

# AUDIT REPORT

**Signature Healthcare of Erin  
Erin, Tennessee**

**Depreciation Expense and Resident Accounts  
for the Period  
January 1, 2010, Through December 31, 2010,  
and  
Resident Days for the Period  
January 1, 2009, Through June 30, 2011**



**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY**

**Department of Audit  
Division of State Audit**



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May 22, 2013

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 Signature Healthcare of Erin, Erin, Tennessee, and resident accounts for the period January 1, 2010, through December 31, 2010; and resident days for the period January 1, 2009, through June 30, 2011.

Sincerely,

Deborah V. Loveless, CPA

Director

DVL/pn  
12/034

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

TennCare Report  
**Signature Healthcare of Erin**  
Erin, Tennessee  
Depreciation Expense and Resident Accounts  
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and  
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## **FINDING RECOMMENDING MONETARY REFUND**

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

Signature Healthcare of Erin failed to ensure that credit balances on the accounts of expired or discharged residents were properly managed and promptly refunded. Accounts receivable unrefunded credit balances of \$10,081.44 due to the Medicaid Program remain on the accounts of 19 former Medicaid residents.

## **FINDINGS NOT RECOMMENDING MONETARY REFUNDS**

### **Inaccurate Accumulation of Resident Days and Gross Charges**

Signature Healthcare of Erin inaccurately reported resident days and gross charges on the "Medicaid Nursing Facility Level 1 Cost Report." The facility underreported 11 Medicaid NF-1 days; 38 Medicaid NF-2 days; 279 Medicare NF-2 days; 23 Private NF-1 days; and 42 Other NF-2 days. Also, the facility understated gross charges for Medicaid NF-1 by \$2,035; Medicaid NF-2 by \$7,030; Medicare NF-2 by \$51,450; Private NF-1 by \$4,235; and Other NF-2 by \$7,770. Since the reimbursement rate was frozen effective July 1, 2011, an adjustment to resident days and gross charges would have no effect on the facility's Medicaid reimbursement rate.

**Incorrect Useful Lives of Depreciable Assets**

Signature Healthcare of Erin reported excess depreciation expense on the “Medicaid Nursing Facility Level 1 Cost Report” for the fiscal year ended December 31, 2010. Of the seven assets tested that were purchased during the fiscal year ended December 31, 2010, six of the assets had incorrect useful lives, resulting in improper acceleration of depreciation expense. Since the reimbursement rate was frozen effective July 1, 2011, an adjustment to depreciation expense would have no effect on the facility’s Medicaid reimbursement rate.

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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.

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

Elmer Joseph Steier, CEO  
 John Harrison, CFO  
 Sandra Adam, Vice President and General Counsel

During the examination period, the facility maintained a total of 164 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 59,860 available bed days, the facility reported 31,749 for Medicaid NF-1 residents and 3,262 for Medicaid NF-2 residents for the year ended December 31, 2010. Also, the facility reported total operating expenses of \$10,118,171 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 (744-0307)</u>	<u>Level II NF (044-5377)</u>
July 1, 2008, through June 30, 2009	\$135.67	\$139.47
July 1, 2009, through June 30, 2010	\$137.25	\$139.96
July 1, 2010, through August 31, 2010	\$147.93	\$169.95
September 1, 2010, through June 30, 2011	\$151.48	\$169.95

**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 or clinical or medical provisions.



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## **Independent Accountant's Report**

**October 6, 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 October 6, 2011, that Signature Healthcare of Erin complied with the following requirements:

- Depreciation expense reported on the "Medicaid Nursing Facility Level 1 Cost Report" for the fiscal year ended December 31, 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 January 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 January 1, 2010, through December 31, 2010, 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 Signature Healthcare of Erin'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 of Erin's compliance with specified requirements.

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

- Need to properly manage unrefunded credit balances
- Inaccurate accumulation of resident days and gross charges
- Incorrect useful lives of depreciable assets

In our opinion, except for the instances of material noncompliance described above, Signature Healthcare of Erin complied with, in all material respects, the aforementioned requirements for the depreciation expense reported on the Medicaid cost report and resident accounts for the period January 1, 2010, through December 31, 2010; and for resident days for the period January 1, 2009, through June 30, 2011.

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,



Arthur A. Hayes, Jr., CPA  
Director

AAH/pn

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## FINDINGS AND RECOMMENDATIONS

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### 1. Need to Properly Manage Unrefunded Credit Balances

#### Finding

Signature Healthcare of Erin failed to ensure that credit balances on all of the accounts of deceased or discharged residents were properly managed and promptly refunded. Management failed to refund accounts receivable 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 \$10,081.44 remain on the accounts of 19 former Medicaid residents of Signature Healthcare of Erin. The entire amount is due the Medicaid Program.

#### Recommendation

Signature Healthcare of Erin should immediately implement an adequate system to promptly refund credit balances on the accounts of former residents. A refund of \$10,081.44 should be remitted to the Medicaid Program.

#### Management’s Comment

Signature Healthcare of Erin has made multiple attempts to resolve credit balances through both the Managed Care Organization (MCO) for primary claims and the state for secondary (crossover) claims.

Signature Healthcare of Erin will research each credit and follow up with the MCO and the state regarding the status of the recoupment. Multiple adjustments/voids have been sent in to the state for processing. This recoupment has not happened yet. Signature Healthcare of Erin will contact the state and follow up on the status of these credits. If the state does not have these adjustments/voids on file, Signature Healthcare of Erin will resubmit and request to send to someone’s direct attention in efforts to resolve.

A representative of Signature Healthcare of Erin spoke with the auditor and was provided a form that can be used in conjunction with the MCOs after an audit to ensure a claim is

adjusted. Signature Healthcare of Erin will research each account listed on the audit findings and submit the form, if appropriate, to the MCO for claim adjudication. Signature Healthcare of Erin will also provide the auditor copies of any such forms that are sent to the MCO and the state.

## **2. Inaccurate Accumulation of Resident Days and Gross Charges**

### **Finding**

Signature Healthcare of Erin inaccurately reported resident days and gross charges on the “Medicaid Nursing Facility Level 1 Cost Report” for the year ended December 31, 2010. The facility under-reported 11 Medicaid NF-1 days; 38 Medicaid NF-2 days; 279 Medicare NF-2 days; 23 Private NF-1 days; and 42 Other NF-2 days.

Also, gross charges were underreported for Medicaid NF-1 by \$2,035; Medicaid NF-2 by \$7,030; Medicare NF-2 by \$51,450; Private NF-1 by \$4,235; and Other NF-2 by \$7,770.

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 provide the following information on an individual basis and to accumulate monthly and yearly totals for Medicaid NF patients and for all other patients.

Chapter 1200-13-6-.15 of the *Rules* states:

The cost reports . . . must provide adequate cost 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.

Since the reimbursement rate was frozen effective July 1, 2011, an adjustment to resident days and gross charges would have no effect on the facility’s Medicaid reimbursement rate; therefore, no adjustment to resident days and gross charges will be made.

### **Recommendation**

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

## **Management's Comment**

During this timeframe, Signature switched between two billing software systems, which made it difficult to be accurate and caused small variances. We now have one billing system and no longer need to combine data. Reports are run from Interactive Health Network (IHN) billing software.

### **3. Incorrect Useful Lives of Depreciable Assets**

#### **Finding**

Signature Healthcare of Erin reported excess depreciation expense on the "Medicaid Nursing Facility Level 1 Cost Report" for the fiscal year ended December 31, 2010. Of the seven assets tested that were purchased during the fiscal year ended December 31, 2010, six of the assets had incorrect useful lives, resulting in improper acceleration of depreciation expense.

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 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**

Signature Healthcare of Erin 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 six assets found in this examination to have incorrectly assigned useful lives. Management should properly report depreciation expense on subsequent cost reports.

## **Management's Comment**

During this timeframe, our accounting system was not using the AHA guidelines for depreciating the useful lives of our assets. We are currently using the AHA guidelines to depreciate our assets' useful lives.

## **SUMMARY OF MONETARY FINDING AND RECOMMENDATION**

### **Source of Overpayments**

Unrefunded credit balances (see finding 1)	<u>\$10,081.44</u>
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### **Disposition of Overpayments**

Due to the Medicaid Program	<u>\$10,081.44</u>
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