

# TENNCARE REPORT

Laurel Manor Health Care  
New Tazewell, 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



***Deborah V. Loveless, CPA, CGFM***  
Director

***Gregg S. Hawkins, CPA, CFE***  
Assistant Director

***Julie Rogers, CPA, CISA***  
Audit Manager

***Bob McCloud, CFE, CGFM***  
In-Charge Auditor

***Alla Cox, CFE***  
***Adam Gamble, CFE***  
Auditors

***Amy Brack***  
Editor

***Amanda Adams***  
Assistant Editor

Comptroller of the Treasury, Division of State Audit  
1500 James K. Polk Building, Nashville, TN 37243-1402  
(615) 401-7897

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STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
DEPARTMENT OF AUDIT  
DIVISION OF STATE AUDIT

SUITE 1500  
JAMES K. POLK STATE OFFICE BUILDING  
NASHVILLE, TENNESSEE 37243-1402  
PHONE (615) 401-7897  
FAX (615) 532-2765

June 13, 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 Laurel Manor Health Care, New Tazewell, 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  
12/039

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

TennCare Report  
**Laurel Manor Health Care**  
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Depreciation Expense and Resident Accounts  
for the Period  
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and  
Resident Days for the Period  
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## FINDINGS RECOMMENDING MONETARY REFUNDS

### **Improper Billing of Resident Leave Days**

Laurel Manor Health Care improperly billed the Medicaid Program for 149 NF-1 therapeutic leave days when the facility was operating below 85% occupancy and 21 days that were unsupported by the facility's census records for the period January 1, 2009, through June 30, 2011. As a result of the billing of noncovered resident days, the facility should refund \$18,022.79 to the State of Tennessee.

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

The facility has not established a system to ensure that credit balances on the accounts of deceased or discharged residents are properly managed and promptly refunded. Management failed to refund \$4,106.95 to the State of Tennessee Medicaid Program and \$91.60 to a former resident or an authorized representative.

## FINDING NOT RECOMMENDING MONETARY REFUND

### **Resident Trust Fund Balances Exceeding the Medicaid Resource Limit**

Laurel Manor Health Care had three Medicaid resident trust fund balances exceeding the \$2,000 resource limit. The facility should not bill the Medicaid Program for services rendered to any resident whose resources exceed the Social Security Income limit. Also, two Medicaid residents did not properly receive interest due to them.

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**Laurel Manor Health Care  
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and  
Resident Days for the Period  
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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.

Laurel Manor Health Care, New Tazewell, Tennessee, provides both NF-1 and NF-2 services. The facility’s building is owned by Omega Healthcare Investors, Inc., and operated by Diversicare Leasing Corp., a wholly owned subsidiary of Advocat, Inc. The officers/members of the board of directors for Advocat, Inc. are as follows:

Wallace E. Olson, Chairman	Kelly J. Gill
L. Glynn Riddle	W. David Houghton
Matthew Welshaar	William C. O’Neil, Jr.
Richard M. Brame	Robert Z. Hensley
Chad A. McCurdy	

During the examination period, the facility maintained a total of 134 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 48,910 available bed days, the facility reported 31,533 for Medicaid NF-1 residents and 91 for Medicaid NF-2 residents for the year ended December 31, 2010. Also, the facility reported total operating expenses of \$5,955,654 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 (744-0453)</u>	<u>Level II NF (044-5156)</u>
July 1, 2008, through June 30, 2009	\$114.47	\$109.58
July 1, 2009, through June 30, 2010	\$116.26	\$115.90
July 1, 2010, through June 30, 2011	\$136.13	\$157.13
July 1, 2011, through December 31, 2011	\$136.09	\$157.08

**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.



STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
DEPARTMENT OF AUDIT  
DIVISION OF STATE AUDIT  
SUITE 1500  
JAMES K. POLK STATE OFFICE BUILDING  
NASHVILLE, TENNESSEE 37243-1402  
PHONE (615) 401-7897  
FAX (615) 532-2765

**Independent Accountant's Report**

**November 10, 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 November 10, 2011, that Laurel Manor Health Care 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 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 Laurel Manor Health Care'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 Laurel Manor Health Care's compliance with specified requirements.

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

- Improper billing of resident leave days
- Need to properly manage unrefunded credit balances
- Resident trust fund balances exceeding the Medicaid resource limit

In our opinion, except for the instances of material noncompliance described above, Laurel Manor Health Care 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. Improper Billing of Resident Leave Days

#### Finding

Laurel Manor Health Care improperly billed the Medicaid Program for 170 noncovered days for the period January 1, 2009, through June 30, 2011. Of the 170 improperly billed days, 149 were for therapeutic leave days when the facility was operating below 85% occupancy, and 21 days were unsupported by the facility's census records.

Chapter 1200-13-1-.03(9)(a) of the *Rules of the Tennessee Department of Finance and Administration* states:

A Level 1 nursing facility (NF) shall be reimbursed for a resident's bed in the NF during the resident's temporary absence from the NF as follows:

Reimbursement shall be made for up to a total of ten (10) days per State fiscal year while the resident is hospitalized or absent from the NF on therapeutic leave.

The resident intends to return to the NF.

At least eighty-five percent (85%) of all other beds in the NF are occupied at the time of hospital admission or therapeutic absence. An occupied bed is one that is actually being used by a resident. Beds being held for other residents while they are hospitalized or otherwise absent from the facility are not considered to be occupied beds for purposes of this calculation.

As a result of the improper billing of resident leave days, the facility was overpaid a total of \$18,022.79 by the Medicaid Program for the 170 noncovered leave days for the period January 1, 2009, through June 30, 2011.

#### Recommendation

Laurel Manor Health Care should not accumulate or bill the Medicaid Program for therapeutic leave days when the facility is operating below 85% occupancy or when the days are unsupported by the census records. The facility should refund \$18,022.79, representing overpayments by the Medicaid Program, to the State of Tennessee as a result of the improper billing of therapeutic leave days.

## **Management's Comment**

We intend to review each claim and determine if the improper billing has been previously resolved. We will report to the Managed Care Organization (MCO) and you the results and resolve appropriately.

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

#### **Finding**

Laurel Manor Health Care failed to ensure that credit balances on the accounts of deceased or discharged residents were 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 \$4,198.55 remain on the accounts of 19 former Medicaid residents of Laurel Manor Health Care. Of the total unrefunded credit balances, \$4,106.95 is due the State of Tennessee Medicaid Program, and \$91.60 is due a former resident or an authorized representative.

#### **Recommendation**

Laurel Manor Health Care 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 as "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.

Laurel Manor Health Care should refund \$4,106.95 to the State of Tennessee Medicaid Program and \$91.60 to a former resident or an authorized representative.

### **Management's Comment**

Management has resolved the items noted in the finding. The \$91.60 that was owed to a former resident was sent to the Tennessee Department of Treasury, Division of Unclaimed Property. The facility is currently filing adjusted claims with the MCOs and the Bureau of TennCare to refund the \$4,106.95 owed to the State of Tennessee Medicaid Program.

### **3. Resident Trust Fund Balances Exceeding the Medicaid Resource Limit**

#### **Finding**

Laurel Manor Health Care had three residents with trust fund balances exceeding the Medicaid resource limit. Also, two Medicaid residents were not receiving the interest amounts due to them.

Chapter 1240-3-3.05 of the *Rules of Department of Human Services* states, "(1) Applicants for medical assistance are permitted to retain resources in an amount not to exceed the SSI limits."

Paragraph 15,642 of the *Medicare and Medicaid Guide* states, "Resources that may be retained are . . . cash assets up to \$2,000 for an individual."

Section 68-11-906 of *Tennessee Code Annotated* states, "Each nursing home shall deposit any funds in excess of one hundred dollars (\$100) received from, or on behalf of, a resident in an interest-bearing account, insured by an agency of the federal government."

As a result, Medicaid billed for three residents who do not currently satisfy the financial eligibility requirements. Also, two Medicaid residents did not properly receive the interest due to them.

#### **Recommendation**

Laurel Manor Health Care should notify each resident or the resident's authorized representative when any resident's funds approach the \$2,000 Medicaid resource limit. The facility should not bill the Medicaid Program for services rendered to any resident whose resources exceed the Social Security Income limit. Those residents must be billed as private

payers until the resources are spent down sufficiently to satisfy the financial eligibility requirements. In addition, the facility should establish adequate procedures to ensure Medicaid residents receive the interest due to them.

### **Management's Comment**

All three resident accounts noted in the finding are now below the \$2,000 Medicaid resource limit.

We believe that the interest error was a system glitch that has been fixed. Also, we have changed the software that we use to track resident trust. We are now using the National Datacare System called "Residents Funds Management System" (RFMS). This system is superior to what we were using.

## SUMMARY OF MONETARY FINDINGS AND RECOMMENDATIONS

### Source of Overpayments

Improper billing of resident leave days (see finding 1)	\$18,022.79
Unrefunded credit balances (see finding 2)	<u>\$ 4,198.55</u>
Total	<u>\$22,221.34</u>

### Disposition of Overpayments

Due to the State of Tennessee	\$22,129.74
Due to residents or their authorized representatives	<u>\$ 91.60</u>
Total	<u>\$22,221.34</u>