

TENNCARE REPORT

Pigeon Forge Care & Rehabilitation Center
Pigeon Forge, 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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STATE OF TENNESSEE
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May 28, 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 Pigeon Forge Care & Rehabilitation Center, Pigeon Forge, 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
12/041

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

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FINDINGS NOT RECOMMENDING MONETARY REFUNDS

Incorrect Useful Lives of Depreciable Assets

Pigeon Forge Care & Rehabilitation Center reported excess depreciation expense on its "Medicaid Nursing Facility Level 1 Cost Report" for the fiscal year ended December 31, 2010. Of the 24 assets tested that were purchased during the fiscal year ended December 31, 2010, 15 had incorrect useful lives resulting in improper acceleration of depreciation expense. Since the reimbursement rates were frozen effective July 1, 2011, an adjustment to depreciation expense would have no effect on the facility's Medicaid reimbursement rate.

Insufficient Surety Bond Coverage for the Resident Trust Fund

The facility's surety bond coverage was insufficient to ensure all funds held in trust for its residents.

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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.

Pigeon Forge Care & Rehabilitation Center, Pigeon Forge, Tennessee, provides both NF-1 and NF-2 services. The facility is owned and operated by Signature Consulting Services, LLC. The officers/members of the board of directors are as follows:

Elmer Joseph
Ira Smedra
Jacob Wintner

During the examination period, the facility maintained a total of 120 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 43,800 available bed days, the facility reported 18,521 for Medicaid NF-1 residents and 1,436 for Medicaid NF-2 residents for the year ended December 31, 2010. Also, the facility reported total operating expenses of \$7,675,739 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 (744-0466)</u>	<u>Level II NF (044-5382)</u>
July 1, 2008, through June 30, 2009	\$149.15	\$168.62
July 1, 2009, through June 30, 2010	\$149.83	\$167.36
July 1, 2010, through June 30, 2011	\$162.75	\$162.22

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 28, 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 28, 2011, that Pigeon Forge Care & Rehabilitation Center 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 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 Pigeon Forge Care & Rehabilitation Center'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 Pigeon Forge Care & Rehabilitation Center's compliance with specified requirements.

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

- Incorrect Useful Lives of Depreciable Assets
- Insufficient Surety Bond Coverage for the Resident Trust Fund

In our opinion, except for the instances of material noncompliance described above, Pigeon Forge Care & Rehabilitation Center complied with, in all material respects, the aforementioned requirements for the depreciation expense reported on the 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

FINDINGS AND RECOMMENDATIONS

1. Incorrect Useful Lives of Depreciable Assets

Finding

Pigeon Forge Care & Rehabilitation Center reported excess depreciation expense on its “Medicaid Nursing Facility Level 1 Cost Report” for the fiscal year ended December 31, 2010. Of the 24 assets tested that were purchased during the fiscal year ended December 31, 2010, 15 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 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

Pigeon Forge Care & Rehabilitation 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 15 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 AHA guidelines for depreciating the useful lives of our assets. As a resolution, we are currently using the AHA guidelines to depreciate our assets’ useful lives.

2. Insufficient Surety Bond Coverage for the Resident Trust Fund

Finding

Pigeon Forge Care & Rehabilitation Center failed to maintain an adequate trust fund surety bond to protect resident funds. The amount of the surety bond was not sufficient to cover all funds held in trust. On October 3, 2011, the resident trust fund balance was \$85,546.38, while the coverage under the bond was limited to \$60,000.

Section 68-11-906(f), *Tennessee Code Annotated*, states, “The nursing home shall maintain a surety bond on all funds held in trust for the facility residents and shall make an annual, audited accounting of such funds available to their residents and for public inspection.”

Failure to maintain an adequate surety bond increases the risk that resident trust funds would not be replaced in the event of misappropriation or theft.

Recommendation

Pigeon Forge Care & Rehabilitation Center should maintain controls to ensure compliance with applicable laws and regulations for the protection of resident trust funds. The facility should increase the surety bond as necessary to provide coverage for all money held in trust at any point in time.

Management’s Comment

Management concurs that the facility should maintain adequate surety bond coverage for all money held in the patient trust fund. If future balances reflect the need to increase the surety bond amount, then an increase will be made at that time. The facility now has a monthly internal audit system in place to determine the appropriate level of bond coverage.