

TENNCARE REPORT

Henry County Healthcare Center
Paris, Tennessee

Depreciation Expense for the Period
July 1, 2009, Through June 30, 2010,
Resident Days for the Period
July 1, 2009, Through June 30, 2011,
and Resident Accounts for the Period
July 1, 2009, Through August 17, 2011



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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May 22, 2012

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 limited scope examination of the depreciation expense reported on the Medicaid cost report of Henry County Healthcare Center, Paris, Tennessee, for the period July 1, 2009, through June 30, 2010; resident days for the period July 1, 2009, through June 30, 2011; and resident accounts for the period July 1, 2009, through August 17, 2011.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/pn
12/015

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

TennCare Report

Henry County Healthcare Center

Paris, Tennessee

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FINDING RECOMMENDING MONETARY REFUND

Residents Inappropriately Charged for Covered Items

Henry County Healthcare Center has inappropriately charged Medicaid residents' trust fund accounts for Medicaid covered items, incontinence supplies. As a result of the inappropriate charges, the facility should reimburse 32 Medicaid residents or their authorized representatives a total of \$2,003.72.

FINDING NOT RECOMMENDING MONETARY REFUND

Incorrect Useful Lives of Depreciable Assets

Henry County Healthcare Center reported excess depreciation expense on its "Medicaid Nursing Facility Level 1 Cost Report" for the fiscal year ended June 30, 2010. Of the eight assets tested that were purchased during the fiscal year ended June 30, 2010, two of the assets had incorrect useful lives, resulting in assets being depreciated too rapidly. Since the Medicaid reimbursement rate was frozen effective July 1, 2011, an adjustment to depreciation expense would have no effect on the facility's Medicaid reimbursement rate.

**Henry County Healthcare Center
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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.

Henry County Healthcare Center, Paris, Tennessee, provides both NF-1 and NF-2 services. The facility is owned and operated by Henry County. The officers/members of the board of directors are as follows:

Mr. Phil Wicklan
Mrs. Beverly Neighbors
Mr. James Travis
Dr. Scott Whitby
Mr. Kreg Kyle

During the examination period, the facility maintained a total of 174 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 63,510 available bed days, the facility reported 35,125 for Medicaid NF-1 residents and 962 for Medicaid NF-2 residents for the year ended June 30, 2010. Also, the facility reported total operating expenses of \$10,061,979 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 (744-0088)</u>	<u>Level II NF (044-5224)</u>
July 1, 2009, through June 30, 2010	\$154.04	\$170.47
July 1, 2010, through June 30, 2011	\$162.75	\$177.66
July 1, 2011, through December 31, 2011	\$162.73	\$177.64

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

August 18, 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 August 18, 2011, that Henry County Healthcare Center complied with the following requirements:

- Depreciation expense reported on the "Medicaid Nursing Facility Level 1 Cost Report" for the fiscal year ended June 30, 2010, was in accordance with federal regulations.
- Resident days reported on the Medicaid cost report have been counted in accordance with state regulations. Medicaid resident days billed to the state from July 1, 2009, through June 30, 2011, when residents were hospitalized or on therapeutic leave are in accordance with the bed hold rules.
- Charges to residents' personal funds from July 1, 2009, through August 17, 2011, 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 Henry County Healthcare 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 Henry County Healthcare Center'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 Items
- Incorrect Useful Lives of Depreciable Assets

In our opinion, except for the instances of material noncompliance described above, Henry County Healthcare Center complied with, in all material respects, the aforementioned requirements for the depreciation expense reported on the cost report for the period July 1, 2009, through June 30, 2010; resident days for the period July 1, 2009, through June 30, 2011; and for resident accounts for the period July 1, 2009, through August 17, 2011.

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 flourish at the end.

Arthur A. Hayes, Jr., CPA
Director

AAH/pn

FINDINGS AND RECOMMENDATIONS

1. Residents Inappropriately Charged for Covered Items

Finding

Henry County Healthcare Center has inappropriately charged Medicaid residents' trust fund accounts for incontinence supplies, which are Medicaid covered items. The facility charged 32 Medicaid residents the full cost of non-stocked diapers and pads that were specifically requested by the residents. The facility is only allowed to charge residents the difference in cost between the diapers and pads stocked by the facility and the diapers and pads specifically requested by the residents. The cost of the stocked items charged to Medicaid residents totaled \$2,003.72, for the period July 1, 2009, through August 17, 2011.

No. 93-2 of the *Medicaid Bulletin* states, “. . . diapers, cloth and/or disposable, is a nursing facility (NF) responsibility and considered a covered service.” It also states, “Stock items include, but are not limited to: . . . diapers, . . . 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 32 Medicaid residents have been incorrectly charged \$2,003.72 for Medicaid covered items.

Recommendation

Henry County Healthcare Center should not charge Medicaid residents for covered items. The facility can only charge residents the difference between the cost of the diaper or pad stocked by the facility and the cost of the specific diaper or pad 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. Henry County Healthcare Center should reimburse the 32 Medicaid residents or their authorized representatives a total of \$2,003.72.

Management's Comment

Management concurs. Refund checks will be written to the residents or responsible parties in May 2012.

2. Incorrect Useful Lives of Depreciable Assets

Finding

Henry County Healthcare Center reported excess depreciation expense on its “Medicaid Nursing Facility Level 1 Cost Report” for the fiscal year ended June 30, 2010. Of the eight assets tested that were purchased during the fiscal year ended June 30, 2010, two of the assets had incorrect useful lives, resulting in the assets being depreciated too rapidly.

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.”

Since the Medicaid reimbursement rate was frozen effective July 1, 2011, an adjustment to depreciation expense would have no effect on the facility’s Medicaid reimbursement rate; therefore, no adjustment to expenses will be made.

Recommendation

Henry County Healthcare Center is required to use the useful life guidelines as published by the American Hospital Association. Management should immediately change the useful lives of any assets, including the two assets found in this examination to have incorrectly assigned useful lives. Management should properly report depreciation expense on subsequent cost reports.

Management’s Comment

Management concurs. The depreciation expense has been corrected and now has corrected useful lives so that assets are depreciated correctly.

SUMMARY OF MONETARY FINDING AND RECOMMENDATION

Source of Overpayments

Residents Inappropriately Charged for Covered Items	<u>\$2,003.72</u>
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Disposition of Overpayments

Due to residents or their authorized representatives	<u>\$2,003.72</u>
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