE of Erin
16. Signature HealthCARE of Fentress County
17. Signature HealthCARE of Greeneville
18. Signature HealthCARE of Memphis
19. Signature HealthCARE at Methodist (not in the Tennessee Medicaid Program)
20. Signature HealthCARE of Nashville (acquired by Signature on May 21, 2013)
21. Signature HealthCARE of Rogersville
22. Signature HealthCARE at Saint Francis
23. Signature HealthCARE at St. Peter Villa (acquired by Signature on December 1, 2010)
24. Spring City Care and Rehabilitation Center
25. Standing Stone Care and Rehabilitation Center
26. Westmoreland Care and Rehabilitation Center

The officers/members of the board of directors for Signature HealthCARE, LLC are as follows:

Ira Smedra
Jacob Wintner
Scott Krieger
Elmer Joseph Steier, III

During the examination period, Signature HealthCARE, LLC, reported total operating expenses of \$46,299,511, of which \$29,218,824 was reported as Medicaid allowable costs.

PRIOR EXAMINATION FINDINGS

The home office 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 or clinical or medical provisions.



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Independent Accountant's Report

February 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:

We have examined management's assertions, included in its representation letter dated February 9, 2011, that Signature HealthCARE, LLC complied with the following requirement during the cost reporting period January 1, 2009, through December 31, 2009:

- Income and expenses reported on the home office cost report are reasonable, allowable, and in accordance with state and federal rules, regulations, and reimbursement principles.

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 Signature HealthCARE, LLC's compliance with those requirements and performing other such procedures we considered necessary. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on Signature HealthCARE, LLC's compliance with specified requirements.

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

- Nonallowable expenses included on the home office cost report.

In our opinion, except for the instance of material noncompliance described above, Signature HealthCARE, LLC complied with, in all material respects, the aforementioned requirements for the home office cost report for the period January 1, 2009, through December 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 and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,



Deborah V. Loveless, CPA
Director

DVL/pn

FINDING AND RECOMMENDATION

Nonallowable Expenses Included on the Home Office Cost Report

Finding

Signature HealthCARE, LLC improperly allocated \$1,929,205.95 of home office expenses to its subsidiary programs for the fiscal year ended December 31, 2009. The nonallowable amounts consisted of \$640,084.54 in unsupported expenses; \$241,640.18 of costs not related to patient care; \$189,018.33 in nonallowable owner's compensation; \$79,948.20 in excess depreciation expense; \$21,813.72 in unreasonable expenses; \$19,150.25 in marketing expenses; \$12,901.57 in donations; \$2,911.51 in liquor; and \$352.91 in late fees. Also included in the nonallowable expenses was \$177,734.00 for a prior cost report adjustment incorrectly made by the home office. The nonallowable expenses were calculated via statistical sampling, using a 95% confidence level. The statistical sample that was tested resulted in the disallowance of 15% of the total expenses. Based on the results of the statistical sample, it is estimated that there are additional nonallowable expenses of \$543,650.74, which are included in the total.

Of the total improperly allocated expenses, \$561,623.94 will be allocated to 22 nursing facilities that operated in the state of Tennessee during the examination period.

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.

Home Office costs directly related to those services performed for individual providers which relate to patient care, plus an appropriate share of indirect costs (overhead, rent, administrative salaries, etc.) may be allowable to the extent they are reasonable. Home Office costs or related organization costs that are not otherwise allowable costs when incurred directly by the provider cannot be allowable costs when allocated to providers.

The following are also expenses not considered a part of the cost of providing routine service, and should be deducted.

- 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 . . . Which seek to increase patient population or utilization of the provider's facilities by the general public.

For reimbursement purposes, a reasonable allowance or compensation for services of an owner or persons related to an owner is an allowable cost, provided the services are performed in a necessary function. The requirement that the function be necessary means that had the owner not rendered the services, the institution would have had to employ another person to perform them. The services must be related to patient care and pertinent to the operation and sound management of the institution.

Chapter 1200-13-6-.12 of the *Rules* details allowable compensation ranges for owners and/or their relatives employed by parent companies whose subsidiary or division participates in the Bureau of TennCare Nursing Facility Level 1 Program.

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. The guidelines used depend on when the asset was acquired. . . . For assets acquired on or after January 1, 1981, only the AHA (American Hospital Association) guidelines may be used.

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:

- Costs of alcoholic beverages furnished to employees or to others regardless of how or where furnished, such as cost of alcoholic beverages furnished at a provider picnic or furnished as a fringe benefit.
- Costs of gifts or donations.

Allowable routine costs will be adjusted for these nonallowable expenses. The effect of the adjustments to the specific rates of the 22 facilities will be determined at a near-term date, retroactive to dates of service on and after July 1, 2010.

Recommendation

Signature HealthCARE, LLC should include only allowable expenses on the home office cost report. All reported expenses should be adequately supported, related to patient care, and in compliance with other applicable regulations.

Management's Comment

Our leadership strives to comply with applicable reimbursement regulations. Therefore, based on your findings, we will review our procedures to ensure these types of expenses are removed in future filings. Our most important priority is to provide high quality care to all of our residents.