



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY**

**TENNESSEE HEALTH MANAGEMENT, INC.
PARSONS, TENNESSEE**

**Home Office Cost Report
For the Period
January 1, 2012, Through December 31, 2012**

Justin P. Wilson, Comptroller



**Division of State Audit
TennCare Section**

DEBORAH V. LOVELESS, CPA, CGFM, CGMA
Director

GREGG S. HAWKINS, CPA, CFE
Assistant Director

JULIE ROGERS, CPA, CISA
Audit Manager

Regina Dobbins, CPA, CFE
In-Charge Auditor

Maya Angelova, CPA
Paula Rosenberg
Staff Auditors

Amy Brack
Editor

Amanda Adams
Assistant Editor

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

Reports are available at
www.comptroller.tn.gov/sa/AuditReportCategories.asp.

Mission Statement
The mission of the Comptroller's Office is to improve the quality of life
for all Tennesseans by making government work better.

Comptroller Website
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
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7897
FAX (615) 532-2765

June 10, 2016

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 home office operations of Tennessee Health Management, Inc. in Parsons, Tennessee, for the period January 1, 2012, through December 31, 2012.

Sincerely,

Deborah V. Loveless, CPA
Director

DVL/pn
14/026

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

TennCare Report
Tennessee Health Management, Inc.
Parsons, Tennessee
Home Office Cost Report
For the Period
January 1, 2012, Through December 31, 2012

FINDING RECOMMENDING MONETARY REFUND

Nonallowable Expenses Included on the Home Office Cost Report

Tennessee Health Management, Inc. improperly allocated \$1,239,659.60 of home office expenses to its subsidiary programs for the year ended December 31, 2012. The nonallowable amount included costs not related to patient care, unsupported expenses, marketing expenses, late fees, excess depreciation expenses, unreasonable expenses, alcohol, federal income taxes, and donations. Of the total expenses, \$939,601.00 will be allocated to the 30 nursing facilities that operated in Tennessee during the examination period. The remaining expenses will be allocated to Tennessee Health Management's non-Tennessee nursing facilities and to its non-nursing facility components.

Tennessee Health Management, Inc.
Parsons, Tennessee
Home Office Cost Report
For the Period
January 1, 2012, Through December 31, 2012

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
Purpose and Authority of the Examination	1
Background	1
Prior Examination Findings	3
Scope of the Examination	3
INDEPENDENT ACCOUNTANT'S REPORT	4
FINDING AND RECOMMENDATION	6
• Nonallowable Expenses Included on the Home Office Cost Report	6

Tennessee Health Management, Inc.
Parsons, Tennessee
Home Office Cost Report
For the Period
January 1, 2012, Through December 31, 2012

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. Since chain organizations allocate costs to their subsidiary nursing homes, it is necessary to examine the home office cost report.

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.

Tennessee Health Management, Inc. in Parsons, Tennessee, operates and provides home office services for 31 long-term care nursing facilities in two states, including Tennessee. The home office currently operates the following Tennessee facilities that participate in the NF-1 and NF-2 programs:

1. Applingwood Healthcare Center
2. Bethesda Healthcare Center
3. Bright Glade Healthcare & Rehab Center
4. Clarksville Manor Nursing & Rehab Center
5. Covington Care Nursing & Rehab Center
6. Covington Manor Nursing & Rehab Center
7. Crestview Healthcare & Rehab Center
8. Cumberland Manor Nursing Center
9. Decatur County Manor
10. Dyersburg Healthcare Center
11. East Tennessee Healthcare
12. Forest Cove Nursing & Rehab Center
13. Harbor View Nursing & Rehab Center
14. Humboldt Healthcare & Rehab Center
15. Lewis County Nursing & Rehab Center
16. Lexington Manor
17. McKenzie Healthcare Center
18. McNairy County Healthcare Center
19. Meadowbrook Health & Rehab Center
20. Mt. Juliet Healthcare Center
21. Northbrooke Healthcare Center
22. Northside Healthcare Center
23. Paris Healthcare Nursing & Rehab Center
24. Savannah Healthcare & Rehab Center
25. Union City Nursing & Rehab Center
26. Van Ayer Nursing & Rehab Center
27. Vanco Manor Nursing & Rehab Center
28. Waverly Healthcare Center
29. Westwood Healthcare Center
30. West Tennessee Transitional Center

The members of the board of directors for Tennessee Health Management, Inc. are as follows:

James M. Smith, Chairman
Ralf C. Habermann
Mark L. Hammond
William H. Morris
Susan W. Stralka
N. Gordon Thompson

During the examination period, Tennessee Health Management, Inc. reported total operating expenses of \$21,591,214.00, of which \$20,646,165.00 was reported as Medicaid allowable costs.

PRIOR EXAMINATION FINDINGS

The home office 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
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7897
FAX (615) 532-2765

Independent Accountant's Report

November 20, 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:

We have examined management's assertions, included in its representation letter dated November 20, 2013, that Tennessee Health Management, Inc. complied with the following requirements during the cost report period of January 1, 2012, through December 31, 2012:

- Income and expenses reported on the home office cost report are reasonable, allowable, and in accordance with state and federal rules, regulations, and reimbursement principles.

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 Tennessee Health Management, Inc.'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 Tennessee Health Management, Inc.'s compliance with specified requirements.

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

- nonallowable expenses included on the home office cost report.

In our opinion, except for the instance of material noncompliance described above, Tennessee Health Management, Inc. complied with, in all material respects, the aforementioned requirements for the cost reporting period January 1, 2012, through December 31, 2012.

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,



Deborah V. Loveless, CPA
Director

DVL/pn

FINDING AND RECOMMENDATION

Nonallowable Expenses Included on the Home Office Cost Report

Finding

Tennessee Health Management, Inc. improperly allocated \$1,239,659.60 of home office expenses to its subsidiary programs for the year ended December 31, 2012. The nonallowable amount consisted of \$503,528.94 of costs not related to patient care; \$514,139.53 in unsupported expenses; \$163,064.30 in marketing expenses; \$23,432.84 in late fees; \$19,314.04 in excess depreciation expense; \$6,719.93 in unreasonable expenses; \$5,145.47 in alcohol; \$3,965.00 in federal income taxes; and \$349.55 in donations.

Of the total improperly allocated expenses, \$939,601.00 will be allocated to 30 nursing facilities that operated in the State of Tennessee during the examination period. The remaining expenses will be allocated to Tennessee Health Management's non-Tennessee nursing facilities and to its non-nursing facility components.

Provider Reimbursement Manual, Part I (PRM-1), Section 2102.3, states,

Costs not related to patient care are costs which are not appropriate or necessary and proper in developing and maintaining the operation of patient care facilities and activities. Costs which are not necessary include costs which usually are not common or accepted occurrences in the field of the provider's activity.

Such costs are not allowable in computing reimbursable costs and include

- Costs of alcoholic beverages furnished to employees or to others regardless of how or where furnished, such as cost of alcoholic beverages furnished at a provider picnic or furnished as a fringe benefit;
- Cost of gifts or donations.

Chapter 1200-13-6-.09 of the *Rules of Tennessee Department of Finance and Administration* states,

Adequate financial records, statistical data, and source documents must be maintained for proper determination of costs under the program.

Home Office costs directly related to those services performed for individual providers which relate to patient care, plus an appropriate share of indirect costs (overhead, rent, administrative salaries, etc.) may be allowable to the extent they are reasonable. Home Office costs or related organization costs that are not

otherwise allowable costs when incurred directly by the provider cannot be allowable costs when allocated to providers.

The following are also expenses not considered a part of the cost of providing routine service, and should be deducted.

- Costs which are not necessary or related to patient care.
- Any fines, penalties, or interest paid on any tax payments or interest charges on overdue payables.
- Federal, state, or local income taxes, or excess profit taxes.
- Advertising costs which seek to increase patient population or utilization of the provider's facilities by the general public.

PRM-1, Section 104.17, states,

In initially selecting a proper useful life for computing depreciation . . . the provider may use certain published useful guidelines. The guidelines used depend on when the asset was acquired. . . . For assets acquired on or after January 1, 1981, only the AHA [American Hospital Association] guidelines may be used.

Allowable routine costs will be adjusted for nonallowable expenses. The effect of the adjustments to the specific rates of the 30 facilities will be determined at a near-term date, retroactive to dates of service on and after July 1, 2013.

Recommendation

Tennessee Health Management, Inc. should include only allowable expenses on the home office cost report. All reported expenses should be adequately supported, related to patient care, and in compliance with other applicable regulations.

Management's Comment

Current management concurs with these findings. These issues arose prior to current management at Tennessee Health Management. These adjustments were reviewed and as a result of these findings, steps were taken to correct documentation issues and correct future reporting of allowable costs.