

TENNCARE REPORT

Hillcrest Healthcare LLC
Ashland City, 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

Clare Tucker, CPA, CFE, CGFM
Audit Manager

Jacqueline Laws, CFE
In-Charge Auditor

Regina Dobbins, CPA, CFE
Katie Yarborough
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

TennCare/Medicaid examination reports are available online at
www.comptroller.tn.gov/sa/AuditReportCategories.asp.
For more information about the Comptroller of the Treasury, please visit our website at
www.comptroller.tn.gov.



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

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 Hillcrest Healthcare LLC, Ashland City, 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
12/051

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

TennCare Report
Hillcrest Healthcare LLC
Ashland City, 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

FINDINGS RECOMMENDING MONETARY REFUNDS

Improper Billing of Resident Leave Days

Hillcrest Healthcare LLC improperly billed the Medicaid Program for 41 NF-1 resident hospital and/or therapeutic leave days while operating below 85% occupancy; 2 NF-1 days after the resident was discharged; 2 NF-1 days when the resident was covered under another program; and 28 NF-2 resident leave days, for the period January 1, 2009, through June 30, 2011. As a result of the billing of 73 noncovered days, the facility should refund \$9,977.81 to the State of Tennessee.

Need to Properly Manage Unrefunded Credit Balances

Hillcrest Healthcare LLC has not established a system to ensure that credit balances on the accounts of deceased or discharged residents are properly managed and promptly refunded. Accounts receivable unrefunded credit balances total \$9,077.84. Management failed to refund \$7,835.57 due to the Medicaid Program and \$1,242.27 due to former residents or their authorized representatives. Resident trust fund unrefunded credit balances total \$416.06. This overpayment is due former residents or their responsible representatives.

FINDING NOT RECOMMENDING MONETARY REFUND

Incorrect Useful Lives of Depreciable Assets

Hillcrest Healthcare LLC 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, seven 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.

**Hillcrest Healthcare LLC
Ashland City, 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**

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
Purpose and Authority of the Examination	1
Background	1
Prior Examination Findings	2
Scope of the Examination	2
INDEPENDENT ACCOUNTANT'S REPORT	3
FINDINGS AND RECOMMENDATIONS	5
1. Improper Billing of Resident Leave Days	5
2. Need to Properly Manage Unrefunded Credit Balances	6
3. Incorrect Useful Lives of Depreciable Assets	7
Summary of Monetary Findings and Recommendations	9

**Hillcrest Healthcare LLC
Ashland City, 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**

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.

Hillcrest Healthcare LLC, Ashland City, Tennessee, provides both NF-1 and NF-2 services. The facility is owned and operated by Healthmark Services Inc. The officers/members of the board of directors are as follows:

J. David Hightower, President
Patricia R. Hightower, Vice President
Todd P. Hightower, Vice President
Doreen Sikma, Secretary
Laura A. Hightower, Assistant Secretary

During the examination period, the facility maintained a total of 95 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 34,675 available bed days, the facility reported 15,123 for Medicaid NF-1 residents and 1,971 for Medicaid NF-2 residents for the year ended December 31, 2010. Also, the facility reported total operating expenses of \$6,304,047 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 (744-0577)</u>	<u>Level II NF (044-5316)</u>
July 1, 2008, through June 30, 2009	\$136.41	\$162.65
July 1, 2009, through June 30, 2010	\$140.97	\$164.93
July 1, 2010, through June 30, 2011	\$162.75	\$177.66

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

December 13, 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 December 13, 2011, that Hillcrest Healthcare LLC 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 Hillcrest 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 Hillcrest Healthcare LLC'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
- Incorrect Useful Lives of Depreciable Assets

In our opinion, except for the instances of material noncompliance described above, Hillcrest Healthcare LLC 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. Improper Billing of Resident Leave Days

Finding

Hillcrest Healthcare LLC improperly billed the Medicaid Program for 73 noncovered days for the period January 1, 2009, through June 30, 2011. Of the 73 improperly billed days, 41 were for NF-1 hospital and/or therapeutic leave days when the facility was operating below 85% occupancy; 2 NF-1 days were billed after the resident was discharged; 2 NF-1 days were billed while the resident was covered under another program; and 28 were NF-2 resident leave days.

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.

Chapter 1200-13-1-.03(9)(b) of the *Rules* states, "NFs shall not be reimbursed for holding a bed for a person receiving Level 2 or Enhanced Respiratory Care reimbursement during his temporary absence from the NF."

As a result of the improper billing of resident days, the facility was overpaid a total of \$9,977.81 by the Medicaid Program for 73 noncovered days for the period January 1, 2009, through June 30, 2011.

Recommendation

Hillcrest Healthcare LLC should not accumulate or bill the Medicaid Program for NF-1 hospital or therapeutic leave days when the facility is operating below 85% occupancy, when a resident has been discharged from the facility, or when a resident is covered under another program. The facility should not accumulate or bill the Medicaid Program for hospital or therapeutic leave days for NF-2 residents. The facility should refund \$9,977.81, representing overpayments by the Medicaid Program, to the State of Tennessee as a result of the improper billing of hospital or therapeutic leave days.

Management's Comment

We understand the need to be more diligent in monitoring the billing for therapeutic leave days. We have instituted a system to more closely monitor this process on a monthly basis. The refund of the overpayments will be made at the time we receive the finalized report.

2. Need to Properly Manage Unrefunded Credit Balances

Finding

Hillcrest Healthcare LLC has not established a system to ensure that credit balances on the accounts of deceased or discharged residents are properly managed. Management failed to refund credit balances due to the Medicaid Program and the former residents or their authorized representatives.

Section 66-29-113, *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 \$9,077.84 remain on the accounts of 17 former residents of Hillcrest Healthcare LLC. Of the total unrefunded credit balances, \$7,835.57 is due the Medicaid Program, and \$1,242.27 is due to former residents or their authorized representatives.

Resident trust fund unrefunded credit balances of \$416.06 remain on the accounts of eight former residents of Hillcrest Healthcare LLC. These residents have been discharged or deceased for over six months. This amount is due to the former residents or their authorized representatives.

Recommendation

Hillcrest Healthcare LLC 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 and Social Security number, the dates of the last account activity and the last owner contact, and the amount due the former resident.

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 "undeliverable." If the proper owners cannot be located within five years from the date of the 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 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.

A refund of \$7,835.57 should be made to the State of Tennessee for the amount due the Medicaid Program. A refund of \$1,658.33 should be refunded to the former residents or their authorized representatives.

Management's Comment

The refunding of patient credit balances is important. We have tightened up our procedure to identify these overpayments and refund them as soon as it is determined to be a valid overpayment. Furthermore, we will work more closely with the MCO (managed care organization) when it is discovered that payments by the state are improper due to differences in patient resources as shown by the state versus our records. The overpayments will be made upon receipt of the finalized report.

3. Incorrect Useful Lives of Depreciable Assets

Finding

Hillcrest Healthcare LLC reported excess depreciation expense on its "Medicaid Nursing Facility Level 1 Cost Report" for the fiscal year ended December 31, 2010. Of 24 assets tested that were purchased during the fiscal year ended December 31, 2010, seven 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

Hillcrest Healthcare LLC 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 seven assets found in this examination to have incorrectly assigned useful lives. Management should properly report depreciation expense on subsequent cost reports.

Management’s Comment

The useful lives for fixed assets have been changed and utilized in the filing of the December 31, 2012, cost report. While there were quite a few of the assets that differed with the AHA guidelines, the overall change in depreciation was small. That occurs when you are using an average method that generally reflects the AHA guidelines versus the actual AHA guideline life for each asset. We will, however, use the actual AHA lives in the future.

SUMMARY OF MONETARY FINDINGS AND RECOMMENDATIONS

Source of Overpayments

Improper billing of resident days (see finding 1)	\$ 9,977.81
Unrefunded credit balances (see finding 2)	<u>\$ 9,493.90</u>
Total	<u>\$19,471.71</u>

Disposition of Overpayments

Due to the State of Tennessee	\$17,813.38
Due to residents or their authorized representatives	<u>\$ 1,658.33</u>
Total	<u>\$19,471.71</u>